

1. INTRODUCTION

This leaflet explains the tax treatment of gratuity paid on the expiry of an employment contract.

2. WHAT IS GRATUITY?

Gratuity is a payment made by the employer to an employee at the end of employment in relation to emoluments earned during the period of service. This includes;

- a) staff on contract
- b) staff on permanent and pensionable conditions of service.

3. WHAT TYPES OF GRATUITIES ARE PAYABLE?

For tax purposes, there are two broad types of gratuities: -

- a) to contractual staff
- b) to staff on permanent and pensionable conditions of service.

4. WHAT ARE THE NECESSARY CONDITIONS TO BE MET FOR GRATUITY TO BE TREATED AS QUALIFYING?

For a gratuity to be treated as qualifying, the following conditions must be met: -

- a) payable under a written contract,
- b) the contract should be for a minimum period of two years,
- c) the gratuity should be payable at the expiry of the contract; and
- d) the amount of gratuity should not exceed 25% of the total basic pay earned during the period of the contract.

5. NON-QUALIFYING GRATUITY

Payments that are in excess of the 25% limit as in (4 (d)) above and those that do not meet the other conditions above will be treated as “Non-Qualifying.”

6. HOW IS GRATUITY TAXED UNDER PAYE?

Effective 1st April, 2011 taxation of Qualifying Gratuity will be as follows:

Example	K
Gratuity Payable	144,000,000
First 12,000,000 @ 0%	-
Balance 132,000,000 @ 25%	33,000,000
Total	33,000,000
Total Payable	33,000,000
Net Payment	111,000,000

- a) Taxation of non-qualifying gratuity: -
Any excess above the 25% restriction as noted in (4 (d)) and payments that do not meet the other criteria set out above, are added to the salary and taxed normally under PAYE.
- b) Taxation of gratuity to permanent and pensionable staff: -
The first K 12, 000, 000 is exempt from tax, and the balance is taxed at 25%.

7. WHAT RECORDS ARE MAINTAINED FOR GRATUITY PAYMENTS?

When gratuity is paid, the following records should be completed: -

- a) a separate Tax Deduction Card (ITF/P8) for each payment; and
- b) the amounts paid are to be entered on form ITF/P13 if the employment has ceased.