KENYA BANKERS ASSOCIATION

10-POINT BANKING INDUSTRY PROPOSAL ON PAYE TAX REFORM

Introduction

The banking industry believes that reforming Pay As You Earn (PAYE) tax will be instrumental in growing Kenya's economy. When workers take home more pay, they will be able to spend more, save more, and invest more. The trend will support small businesses, create jobs, improve loan repayment, and increase government revenue in both short and long term. The following ten points explain how PAYE reform can help workers, businesses, banks, and the government, while keeping the economy stable and growing.

1. Review of PAYE Bands to Increase Disposable Income for Workers

The banking industry proposes a review of PAYE bands, for salaried workers, to reflect current cost of living realities in the economy today and spur domestic and local investors.

We believe that when workers retain more income, their purchasing ability will rise, directly stimulating demand for goods and services across retail, transport, housing, and service industries.

Example

A salaried worker earning Sh 60,000 per month in Nairobi currently faces several deductions that significantly reduce their pay after tax. A slight PAYE adjustment that adds even Sh 5,000 to their net income can translate into higher spending on food, rent, transport, or school fees.

The majority of these sectors are driven mainly by local businesses and MSMEs that can be strengthened further to enhance individuals to venture in businesses and improve their financial health.

2. PAYE Reduction in Enhancing MSME Growth

The banking industry views PAYE reform as a growth driver for small and medium enterprises. Higher household spending will improve cash flow for MSMEs, reducing the risk of loan repayment failures and enable banks to extend more credit to individuals and businesses. This will, in turn, enhance the stability of the banking sector, where currently an estimated Sh 16 out of Sh 100 borrowed is not repaid, increasing lending risk for banks and high interest rates.

Example

Traders in Gikomba, Umoja, or Nairobi CBD depend heavily on salaried workers. When PAYE pressure is reduced, customers traffic and daily sales will increase, enabling MSMEs to afford more working capital loans and expand their stock, strengthening the credit cycle within the banking system and financial health in the economy.

3. PAYE Reform and Entry-Level Youth Employment

The banking industry supports PAYE reduction to encourage formal employment and reduce informality. Lower taxation for low-income workers will make formal jobs more attractive for both employers and employees.

Example

A manufacturing business in Thika town hiring machine operators at Sh 35,000 per month could hire more Kenyans if salary costs remain manageable. Lower PAYE encourages formal contracts, bank account usage, registration with KRA and pension contributions, deepening financial inclusion.

4. PAYE Reform and Promotion of Personal Savings and Capital for Business

Higher take-home pay strengthens the ability of individuals to save, invest, and build financial security. Higher deposits, translate to long-term lending for businesses, households and individuals in the economy.

Example

A teacher or government employee with increased income after tax deductions is more likely to commit to formal savings in banks, SACCO contributions, or a mortgage savings plan to own a home. This will support Kenya's housing agenda, agri-business, creative economy with stable funding from credit providers.

5. PAYE Reform as Seed Capital for Entrepreneurship

The banking industry proposes viewing PAYE relief as a pathway of enabling ordinary Kenyans and low-income earners to raise capital for business development and personal growth. For many Kenyans, sustained savings from lower PAYE can fund business registration, requirements, or first business stock, reducing the gap between employment and entrepreneurship, sustaining domestic investments and generational wealth creation

Example

A salaried IT professional in Eldoret may use additional net income to start a side business in phone repairs or digital services. Over time, the enterprise can graduate into a bank-financed MSME, expanding the tax base beyond PAYE into VAT, excise, and corporate tax.

6. PAYE Review and Strengthening Borrowing Ability and Loan Performance

From a banking point of view, higher net income improves loan repayment ability, lowering probability of loan repayment failure and improving the stability of the financial sector.

Example

Personal loan borrowers with stronger disposable income are less likely to default on mobile loans, salary advances, or asset finance. This will reduce credit risk premiums that banks include in interest rates on loans and enable banks to offer more affordable borrowing rates.

7. PAYE Review and Broadening the Tax Base

The banking industry believes that PAYE reform should be seen as a more revenue-enabling strategy, not a revenue loss both short and long term. Increased consumption and business formation can expand indirect taxes and non-PAYE revenues for economic development.

Example

Higher household buying power increases VAT collections across supermarkets, petrol stations, transport services, and hospitality. Banks financing the sectors can benefit from higher turnover and profitability, while government revenue grows organically.

8. PAYE Reform and Encouraging Formalization and Digital Payments

PAYE review will support formal employment and greater usage of banking and digital financial services, strengthening transaction transparency and tax compliance.

Example

More formal employment will mean increased use of bank accounts, mobile wallets, and card payments, creating transaction channels that can support better credit scoring, lending, and future tax administration.

9. Aligning PAYE Reform with Long-Term Fiscal Sustainability

The banking sector proposes, data-driven PAYE adjustments aligned with productivity and inflation trends, ensuring fiscal discipline while stimulating growth.

Example

Annual PAYE band indexation tied to inflation prevents silent income reduction and stabilises consumer confidence. This is a critical informer of long-term investment decisions by banks and businesses.

10. PAYE Reform as a Confidence Signal to Investors

PAYE reform will signal a pro-growth policy direction, boosting investor confidence in Kenya's domestic market.

Example

Banks financing manufacturing, agribusiness, and retail expansion rely on predictable consumer buying power. PAYE reform reassures investors that domestic consumption will remain a strong growth pillar.

Conclusion

From the banking industry's view, PAYE reform will not be a give-away. It will be a direct signal to Kenyans to be fully involved in the productive economy (agri-business and manufacturing) as investors and help grow the economy. When workers take home more pay, they spend more, start businesses, save, and invest. This helps families, businesses, banks, and the government. A better payslip today helps build and expand a stronger and more reliable tax base for tomorrow.

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