

Accounting and Tax Essentials for Kenyan Law Firms

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Master law firm compliance in Kenya! Learn the Feb 2026 NSSF/SHIF rates, eTIMS secrets, and how Sisu by Lenhac automates your Trust Account.

Running a law firm in Kenya is a masterclass in balancing high-stakes legal work with some of the most rigorous financial regulations in the region. Whether you are a Sole Proprietor or part of a Limited Liability Partnership (LLP), the "administrative burden" isn't just a phrase—it's a daily reality.

At **Sisu by Lenhac**, we talk to firm owners every day who are brilliant in court but feel like they are constantly one step behind the Kenya Revenue Authority (KRA) or the Law Society of Kenya (LSK).

Here is the essential guide to navigating compliance the right way as of **February 2026**.

1. The Statutory Pillars (Updated February 2026)

As an employer, you are a tax agent. Missing a deadline or miscalculating a rate isn't just an error; it's a penalty magnet.

- **PAYE (Pay As You Earn):** Mandatory for all staff. Rates are graduated from **10% to 35%**. The top **35%** bracket now applies to any monthly income above **KES 800,000**.
- **NSSF (February 2026 Rates):** We are in Year 4 of the phased rollout. As of **February 1, 2026**, the new limits are:
 - **Tier I (Lower Limit): KES 9,000.**
 - **Tier II (Upper Limit): KES 108,000.**
 - Total maximum contribution is now **KES 12,960** (split between employer and employee).
- **SHIF & Housing Levy:** SHIF remains at **2.75%** of gross salary (no cap), and the Housing Levy is **1.5%** each for employer and employee.
- **NITA:** You must remit **KES 50 per employee per month**. It is a small but critical requirement for obtaining your annual Compliance Certificate.

2. Invoicing: Professional Fees vs. Disbursements

Many firms struggle with how to bill correctly. If you don't separate these clearly on your invoice, you end up paying tax on money that isn't even yours.

- **Professional Fees:** This is your actual income for legal services rendered. It is subject to **16% VAT** (if registered) and **5% Withholding Tax (WHT)** from corporate clients.
- **Disbursements:** These are costs like court filing fees, stamp duty, or search fees. These are **not** your income. You are simply paying them on behalf of the client.
- **The Compliance Key:** You must raise invoices with clear line separation. If you receive KES 1 Million but KES 700k is for disbursements, your accounts must reflect that only KES 300k is taxable revenue. Failing to do this leads to over-reporting income and paying unnecessary taxes.

3. Trust Accounting Requirements (LSK)

Trust accounting is a separate, mandatory professional obligation. Under the Advocates (Accounts) Rules, you must keep client money entirely isolated from your firm's money.

- **Separate Accounts:** You must maintain a **Client Account** and an **Office Account**.
- **No Commingling:** Using the Trust Account to "float" office expenses or pay partners is professional misconduct.
- **Monthly Reconciliations:** You are required to perform a three-way reconciliation to ensure your bank balance, your trust ledger, and individual client balances match perfectly.

4. Annual Returns, Partner "Salaries," and Installment Tax

This is where the biggest misconceptions lie for LLP and Sole Proprietor owners regarding their personal taxes.

- **The "Salary" Myth:** It is a common mistake to think a partner can be "paid a salary" that is a deductible expense for the firm. In an LLP or Sole Proprietorship, you cannot pay yourself a salary. Any money you take out is a **Partner Withdrawal (Drawing)**, which is not tax-deductible.
- **Tax on Profit:** You are taxed on the **Net Profit** of the firm at the end of the year. This profit is "passed through" to the partners and taxed at individual rates (**10%–35%**).
- **eTIMS & Business Expenses:** To protect your profit from being over-taxed, every expense (rent, stationery, etc.) must have an **eTIMS invoice**.
 - **Mileage:** A fuel receipt is not enough. You must record mileage and charge at the **AA Kenya Rate** for it to be a valid deductible expense.
 - **Meals & Per Diems:** Staff meals are tax-free up to **KES 5,000/month**. Per diems for travel are tax-free up to **KES 10,000/day**.
 - **Depreciation:** Remember to claim wear and tear on assets like laptops (**30%**) and vehicles (**25%**).
- **Installment Taxes:** If your estimated tax for the year exceeds **KES 40,000**, you must pay **Installment Tax** in April, June, September, and December. If you wait until the end of the year to pay, KRA will hit you with heavy interest and penalties on your **Annual Return**.

How Sisu by Lenhac Makes This Seamless

We built **Sisu by Lenhac** because law firm owners should be practicing law, not acting as tax clerks. Our software blends these complex requirements into one platform:

- **Professional Invoicing:** Automatically separates disbursements from professional fees so your VAT and WHT are always correct.
- **Integrated Trust Accounting:** Built-in ledgers that keep your Client Account and Office Account perfectly separated according to LSK rules.
- **The Compliance Module:** We track PAYE, NSSF (Feb 2026 rates), SHIF, and NITA for you.
- **KRA/eTIMS Validation:** We validate your bills with KRA to ensure they are recognized, protecting you from surprises during year-end audits.
- **Partner Tax Preservation:** When a partner makes a withdrawal, the system calculates how much you should set aside for **Installment Taxes**.

Stop guessing and start growing. Would you like a personalized demo of how Sisu by Lenhac can automate your firm's compliance?

Tags: AI & Finance

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