

Deductions From Travelling Allowances

If an employee uses his or her own motor vehicle for business purposes and receives an allowance from the employer to defray expenditure, the allowance is tax-free to the extent that it is expended for business purposes.

In terms of the Income Tax Act Section 8(1)(B):

- **An allowance** → is granted to an employee where the employer is certain that business-related expenses would be incurred by the employee, but where the employee does not have to account for expenses to the employer.
 - The value of the allowance is based on the expected business related expenditure.
- **A car/travel allowance** → is granted to an employee in respect of travelling expenses for business purposes.
 - This is a fixed allowance that the employee receives every pay period, regardless of actual kilometres travelled in that period.
- **Private travel** → includes travelling by the employee between his place of residence and his place of employment or business, as well as any other travelling done for his private purposes.

Amount to be included in taxable income



Amount of the allowance, advance or reimbursement received *LESS* (business kilometres travelled x expenditure per kilometre)

→ **Either actual or deemed costs relating to actual business travel may be claimed.**

→ **ACTUAL COSTS per kilometre:**

- An acceptable “expenditure per kilometre” calculation will contain two elements:
 - Total kilometres travelled; and
 - Total expenditure incurred by recipient.
- Examples of the type of expenditure which may be included:
 - Wear-and-tear or lease payments
 - Fuel
 - Oil
 - Repairs and maintenance
 - Car licence
 - Insurance
 - Finance charges
- Expenditure related to **finance charges** and **depreciation** are based on actual costs subject to the following limitations:
 - In relation to a **leased vehicle**, the lease payments included may not exceed the fixed cost element for the particular category of vehicle;
 - In **all other cases**
 - Wear & tear must be determined over a *seven-year period* from the original date of acquisition;
 - The cost of the vehicle must be limited to R 560 000;
 - The finance charges incurred for any debt incurred for the purchase must be limited to an amount which would have been incurred had the original debt been R 560 .

→ **DEEMED COSTS per kilometre:**

- Deemed rate per kilometre contains the following three components:
 - A fixed component per the table below (to be apportioned if the vehicle was only used for business purposes for a portion of the year)
 - A fuel cost component (may only be included if the employee bears the **full** cost of fuel)
 - A maintenance cost component (may only be included if the employee bears the **full** cost of maintenance)
- The deemed costs are determined based on the value of the vehicle as per the following table:

Value of the Vehicle (including VAT, but excluding finance charges)	Fixed Cost	Fuel Cost	Maintenance Cost
R	R	c	c
R 0 – R 80 000	26 105	78.7	29.3
R 80 001 – R 160 000	46 505	87.9	36.7
R 160 001 – R 240 000	66 976	95.5	40.4
R 240 001 – R 320 000	84 945	102.7	44.1
R 320 001 – R 400 000	102 974	109.9	51.8
R 400 001 – R 480 000	121 886	126.1	60.8
R 480 001 – R 560 000	140 797	130.4	75.6
Exceeding R 560 000	140 797	130.4	75.6

- The fixed cost is divided by the total kilometres travelled during the year of assessment.
- The fixed cost is pro-rated if the vehicle is not used for business purposes for the full year.

- The fixed cost per kilometre, fuel costs and maintenance costs are then added to arrive at a **TOTAL RATE PER KILOMETER**, which is applied to the actual business kilometres travelled.
- The fuel cost and maintenance cost components may **ONLY** be claimed where the employee bears the full cost of fuel or of maintenance, respectively.

→ Where business travel is **8 000 kilometers or less** for a year of assessment, an employee may receive a **tax-free** reimbursement of up to 318 cents per kilometre, provided that no other allowance or reimbursement is received by the employee in respect of the vehicle.

In determining the business travel reduction against a travel allowance received:

- A taxpayer may furnish accurate data and deduct actual costs relating to business travel. **A logbook is required for this method.** Finance charges and wear and tear are, however, limited where vehicle costs more than R 560 000, and in this case, lease payments are limited to the deemed fixed cost applicable to a vehicle with a cost of R 560 000 (per the deemed cost table above).
- A taxpayer may use actual business kilometres which are applied to deemed costs. **A logbook is also required for this method.**

→ For **PAYE** purposes, **80%** of the monthly travel allowance is regarded as remuneration and is subject to PAYE.

IF the employer is satisfied that AT LEAST 80% of the use of the motor vehicle will be for business purposes, ONLY 20% of the monthly travel allowance may be subject to PAYE.

In layman's terms:

- 1. The full car allowance (which has been subject to PAYE) during the year will be included as earnings.**
- 2. In terms of the logbook business travel, a deduction can be claimed based on:**
 - a. Either actual expenditure based on business kilometres noted in the logbook; or**
 - b. A calculated "deemed rate".**

Example: Determination of the travelling allowance inclusion rate by the EMPLOYER

Facts: “A” is paid a travel allowance of R 6 000 per month by his employer. “A” is required to provide service to all of his employer’s client based in Gauteng. During the previous full year of assessment, “A” maintained a detailed logbook which showed that he travelled a total of 61 855 kilometres, of which 52 325 kilometres were for business purposes. “A” functions will remain much the same in the current year.

Result:

Determination of the expected percentage business travel:

$$52\,325\text{km} / 61\,855\text{ km} = 85\%$$

85% of “A”’s travel in the previous year was for business purposes. Based on the prior year logbook and that fact that his functions will remain the same, his employer is likely to be satisfied that more than 80% of “A”’s travel will be for business purposes.

Accordingly, only R 1 200 (20% of the travel allowance of R 6 000) may be included in “A”’s remuneration for EMPLOYEES TAX purposes.

The full allowance of R 6 000, less any allowable deduction, will need to be included in “A”’s taxable income for the year of assessment.

Example: Travelling deduction where records of actual expenses were kept

Facts: “A” received a travel allowance of R 100 000 during the 2016 year of assessment. 24 333 kilometers were travelled in total during the year, of which 8 135 kilometers was for business travel. The vehicle was purchased by “A” on 1 March 2015 and has a value of R 434 000. Proof of the following expenses were kept:

	R
Fuel and oil	28 335
Maintenance and repairs	5 422
Insurance and licence fees	17 337
Wear & tear (R 434 000 / 7 years)	62 000
Finance charges	33 880
	146 974

Result:

Travel allowance received R 100 000

The deduction for business travel is calculated as follows:

(Total costs / total kilometres) x business kilometres

= R 146 974 / 24 333km x 8 135km R 49 136

“A” is entitled to a full deduction of R 49 136 against the travel allowance and must include R 50 864 (R 100 000 – R 49 136) in taxable income.

Example: Travelling deduction where no record of actual expenses was kept

Facts: “A” received a travel allowance of R 40 000 for the year of assessment ending 28 February 2016. His opening and closing odometer readings on 1 March 2015 and 28 February 2016 respectively were 17 005 and 47 881. Per an accurate logbook maintained, he travelled 15 115 kilometres for business purposes. No records of actual costs relating to the vehicle were maintained, however. “A” paid all the fuel and maintenance costs. The value of his motor vehicle is R 170 000.

Result:

Travel allowance received R 50 000

The deduction for business travel is calculated as follows:

- Opening kilometres	17 005
- Closing kilometres	<u>47 881</u>
- Total kilometres	<u>30 876</u>

Fixed cost for a vehicle with a value of R 170 000 is R 66 976.

The fixed cost must be divided by the total kilometres travelled.

R 66 976 / 30 876km x 100	216.9c
Add Fuel cost	95.5c
Add Maintenance cost	<u>40.4c</u>
Total cost per kilometre	<u>352.8c</u>

To be multiplied by the kilometres travelled for **business** purposes.

15 115 business kilometres x 352.8c x 1/100 **R 53 326**

The travel deduction of R 53 326 is LIMITED to the travel allowance received, being R 50 000. The excess of R 3 326 is disregarded. R nil is included in taxable income.

Example: Reimbursive travel claim where no record of actual expenses were kept

Facts: “A” used his private car in October 2015 for business purposes, for which his employer agreed to reimburse him at a rate of R 4.15 per kilometre. He maintained a logbook so as to calculate total kilometres travelled, but didn’t keep supporting documents for the expenses he incurred. This instance was the only time he used his vehicle for business purposes. “A” travelled 3 258km for business purposes.

Result:

“A” could use the cost scale table or the specified rate to determine the amount of the deduction. In this case, he has elected to use the specified rate.

The business portion will be calculated as follows:

- Business kilometres travelled	3 258	
- Specified rate per the <i>Gazette</i>	R 3.18	
Total amount of deemed expenditure		R 10 360
Reimbursive travel claim received (3 258km x R 4.15)		R 13 521
Amount included in taxable income (R 13 521 – R 10 360)		R 3 161

Example: Travelling deduction where no record of actual expenses was kept and the employee receives a travel allowance AND a reimbursive travel claim

Facts: "A" received a travel allowance of R 40 000 for the year of assessment ended 28 February 2016. His employer ALSO reimburses him at a rate of R 4.25 per kilometre. Opening and closing odometer readings on 1 March 2015 and 28 February 2016 respectively were 18 123 and 49 555. He maintained an accurate logbook and 8 500 kilometres were travelled for business purposes. No records of actual costs relating to his motor vehicle were maintained. The value of his vehicle is R 190 000.

Result:

The business portion will be calculated as follows:

Travel allowance received	R 40 000
Reimbursive claim (8 500km x R 4.25)	<u>R 36 125</u>
Total	R 76 125

- Opening kilometres	18 123
- Closing kilometres	<u>49 555</u>
- Total kilometres travelled	<u>31 432</u>

Fixed cost for a vehicle amounting to R 190 000 is R 66 976. Fixed cost must be divided by the total kilometres travelled (business and private).

R 66 976 / 31 432 km x 100	213.1c
Add Fuel cost	95.5c
Add Maintenance cost	<u>40.4c</u>
Total cost per kilometre	<u>349.0c</u>

8 500 business kilometres x 349.0c / 100	R 29 665
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Amount included in taxable income (R 76 125 – R 29 665)	R 46 460
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