



**INCOME TAX IMPLICATIONS: TRAVEL ALLOWANCE CHANGES TO BE  
INTRODUCED BY SARS WITH EFFECT FROM 1 MARCH 2010**

**EXECUTIVE SUMMARY**

The following changes will apply from 1 March 2010 with regard to employees who receive travel allowances for the use of their private vehicles for business purposes:

- The current allowable “deemed method” whereby all kilometers traveled in excess of 18,000 kilometers per fiscal year, will be deemed to be travel for business purposes (subject to a maximum of 14,000 kilometers) will be abolished.
- The current requirement that only 60% of a travel allowance is subject to the withholding of monthly P.A.Y.E deductions will be amended by increasing the 60% P.A.Y.E deduction requirement to 80%.

Abolishment of the current deemed method approach will have the following as a result with regard to travel allowance recipients:

- A travel logbook has to be kept of all travel in order to proof distances that was actually done for business purposes (remember travel between a person’s residence and place of work is considered to be private travel)
- A travel allowance recipient will experience an additional income tax liability with a subsequent reduction in disposable income if such recipient’s actual business travel (logbook proven) is less than any distance claimed in accordance with the deemed method (maximum 14,000 kilometers per year)
- In the event where the employer apply additional kilometer reimbursements based on actual business travel, the deemed method enabled a travel allowance participant to claim traveling expenses against a travel allowance received, for higher distances than actual business distances traveled. Any travel allowance recipient will under these circumstances place himself/herself at major risk with the income tax authorities if any business expenses logbook claim includes travel distances not covered by an employer kilometer reimbursement

The increase from 60% to 80% of the portion of a monthly travel allowance from which monthly P.A.Y.E have to be deducted will furthermore have a direct effect on a travel allowance recipient’s monthly disposable income. This applies to all travel allowance recipients – those who claim business travel in accordance with the current deemed method as well as those who currently claim by way of logbook proof

There is no doubt that the travel allowance changes to be introduced by SARS on 1 March 2010 will, to a lesser or larger degree has effect on all travel allowance recipients. Both employers and travel allowance recipients should ensure that they are aware of the impact of the changes so that its effect can be managed in time.







Proven Business Km's/Year <b>Addit Income Tax Liability/Year</b>	<b>R16,325</b> 6,000 <b>R10,988</b>	<b>R19,072</b> 6,000 <b>R12,714</b>	<b>R 7,793</b> 6,000 <b>R NIL</b>	<b>R20,030</b> 6,000 <b>R13,354</b>	<b>R23,232</b> 6,000 <b>R15,488</b>	<b>R 9,504</b> 6,000 <b>R NIL</b>
Proven Business Km's/Year <b>Addit Income Tax Liability/Year</b>	10,000 <b>R 5,494</b>	10,000 <b>R 6,357</b>		10,000 <b>R 6,677</b>	10,000 <b>R 7,744</b>	
Proven Business Km's/Year <b>Addit Income Tax Liability/Year</b>	14,000 <b>R NIL</b>	14,000 <b>R NIL</b>		14,000 <b>R NIL</b>	14,000 <b>R NIL</b>	
Proven Business Km's/Year <b>Addit Income Tax Liability/Year</b>						

The results from the examples in Table-1 and Table-2 show that there is no obvious conclusion on the income tax effect that the 1 March 2010 abolishment of the deemed business travel method will have on travel allowance recipients, who currently apply the deemed business travel method. It is however evident that such travel allowance recipients will experience an additional income tax liability, to the extent that their current deemed business travel kilometers can not be equally substantiated by way of logbook proof in the future.

Any additional income tax liability in respect of affected individuals', who maintain the value of their current monthly travel allowances, will be postponed to the date of submission of the individual's annual income tax return. It will alternatively be recovered monthly through the P.A.Y.E income tax withholding system in the event that an affected individual amends his/her monthly travel allowance in accordance with the expected implications of the 1 March 2010 changes to be introduced. The outcome of these two possibilities can be followed from table-3.

<b>TABLE-3:</b> (Assuming Total Travel Distance = 32,000 Km; Actual Business Travel = 6,000 Km)	Car Value <b>R250,000</b>	Car Value <b>R250,000</b>	Car Value <b>R250,000</b>	Car Value <b>R250,000</b>
	<u><b>Current Allowance</b></u>	<u><b>Maintain Current Allowance</b></u>	<u><b>Maintain Current Allowance</b></u>	<u><b>Amend Current Allowance</b></u>
<u><b>(A) Business Expenses Calculation</b></u> Deemed Business Km's Actual Business Km's Total Cost/Km (Ref Table-1) <b>Calculated Business Expenses</b>	<u><b>Rpa</b></u> 14,000  <u>R3.973</u> <b><u>R55,623</u></b>	<u><b>Rpa</b></u>  6,000 <u>R3.973</u> <b><u>R23,838</u></b>	<u><b>Rpa</b></u>  6,000 <u>R3.973</u> <b><u>R23,838</u></b>	<u><b>Rpa</b></u>  6,000 <u>R3.973</u> <b><u>R23,838</u></b>
<u><b>(B) Monthly P.A.Y.E Deduction Monthly Travel Allowance (Say)</b></u>	<u><b>Rpm</b></u> <b>R11,588</b>	<u><b>Rpm</b></u> <b>R11588</b>	<u><b>Rpm</b></u> <b>R11588</b>	<u><b>Rpm</b></u> <b>R 9,933</b>



Portion Subject to P.A.Y.E <b>(Current)</b> Portion Subject to P.A.Y.E (March 2010) Monthly Taxable Value P.A.Y.E Deduction (Say @ 40%)	60% <u>R6,953</u> <u>R2,781</u>	<b>60%</b> <u>R6,953</u> <u>R2,781</u>	<b>80%</b> <u>R9,270</u> <u>R3,708</u>	80% <u>R7,946</u> <u>R3,178</u>
<b><u>(C)Year End Tax Assessment</u></b> Annual Travel Allowance (B Above) Annual Business Expenses (A Above) Year End Taxable Portion Annual Tax Payable (Say @ 40%) Annual P.A.Y.E Deducted (B Above) Year End Assessment <b><u>(Tax Shortage)</u></b>	<b><u>Rpa</u></b> R139,056 <u>R55,623</u> <b>R83,433</b> R33,373 <u>R33,373</u> <b>R Nil</b>	<b><u>Rpa</u></b> R139,056 <u>R23,838</u> <b>R115,218</b> R46,087 <u>R33,373</u> <b>R12,714</b>	<b><u>Rpa</u></b> R139,056 <u>R23,838</u> <b>R115,218</b> R46,087 <u>R44,496</u> <b>R 1,591</b>	<b><u>Rpa</u></b> <i>R119,193</i> <u>R23,838</u> <b>R 95,355</b> R38,142 <u>R38,142</u> <b>R NIL</b>
<b>"Column References"</b> =====➔	<b><u>(1)</u></b>	<b><u>(2)</u></b>	<b><u>(3)</u></b>	<b><u>(4)</u></b>

A comparison between columns (1) and (2) above show that R12,714 more income tax would be payable in respect of the example in table-3, due to the abolishment of the deemed business travel approach and the example's assumption that the travel allowance recipient will only be in a position to proof annual business travel equal to 6,000 kilometers (as opposed to 14,000 kilometers based on the to be abolished deemed business travel approach).

Payment to SARS of the additional amount of R12,714 would have been postponed to the date that the individual had been assessed by SARS, after submission of the individual's annual income tax return. Increase of the current 60% to 80% of the portion of a monthly travel allowance that should from 1 March 2010 be subject to monthly P.A.Y.E deductions will however have effect that R11,123 of the additional R12,714 income tax to be paid, will be recovered as additional monthly P.A.Y.E deductions ((R3,708 – R2,781) x 12 months = R11,124)), with the outstanding balance of R1,591 (R12,714 – R11,124) to be recovered after submission of the individual's annual income tax return (refer columns (2) and (3) above).

Column (4) suggests that the example's current monthly travel allowance of R11,588 should be reduced to R9,933 on 1 March 2010, to arrive at a situation where the travel allowance income tax recovered during the fiscal year is equal to the income tax to be paid on the annual taxable portion of the travel allowance received (travel allowance value minus costs associated with the business use of an individual's private vehicle).

### **CONCLUSION**

It is from an employer income tax accountability perspective essential to reconsider the necessity for a travel allowance, as well as the monthly travel allowance amounts of all travel allowance recipients, but especially those that might be affected by the abolishment of the deemed business kilometers method on 1 March 2010 .



Travel allowance amounts that are excessive in relation to actual business travel costs to be claimed, or that can not be reasonably substantiated by way of proof of actual business travel, place the employer at risk with SARS. Travel allowance amounts that are on the other hand less than actual business travel costs to be claimed, will have effect that a travel allowance recipient will not be in a position to claim his/her full business travel expenses - any business travel claim may not exceed the actual travel allowance received.

There is no uniform answer to what the value of a travel allowance should be. Accountable best estimates to minimise both employer and employee risks, necessitate responsible financial modeling based on the following specific considerations as it applies to each individual:

- Determined Value of Motor Vehicle
- Expected vehicle operating expenses (fixed and running costs)
- Expected total kilometer distance to be traveled
- Expected logbook proven business kilometers to be traveled
- The marginal income tax rate that applies to a specific individual

Compensation Technologies developed a travel allowance calculation tool that calculate optimum travel allowance values, based on the considerations above and the 1 March 2010 SARS changes to be implemented, by taking consideration of the unique circumstances that applies for each specific individual.