Reimbursive travel allowance (effective from 1 March 2018)

Business rationale

Employees are often required by their employer to travel for business purposes using their own vehicle. The employer may choose to enable the employee to travel by:

- Providing them with a travel allowance (calculated based on estimated business kilometres to be travelled with a particular vehicle); and/or
- Reimbursing the employee for actual business kilometres travelled (rate/km x business km travelled).

General income tax principle applicable to reimbursement of business expenditure

Where an employer reimburses an employee for actual expenditure incurred for the employer’s business purposes, the reimbursed amount will not be included in the employee’s taxable income, provided that the employee:

- Was only reimbursed to the value of the expense incurred;
- Incurred the expenditure on the instruction of the employer; and
- Delivered proof of the expenditure incurred.

E.g. if an employee is instructed to acquire stationery for the employer using their own funds and provides the stationary with the invoice to the employer, the reimbursement of such expense will not have a tax implication for the employee.

Income tax principle applicable to the reimbursement of business travel

In the case of business travel, it is very difficult and often administratively prohibitive to link a specific cost to a business kilometer travelled (i.e. it is dependent on various factors such as the type of vehicle used, the fuel cost, etc.). Since it is difficult to establish an actual cost per kilometre, and in order to set a fair standard, the Minister of Finance regularly prescribes a rate per kilometre (the prescribed rate) that may be used by employers for purposes of calculating the quantum of reimbursive amount.

Legislation prior to 1 March 2018

In tax years prior to 1 March 2018, reimbursive travel allowances were not subject to employees’ tax (PAYE) withholding, regardless of the rate/kilometre used. However, even with no requirement to withhold PAYE, employers still had a reporting obligation (disclosure on the employee’s IRP5 certificate):
In the instances mentioned below, IRP5 source code 3702 had to be used to disclose the reimbursive travel amounts:

- an employer reimburses an employee in excess of the prescribed rate;
- an employee claimed reimbursement in respect of 12,000km or more business kilometres in the tax year; or
- an employer provided an employee with a travel allowance, and reimbursed the employee for their business travel.

In all other instances, the reimbursive travel amounts had to be reflected against IRP5 source code 3703. A travel allowance, if any was paid, had to be reported against IRP5 source code 3701.

The reporting resulted in any reimbursive travel allowance amounts disclosed under source code 3702 to generate taxable income for the employee upon assessment of the annual income tax return (form ITR12). Only to the extent that the employee was able to justify the business kilometres travelled via a logbook, would they have had a tax deduction available to set off against the taxable income upon assessment of their individual tax returns (ITR12).

**New tax dispensation applicable as from 1 March 2018**

As from 1 March 2018, PAYE must be withheld on any travel reimbursement calculated at a rate higher than the prescribed rate. Therefore, an employee will now pay tax upfront via the PAYE withholding process on reimbursive travel allowances, if they are reimbursed at a higher rate, rather than only paying tax on assessment of the ITR12. The prescribed rate per kilometre is currently R3.61 per kilometre.

In order to accommodate the new dispensation, new payroll codes have been allocated by the South African Revenue Service (SARS), and have been incorporated into payroll software by the payroll authors. Employers should update their policy and procedure documentation to incorporate the new codes where reimbursive travel allowances are paid:

- If a rate/kilometre in excess of the prescribed rate is paid, the reimbursement amount must be split – the portion at the prescribed rate must be disclosed against IRP5 source code 3702, and the portion in excess of the prescribed rate must be disclosed under IRP5 source code 3722. Whilst only the amount in excess of the prescribed rate will be subject to PAYE, the entire amount will constitute taxable income of the employee upon assessment of the ITR12.
- If a rate/kilometre in excess of the prescribed rate is paid, and the employee receives a travel allowance, the travel allowance must be reported against IRP5 source code 3701, whilst the codes 3702 and 3722 must be used to reflect the ‘prescribed rate portion’ and the ‘excess portion’ of the reimbursive travel amount.
- In all other cases, (i.e. if a rate/kilometre is used that is equal to or less than the prescribed rate, and no travel allowance is paid to the employee), the reimbursive travel amount must be disclosed using IRP5 source code 3703.

Although the tax treatment has changed in respect of PAYE on reimbursive travel amounts, the tax treatment remains the same upon assessment of the individual's ITR12. It follows that all amounts reported against IRP5 source codes 3701, 3702 and 3722 will indicate taxable income, and the employee will have to provide a logbook to SARS to establish a deduction in respect of actual business kilometres traveled.

It should be noted that where an employee provides a logbook upon assessment to SARS to justify the business kilometres travelled, the deduction against income will be calculated at the rate per kilometre for which the employee’s vehicle qualifies. The ‘Rates per Kilometre’ table is available on the SARS website at: [http://www.sars.gov.za/Tax-Rates/Employers/Pages/Rates-per-kilometer.aspx](http://www.sars.gov.za/Tax-Rates/Employers/Pages/Rates-per-kilometer.aspx).
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