

EMPLOYEES CAN CLAIM CAPITAL ALLOWANCES TOO: By Jonathan Hore

The Income Tax Act generally permits taxpayers to deduct capital expenditure incurred by a taxpayer for the purposes of the taxpayer's trade or in the production of income. Such deductions are generally claimed through capital allowances. The claiming of capital allowances is commonly known to be applicable to companies and business operators. However, the Income Tax Act also allows individuals under employment to claim the same allowances which may ultimately reduce their PAYE. Yes, employees too can claim capital allowances! Keep on reading and allow me to demonstrate and clarify that employees can legally claim capital allowances like any other taxpayer and reduce their PAYE liability. In this article, words importing the masculine shall be deemed to include the feminine.

The basics

Generally, the Income Tax Act provides that expenditure of a capital nature should not be deducted in determining tax. However, capital allowances are technically the taxman's way of recognising capital expenditure by allowing a deduction of a portion of the cost of assets over a specified time frame. Put differently, capital allowances may be construed to be the taxman's depreciation. Accordingly, individuals under employment being taxpayers may at times acquire assets or tools that they utilise to efficiently discharge their employment services. Let us now have a look at what the laws says regarding such capital expenditure incurred by employees.

The law

The Income Tax Act actually provides that an employee shall be permitted to deduct capital allowances, 'where, in any tax year, an employee incurs capital expenditure on plant or machinery which, in the opinion of the Commissioner General, was necessarily incurred for the purposes of his or her employment.' It is axiomatic from the provisions of the law takes cognisance of the fact that employees may incur expenditure on acquiring capital assets in order for them to discharge their employment duties. Consequently, such capital expenditure may be claimed as capital allowances. Allow me to clarify and demonstrate in detail.

Enter Capital Allowances

Per the Act, employees who acquire plant and machinery that they need to use as part of their employment may claim capital allowances on the same. The Act does not provide a definition of plant and machinery or parameters which constitutes plant and machinery. However, based on precedent court cases it is construed that plant and machinery includes whatever apparatus repeatedly used which is not stock. Therefore, tools and implements acquired by an employee to be used for the purposes of discharging employment services fits in the ambit of assets ranking for capital allowances.

For clarity, say ABC (Pty) Ltd closed its offices due to the Covid-19 lockdown. However, for the purposes of keeping operations running its employees were required to work remotely from home. Tiro, a research analyst of ABC, acquired an internet modem for P5,000 as the one provided by the employer was not working. As you can see, the acquisition of the internet modem was a necessary tool required for Tiro to perform his employment duties from home. Therefore, Tiro is entitled to claim 25% of the cost of the internet modem over a period of 4 years and ultimately reduce his PAYE. This actually means Tiro will claim P1,250 per year as an allowable deduction against his employment income.

Accordingly, if Tiro subsequently, disposes the internet modem at a price higher than the Income Tax Value (ITV) of the modem, he is liable to tax on the capital allowances previously claimed. For the avoidance of doubt, the ITV of the asset is the cost less capital allowances claimed. It is also vital to note that an employee cannot claim capital allowances if the employer reimburses the employee the cost of acquiring the asset or on employer provided assets or equipment. However, if an employer reimburses a portion of the cost of the asset an employee can claim capital allowances on the portion of the cost not reimbursed.

Conclusion

Other assets on which employees can claim capital allowances include but are not limited to, laptops, furniture, tools and equipment, as long as they are used in the generation of employment income.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax WhatsApp group or to know about our 9 Tax e-books, send me a text on the cell number below.