

AIRFLIGHT BENEFIT: A TAX PLANNING TOOL: By Jonathan Hore

Receiving a letter of confirmation of employment is not only good news but it certainly is exciting! Now that you would have got your dream job and you are all smiles, hold on for a minute before you put your signature on the dotted lines. Yeah, chill and think about tax. Did you know that with adequate tax planning employees can actually pay less PAYE whilst maintaining their cost-to-employer stagnant? Well, if you are working far away from your home or you an expatriate and you frequently travel to and from your home, I would advise you to take a sit and allow me to help you understand why you can legally pay less PAYE just by opting for a passage benefit. In this article, words importing the masculine shall be deemed to import the feminine.

Enter Passage Benefit

Firstly, it is imperative that we understand what a passage benefit is. Unfortunately, the Income Tax Act only makes reference to this term and does not provide its definition. However, it is generally a benefit that accrues to an employee as a result of a journey undertaken by the employee when the cost of that journey is borne by his employer, mainly in the form of airflights. In essence, the benefit encompasses any private journey that an employee undertakes other than business-related trips. You may be querying how this works when all the employer provided benefits are subject to tax. Well, fortunately not all benefits are taxable, in fact, the law explicitly exempts a passage benefit from PAYE.

The Exemption

The Income Tax Act states that a passage benefit paid for the employee should not be included as part of an employee's taxable income. In verbatim the Act states that, 'the employment income of any person for any tax year shall not include the value of any free passage by air, rail, road or sea provided for an employee...' The Act further provides that the benefit includes journeys paid by the employer for the employee's spouse and children for as long as the benefit is contractual. It is apparent from the quoted provision of the Act that the value or amount of the passage benefit is not restricted to a certain threshold. Further, the Act does not limit the frequency of undertaking the said journeys, save for shareholders holding at least 5% shares in a private company.

Tax planning

To arrange one's affairs in a tax efficient manner is simply a matter of logic and principle. Allow me to technically break it down for you. Let us assume that John who earns P1m a year comes from India and he flies home four times every year with his whole family at a cost of P120,000. Basically, this means that John utilises his net salary after PAYE of P 775 950 to cater for the travelling expenditure which further reduces his disposable income by P120 000 to P 655 950, after the flights. Now, if John was to engage with his employer to amend the contract to the effect that the employer will cater for the travel expenses in exchange for a reduced gross salary by the P120,000, John will be taxed on P 880 000 only and his disposable income rises to P 685 950, up from P 655 950. He therefore makes a tax saving of P 30 000, as legally provided for by the Act and still enjoys the 4 flights per year.

Don't sign

The big lesson here is that employees mustn't sign new employment contracts without seeking tax consulting services as they may unknowingly pay more tax than what the law requires. As can be seen from John's case above, he makes a tax saving of P 30 000 per annum, which culminates to P 300 000 in a decade simply by embarking on tax planning as provided in law.

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.