

No PAYE on leave/travel allowance!

Most companies usually struggle with how to best reward their hardworking employees without inflating their tax liabilities. However, with proper tax planning, employers can increase their employees' after-tax income and at the same time legally minimising PAYE. Employers can pay employees a 'travel concession allowance' without PAYE consequences. A 'travel concession pay' is an allowance which is paid in monetary form and is to be used by employees during periods when they take a break from work.

The Income Tax Act states that taxable employment income includes any allowances not necessarily used for the business of the employer. Technically, the law brings into the ambit of taxable income every allowance paid to an employee for his or her private affairs. However, it is imperative to note that BURS, through its PAYE tables, ruled that travel concession allowances paid to employees are not taxable. This concession is commonly enjoyed by government and parastatal employees as leave or holiday concessions. However, the same concession also applies to every employee regardless of who their employer is.

For an employee to enjoy the said concession, the allowance must be 'reasonable' and it must have been 'wholly, necessarily and exclusively' incurred for the business of the employer. It is apparent that no guidance as to what is regarded as a reasonable allowance was issued and that is determined by an employer. Consequently, employers can utilise this concession as a planning tool and pay employees annual travel concessions which are fully exempt instead of taxable payments, as long as the amounts paid are reasonable. For such arrangements to be watertight, they must either be contractual or contained in a remuneration policy. The obvious resultant effect of opting for travel concession allowances instead of others such as bonuses is that employees' PAYE liability goes down and the employer may do it in such a way that the cost-to-company remains stagnant.

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