



PAYROLL TAX Exempt Allowances - Motor Vehicles and Accommodation

Introduction

1. The *Pay-roll Tax Assessment Amendment Act 2010* amended the *Pay-roll Tax Assessment Act 2002* (the Act) with effect from 1 July 2009 to harmonise the legislation of Western Australia's payroll tax system with the legislation of other jurisdictions.
2. One of the areas which has been harmonised is the treatment of motor vehicle and accommodation allowances.

Ruling

3. Section 9AA of the Act defines wages to include allowances paid or payable to an employee. Generally, all allowances paid or payable to an employee are taxable for payroll tax purposes. However, there are specific provisions which apply to motor vehicle allowances and overnight accommodation allowances. Sections 9FA and 9FB of the Act provide that motor vehicle allowances and overnight accommodation allowances are not taxable to the extent that each of these allowances do not exceed the exempt component.

Motor vehicle allowance

4. A motor vehicle allowance is paid or payable to an employee to compensate them for any business use of his or her own private vehicle.
5. The exempt component is calculated using the formula $E = K \times R$, where:
E is the exempt component
K is the number of business kilometres travelled during the financial year
R is the exempt rate.
6. The exempt rate is the rate determined under section 28-25(4) of the *Income Tax Assessment Act 1997* (Cth) (ITAA) for calculating a deduction for car expenses using the cents per kilometre method for the financial year immediately preceding the financial year in which the allowance is paid or payable. If there is no rate determined under the ITAA, the exempt rate is the rate prescribed by the Pay-roll Tax Regulations.
7. A motor vehicle allowance can be paid on the basis of an amount per business kilometre travelled by the employee or as a regular flat or fixed amount.

Motor vehicle allowance paid on a per kilometre basis

8. Section 22 of the *Fringe Benefits Tax Assessment Act 1986* (the FBT Act) generally exempts an expense payment benefit if it is a reimbursement of car expenses of a car owned or leased by an employee that is calculated by reference to the distance travelled by the car (i.e. paid on a cents per kilometre basis). There are some circumstances where

the fringe benefit exemption does not apply, for example where the expense payment benefit relates to a holiday taken by the employee or where the travel relates to relocation.

9. Some uncertainty may exist as to whether or not such exempt expense payment benefits are subject to payroll tax where the benefit also falls within another part of the definition of wages under the Act. The Commissioner is of the view that exempt expense payment benefits are generally not wages for payroll tax purposes even where the exempt benefit may also fit within another part of the definition of wages under the Act. Therefore, a car expense payment paid on a cents per kilometre basis described above is not subject to payroll tax.

Motor vehicle allowance paid as a flat or fixed amount (i.e. not paid on a per kilometre basis)

10. An allowance which is paid as a flat or fixed amount is not an exempt car expense benefit. In the absence of records confirming the business kilometres travelled, the total payments are subject to payroll tax. For example, a regular travelling allowance of \$200 per month, paid to a sales person who keeps no records of the business use of his or her private motor vehicle, is taxable in full.
11. However, where an employer can produce records to demonstrate the business kilometres travelled in the period covered by the allowance, the exempt component may be calculated. The amount of a motor vehicle allowance paid up to the exempt component is exempt. Where the allowance exceeds the exempt component, only the amount in excess of the exempt component is taxable.

Allowance paid as fixed amount plus a rate per kilometre

12. Where a motor vehicle allowance is paid as a combination of a fixed amount plus a rate per kilometre, the total amount of the allowance that exceeds the combined total of the two exempt components will be taxable. The exempt components are the exempt fringe benefit component and the exempt component using the Australian Taxation Office (ATO) rate per kilometre.

Example

Total business kilometres travelled during the 2018-19 year: 10,000

Allowance paid during the year:

Fixed amount	\$8,000
Rate per kilometre @ 30 cents	<u>\$3,000</u>
Total allowance paid	\$11,000
Less exempt fringe benefit:	\$ 3,000
Subtotal:	\$ 8,000
Less exempt component (using the 2017-18 ATO rate of 66 cents per km)	<u>\$6,600</u>
Taxable portion of allowance	\$1,400

Overnight accommodation allowance

13. An overnight accommodation allowance is paid to cover temporary accommodation costs for a night's absence from the employee's usual place of residence as a consequence of employment.
14. Temporary accommodation in this context means:
 - (a) accommodation for a continuous period of no more than 21 days or
 - (b) accommodation for a continuous period of more than 21 days where the employee continues to maintain a domestic dwelling for the purpose of accommodating the employee and/or his or her family.
15. All overnight allowances paid or payable for accommodation that is not of a temporary nature are fully taxable.
16. An overnight accommodation allowance is distinguished from an accommodation expense payment (or a reimbursement) in that the accommodation allowance is a pre-determined amount paid to an employee and the employee is not required to substantiate the costs incurred in securing the accommodation.
17. An overnight accommodation allowance is also distinguished from a living away from home allowance. An overnight accommodation allowance is generally paid where there is no change of employment location whereas a living away from home allowance is paid where the employee has moved and taken up temporary residence away from his or her usual place of residence. These allowances are subject to different Commonwealth taxation treatments. An overnight accommodation allowance is treated as assessable income in the hands of the employee whereas a living away from home allowance is a fringe benefit.
18. An overnight accommodation allowance, provided to an employee for temporary accommodation costs, will be taxable only to the extent that it exceeds the exempt rate.
19. The exempt rate for accommodation allowances is the total reasonable amount for daily travel allowance expense using the lowest capital city for the lowest salary band for the financial year determined by the Federal Commissioner of Taxation. These determinations are made by the Federal Commissioner of Taxation in June of each year and set out the amounts that the Federal Commissioner of Taxation considers are reasonable for the following income tax year in relation to claims made for travel allowance expenses.
20. The ATO determination of reasonable amounts for travel allowance expenses includes components for meals and incidental expenses. These components are also exempt when paid as part of the overnight accommodation allowance to the extent that they do not exceed the respective ATO limits whether or not the employer separately identifies these payments made to an employee.
21. In some instances, the accommodation is paid by the employer directly to the hotel, motel or serviced apartment and the employee is only paid an allowance for meals and incidentals in respect of the period of absence from the employee's usual place of residence. The allowances for meals and incidentals are exempt from payroll tax up to the respective ATO limits for these payments.
22. For overnight accommodation allowances paid to truck drivers, please refer to Revenue Ruling PTA024.

Living away from home allowance

23. A living away from home allowance is a fringe benefit and therefore, the value for payroll tax purposes is the value determined in accordance with the FBT Act. If the allowance does not qualify as a living away from home allowance benefit under the FBT Act, it will be treated in the same manner as an overnight accommodation allowance.
24. Please note that rulings do not have the force of law. Each decision made by the Commissioner of State Revenue is made on the merits of each individual case having regard to any relevant ruling.

Ruling History

Revenue Ruling	Issued	Effective Dates	
		From	To
PTA 005.1	24 June 2010	24 June 2010	29 July 2019
PTA 005.2	30 July 2019	30 July 2019	Current