aupracon TAX SPECIALISTS
Consulting . Training . Compliance

Postal: P O Box 504899, Gaborone
Physical: Plot 76295 Gaborone North
Telephone: 393 9435 / 71 81 58 36
Email: jhore@aupracontax.co.bw

Car allowances are not tax-efficient

As the old adage says, 'in this world, nothing is certain except death and taxes!' However, with careful tax planning, individuals and corporates can legally minimise their tax obligations. Today, we aim to enlighten you on how employees can legally minimise payroll taxes by opting for a car benefit instead of allowances, whilst employers maintain the same cost of employment. In this article, words importing the masculine shall be deemed to include the feminine.

Enter allowances!

Basically, an allowance is any form of monetary reward or payment, in addition to an employees' basic salary. Accordingly, a car allowance is ordinarily granted to employees for them to maintain or purchase their cars. In some cases, employers may grant a car allowance in an effort to subsidise the employees on the cost of buying their personal vehicles. In terms of the Income tax law, such an allowance is taxable in full in the hands of employees.

Enter car benefits!

Contrary to the above allowance, a car benefit is a non-monetary reward granted to an employee. The benefit arises where an employee is allocated a vehicle for private use. It is critical to note that the fact that a vehicle is specifically allocated to a particular employee is not sufficient to establish that a benefit exists. It could happen that an employer requires a particular person to use the same vehicle during working hours for accountability purposes, but a car benefit only arises if the employee is allowed to drive the vehicle after hours, during weekends or to conduct personal or leisure activities with the vehicle.

The taxable benefit arising from the usage of an employer's vehicle is determined based on tax tables prescribed by BURS which provides a taxable annual benefit value which ranges from P2,500 up to P10,00 plus 15% of the cost of the employer vehicle excess of P200,000. The benefit is commonly referred to as motoring benefit.

The planning avenue

To put the above into perspective, it is worth noting that a car allowance which is fully taxable is not tax efficient as one could sacrifice the allowance for a car benefit whose taxable value is dependent on the vehicle and fuel cost. Let us have a look at the below example for clarity.

Let us assume that one Tiro got a job as a CEO at XYZ (Pty) Ltd and the employer offered him a salary of P 1.88m plus a car allowance of P120 000 per annum. In this case, it will be tax efficient for Tiro to give up the P 120 000 car allowance and then the employer purchases a car worth, say, P 450 000 and gives it to Tiro to use, whilst the employer uses the allowance to pay off the car.

If Tiro opts to maintain the P1.88m and car allowance of P120,000, he will suffer tax of P474,050 on the P2m. He will thereafter use the P120,000 to purchase a car and remains with a disposable income of P1.41m. On the other hand, if Tiro opts for a car benefit, he is liable to a lower PAYE of P455,925 determined on the P1.88m plus car benefit of P47,500 ((P 10 000 + 15%*(450 000-200 000)). Accordingly, Tiro's disposable income will be P1.424m, being higher than the former option by P 18 125. Now, that's tax-efficiency and legal tax planning.

Conclusion

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to Caesar what belongs to him. If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send a text to +267 7181 5836 or email us on jhore@aupracontax.co.bw. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab.