

PAYE on Cars Isn't Impacted By Depreciation: By Jonathan Hore

The Income Tax Act prescribes that employees should be taxed on the pleasure which arises from using company vehicles for private purposes. For your information, let me start by saying that the benefit which is brought to tax is determined with reference to the cost of the vehicle. One school of thought would suggest that the benefit must go down as the car ages or depreciates. This makes a lot of sense as it is commonly known that vehicles depreciate fast and so the motoring benefit must fall with time. Well, let's unveil what the law actually prescribes on this matter so that we can establish whether or not this is the case. Throughout this article, words importing the masculine shall be deemed to include the feminine

Entre car benefit

A car or motoring benefit is an advantage granted to an employee by his employer through the free private use of a car owned or rented by the employer. Private use includes travelling from home to work and using the vehicle during the weekends or holidays for personal use. This benefit is brought in the realm of employee's remuneration as it is construed to be a 'non-cash employee benefit' by the Income Tax Act. Technically, the value of the benefit is added to an employee's salary before PAYE is determined. In other words, the impacted employee pays tax for using the employer's vehicle for private purposes. The benefit still arises even if an employee is required to use the vehicle within zones restricted by the mileage or kilometrage travelled. As an example, the fact that an employee is allowed to take private journeys of a maximum of 300km a month does not take away the car benefit. For the avoidance of doubt, an employee who uses an employer's vehicle strictly during working hours is not subjected to PAYE. There is no private usage in such instances hence tax doesn't apply.

The calculation

One key aspect to understand is that a benefit arises to an employee on the 'right to use' the vehicle, after hours. This car benefit is determined using tax tables which are prescribed by BURS, where the most costly vehicles are taxed at P 10 000 plus 15% on the cost in excess of P 200 000. As an example, a vehicle which cost the employer P300 000 results in the employee paying PAYE on an annual benefit of P 25 000. Employees who fuel their employer's vehicles however pay less PAYE from the usage of the vehicles. But remember that we are worried about whether this benefit reduces as the vehicle ages. In other words, if a vehicle is used for 10years, does the employee pay reduced tax depending on the age of the vehicle?

The disappointment

Now, the interesting bit of this car benefit is that it is totally disconnected from the accounting principles of depreciating the vehicle. In accounting, depreciation denotes the loss of value of an asset or simply, spreading the cost of the motor vehicle over its useful life. In taxation, such principles do not apply and are not recognised in the determination of benefits enjoyed by employees. Taking the above example of a car which cost P300 000, the P 25 000 annual benefit will still apply even if the car wears down through its usage. This means that even fully depreciated vehicles will still trigger PAYE benefits at the same cost that they were purchased at, despite how bad their condition may be. This just goes to

show that the tax principles do not necessarily have to make sense or agree with accounting matters.

Therefore, the deciding factor is the benefit to the employee not the life span of the vehicle. In other words, where the employee continues to enjoy the benefit, the more he continues to pay to Caesar what belongs to him.

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 know about our 9 Tax e-books, send me a text on the cell number below.