

COMMISSIONER'S GUIDELINE

CG-PRT-006:

Exempt allowances – motor vehicle and accommodation

Guideline History

Version	Issued	Dates of effect	
		From:	To:
1	22 July 2008	1 July 2008	Current

Purpose

This Guideline explains the application of the *Pay-roll Tax Act* ('the Act') in respect to the motor vehicle and accommodation allowance exemptions.

Background

The definition of 'wages' in the Act includes allowances paid or payable to an employee. Generally, all allowances paid or payable to an employee are taxable for payroll tax purposes. However, specific provisions¹ provide that motor vehicle allowances and overnight accommodation allowances are not taxable to the extent that each of these allowances does not exceed an exempt component.

Motor vehicle allowance

A motor vehicle allowance is paid or payable to an employee to compensate them for any business use of his/her private vehicle. Certain allowances are exempt from payroll tax while others are only taxable if they exceed an exempt component.

Exempt motor vehicle allowances

Certain motor vehicle allowances are exempt benefits under section 22 of the *Fringe Benefits Tax Assessment Act 1986* ('the FBTA Act') where they are paid according to the distance travelled in the car (that is a cents per kilometre basis). Providing the motor vehicle allowance satisfies the requirements of the FBTA Act as an exempt benefit, they are not wages for the purpose of the Act.²

¹ Sections 3E and 3F of the Act.

² See section 3(3) of the Act.

Exempt component

Allowances that are not an exempt fringe benefit are only taxable to the extent that they exceed an exempt component. The exempt component is calculated using the formula:

$$E = K \times R$$

E is the exempt component

K is the number of business kilometres travelled during the financial year

R is the exempt rate

The exempt rate is the rate prescribed under the income tax legislation for calculating a deduction for car expenses for a large car using the cents per kilometre method in the financial year immediately preceding the financial year in which the allowance is paid or payable. The rate can be obtained from the ATO Online Legal Database website (www.ato.gov.au). The rate is also published on the TRO website.

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, or a combination of both a fixed amount plus a rate per kilometre.

Motor vehicle allowance paid on a per kilometre basis

Where a motor vehicle allowance is paid as an amount per business kilometre travelled, the amount of the allowance that exceeds the exempt component will be taxable.

Example

Total business kilometres travelled during the year:	10 000
Rate per kilometre @ 80 cents	\$8 000
Exempt component (using the 2007-08 ATO rate of 70 cents per km)	<u>\$7 000</u>
Taxable portion of allowance	\$1 000

Allowances not paid on a per kilometre basis

An allowance that is paid as a 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/her private motor vehicle is taxable in full.

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 a fixed amount plus a rate per kilometre

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 exempt component will be taxable.

Example:

Total business kilometres travelled during the 2008-09 year: 10 000

Allowance paid during the year:

Fixed amount	\$5 000
Rate per kilometre @ 30 cents	<u>\$3 000</u>
Total allowance paid	\$8 000

Exempt component

(using the 2007-08 ATO rate of 70 cents per km)	<u>\$7 000</u>
Taxable portion of allowance	\$1 000

Record keeping requirements

The number of business kilometres travelled by an employee must be calculated using either of two approved recording methods³. These are the continuous recording method and the averaging method. Appropriate records must be maintained by the employer for either method chosen.

Under the continuous recording method, information is required to be maintained for each business journey undertaken for each financial year. This information includes odometer readings at the beginning and end of each business journey, the purpose for each journey, and the distance travelled.⁴

Under the averaging method, the same information as required for the continuous recording method is also to be maintained; although only for a 12-week period. In addition, odometer readings at the beginning and end of the 12-week period are also required to enable calculation of the average percentage of business kilometres travelled. The percentage is then applied to the total kilometres travelled in the financial year to determine the average total of business kilometres travelled.⁵ Odometer readings at the beginning and end of the financial year must also be taken to determine the total number of kilometres the employee's car has travelled.

³ Part 5 of Schedule 1 of the Act.

⁴ Clause 2 of Schedule 2 of the Act.

⁵ Clause 3(1) of the Act.

If the averaging method is adopted, the average percentage of business kilometres can be used for the following four financial years, subject to the Commissioner requiring the employer to keep new records or if the employee uses a different motor vehicle.⁶

Overnight accommodation allowance

An overnight accommodation allowance is paid to cover temporary accommodation costs necessarily incurred as a consequence of employment. Temporary accommodation in this context means:

- accommodation for a continuous period of no more than one month (30 days); or
- accommodation for a continuous period of more than one month (30 days) where the employee continues to maintain a domestic dwelling for the purpose of accommodating the employee and/or his or her family.

All allowances paid or payable for accommodation that is not of a temporary nature are fully taxable.

An overnight accommodation allowance is distinguished from an accommodation expense payment (or a reimbursement) in that it is a pre-determined amount paid to an employee and the employee is not required to substantiate the costs incurred in securing the accommodation.

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/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.

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.

The exempt rate for overnight 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 Commonwealth Commissioner of Taxation. The rate is published in the form of a Taxation Determination at the end of June each year and sets out the amounts for the following income year in relation to claims made for travel allowance expenses. Taxation Determinations may be obtained from the ATO Online Legal Database website (www.ato.gov.au). The rate is also published on the [TRO website](#).

⁶ Clause 3(4) of Schedule 2 of the Act.
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Living Away From Home Allowance

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 FBTA Act. If the allowance does not qualify as a living away from home allowance benefit under the FBTA Act, it will be treated in the same manner as an overnight accommodation allowance.

Commissioner's Guideline CG-GEN-001, which sets out information on the revenue publication system, is incorporated into and is to be read as one with this Guideline. All Guidelines are available from [TRO's website](#).

Refer to the *Pay-roll Tax Act* for precise information about payroll tax on the motor vehicle and accommodation allowance exemptions.

Date of effect

This Guideline takes effect from 1 July 2008.



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