IT 2327 - Income tax : reasonable travel allowances

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TAXATION RULING NO. IT 2327

INCOME TAX : REASONABLE TRAVEL ALLOWANCES

F.O.I. EMBARGO: May be released

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REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1209526	TRAVEL ALLOWANCES	82KU
	SUBSTANTIATION	82KZ
		82KZA

PREAMBLE Under sections 82KZ and 82KZA of the Income Tax Assessment Act 1936 an income tax deduction is not allowable after 30 June 1986 in respect of employment-related expenses unless documentary evidence of the expense has been obtained and is retained by the taxpayer. Broadly, documentary evidence of an expense is a receipt, invoice or similar document that sets out particulars (as specified in section 82KU) sufficient to prove the amount of the deduction claimed and the nature of the expense. If the expenses are overseas or extended domestic travel expenses, a further condition of deduction is that a diary or similar document be kept of the business activities that took place during the course of the travel. This latter requirement is embodied in sub-sections 82KZ(2) and (3).

2. The substantiation requirements relating to travel expenses - i.e. the need to obtain and keep receipts and make entries in a travel diary - do not apply where the taxpayer is an employee whose employer has paid a reasonable travel allowance to cover costs of accommodation, food and drink, and incidentals associated with travel by the employee within Australia. This is where the Commissioner of Taxation considers the allowance to be reasonable having regard to the amounts of expenditure of those kinds that the taxpayer could reasonably be expected to incur. In those circumstances, provided the taxpayer's claim for deduction does not exceed the amount of the allowance, sections 82KZ and KZA will not apply (sub-section 82KZ(4)).

RULING 3. As a general principle, a travel allowance will be treated as reasonable where the rate of allowance has been set by reference to actual costs of accommodation and meals in a range of establishments in capital cities, metropolitan areas and country districts, as relevant to the case, in order to arrive at an average daily rate that would fairly compensate an employee for the cost of food, accommodation and incidentals having regard to the status and salary level of that employee. In this context, fair compensation would be an amount - based on average charges in the surveyed establishments - that would enable the employee to avoid being out of pocket but make it

unlikely that the allowance would, to any appreciable extent, not be expended on the costs for which it was paid.

4. Against that background, where a travel allowance paid by an employer does not exceed rates of travel allowances set for members of the Australian Public Service (APS), the travel allowance would be treated as reasonable. In concluding that such allowances are at acceptable levels, recognition is given to the fact that APS travel allowances are based on an analysis of data obtained from annual surveys of accommodation and meal costs in capital cities and other regional centres. Resultant allowances reflect average costs of each item in each centre, excluding costs of sub-standard establishments, on the one hand, and costs in specific high cost (usually remote) areas, on the other.

5. Current APS travel allowance rates are as follows:

	Annual salary range $48867-$72695		Annual salary below $48867	
Component	Capital City	Other	Capital City	Other
Accommodation	60.45	38.40	44.60	31.90
Food and drink	39.90	30.95	32.85	27.00
Incidentals	9.65	9.65	7.25	7.25
Total daily allowance	110.00	79.00	84.70	66.15

6. Daily travelling allowances - whether paid to APS members or other public or private sector employees - that do not exceed APS daily rates by more than $5 per day according to the salary ranges shown above may be treated as reasonable travel allowances. In this context, salary is to be taken as cash salary exclusive of allowances and non-cash fringe benefits.

7. For higher paid employees, it is considered that daily travel allowances set on independent annual review by the Remuneration Tribunal could be taken as a benchmark. The Tribunal enquires into the allowances to be paid to Ministers, other Members of Parliament, officers of the Parliament and public office holders such as Secretaries of Departments. The enquiry receives submissions from interested parties, examines relevant salary movements and takes account of price movements relevant to the kinds of expenditures for which the allowances are paid. In line with the principles laid down in paragraphs 3 and 4, therefore, daily travelling allowances paid to employees that do not exceed allowances set by the Remuneration Tribunal for equivalent salary ranges (i.e. cash salary as defined in paragraph 6) may be treated as reasonable travel allowances within the meaning of sub-section 82KZ(4). As a guide, the following are examples of rates of allowances payable within representative salary ranges:

Salary Range	Capital City	Other

105,146-115,723	155	110
75,625-97,059	140	105

8. Whilst the rates of allowances indicated at paragraphs 5 and 7 as being within reasonable limits will cover most situations, there may be particular cases where higher rates of allowance can be accepted as reasonable. For example, the Remuneration Tribunal has set higher rates than those at paragraph 7 as appropriate for certain offices.

9. A separate ruling is being issued relating to the substantiation of travel expenses for the purposes of determining the taxable value of fringe benefits.

COMMISSIONER OF TAXATION
27 June 1986