

PAYE Bulletin 3 - Taxing of allowances for 1996/97

PAYE Bulletin

Number 3

Taxing of allowances for 1996/97

Valid from August 1996

About this bulletin

The Pay As You Earn (PAYE) system requires tax to be deducted at prescribed rates from some allowances paid to employees.

The non-deduction of tax instalments from allowances can cause concern to employees as well as employers. From an employee's point of view, non-deduction of tax from allowances paid during the year may result in the employee receiving a debit assessment at the end of the year. From the employer's point of view, a failure to deduct tax instalments or disclose allowances paid on a group certificate may result in penalties being imposed on the employer.

This bulletin outlines the correct tax treatment of a variety of allowances for 1996/97.

What are allowances?

Allowances are payments made to an employee:

- for working conditions;
- for qualifications (etc.);
- for expected work related expenses.

What is the correct tax treatment for allowances?

Generally, allowances should be added to an employee's salary and tax deducted from the gross payment.

- Allowances paid for working conditions or qualifications etc., should appear on the group certificate as part of the gross salary/wages.
- Allowances paid for work related expenses should normally be shown in the allowances box with an explanation code.

Which payments do not generally require tax instalment deductions?

You do not need to make tax instalment deductions from:

- **laundry expense allowances** up to the value of \$150 per annum;
- **award transport allowances** paid under an industrial instrument that was in force on 29 October 1986;
- **reasonable overtime meal allowances** paid under an industrial instrument in connection with overtime worked;
- **reasonable domestic or overseas work-related travel allowances** for food and drink, accommodation (domestic travel only) and expenses incidental to the travel, **where a sleep away from home is involved**.

provided that in all these cases

- the employee is expected to incur deductible expenditure at least equal to the allowance paid.

Changes to the treatment of some payments

Part day travel allowance

A change has been made to the substantiation and PAYE arrangements for a part day travel allowance. **A part day travel allowance is an allowance paid where a sleep away from home is not involved.** Any claim for work-related expenses incurred will be subject to the normal substantiation requirements.

For the 1996/97 financial year employers should deduct tax instalments from this allowance and include it as part of gross salary or wages on the group certificate. In recognition that employers will need to adjust their administrative procedures to give effect to the change in treatment of this allowance, employers have until 30 September 1996 to put in place those procedures. By 1 October 1996, tax instalment deductions should be made from the whole amount of the allowance. Employees must be informed of the amount of the allowance that they have received from 1 July 1996, that has not been subject to tax instalment deductions, as the entire amount paid in the financial year must be included in their income tax return as assessable income.

Motor vehicle payments

Motor vehicle reimbursements paid on a **cents per kilometre basis** form part of the income of the employee and **must** be included in the employee's income tax return. To assist employees to meet their obligations, the ATO prefers that motor vehicle reimbursements on a cents per kilometre basis are shown in the allowance box on the group certificate, with an explanation code.

Further, it is preferred that tax instalments are deducted from these payments **unless the employee is expected to incur deductible expenditure at least equal to the amount paid.**

The tables on page 3 and 4 show the correct PAYE treatment in 1996/97 of the more common allowances paid by employers.

Allowance type	Allowance category¹	Deduct PAYE?	Show on group certificate?
Site	a	yes	yes
Height	a	yes	yes
Dirt	a	yes	yes
Trade	b	yes	yes
Shift	b	yes	yes
Tool	c	yes	yes
Dry cleaning	c	yes	yes
Laundry other than dry cleaning - up to \$150 p.a. - component over \$150 p.a.	c c	no ² yes	no ² yes (show total allowance)
Award overtime meal allowances³ - up to \$15 per meal - component over \$15 per meal	c c	no ² yes	no ² yes (show total allowance)
Other meal allowances	a	yes	yes

¹ Category (a) allowance for working conditions.
Category (b) allowance for qualifications etc.
Category (c) allowance for expected work related expenses.

² Provided the employee is expected to incur deductible expenditure at least equal to the allowance paid.

³ See Taxation Ruling TR96/21 "Income Tax: reasonable allowance amounts for the 1996/97 income year".

Allowance type	Allowance category¹	Deduct PAYE?	Show on group certificate?
Award transport payments⁴	c	no ²	yes
- component over current award	c	yes	yes (show total allowance)
Car allowances	c	yes	yes
Other transport payments	c	yes	yes
Motor vehicle cents per km payments			
- for deductible travel	not applicable	no ²	yes
- for private travel	not applicable	yes	yes
Part day travel allowance⁵	a	yes	yes
Travel allowance involving sleep away from home			
- up to reasonable amount ³	c	no ²	no ²
- component over reasonable amount ³	c	yes	yes (show total allowance)

1
Category (a) allowance for working conditions.
Category (b) allowance for qualifications etc.
Category (c) allowance for expected work related expenses.

2
Provided the employee is expected to incur deductible expenditure at least equal to the allowance paid.

3
See Taxation Ruling TR96/21 "Income Tax: reasonable allowance amounts for the 1996/97 income year".

4
As defined in the Income Tax Assessment Act.

5
Travel allowance paid where the employee is not required to sleep away from home.

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