

# Car Allowances and Reimbursements

An employee may be entitled to extra payments if they use their own vehicle for work purposes. These may be paid in **advance as an allowance** or in **arrears as a reimbursement**.

There are many factors to consider when looking at car allowances and reimbursements, such as whether it is a taxable allowance or not, whether superannuation applies or not, and whether the employee's award governs any allowances and entitlements. You should check the award that applies to the employee to make sure you are complying with the allowances as set out by the award:

## What are the Differences Between Allowances and Reimbursements?

**Allowances** are amounts paid to cover anticipated costs or as compensation for conditions of employment, and are paid regardless of whether the employee incurs an expense. Allowances are assessable income to the employee and are generally included as income in their tax return. The employee may be entitled to claim a tax deduction. Typically despite the level of the allowance a taxpayer can still only claim the amount they did actually spend (when in relation to car travel). Allowances are paid in advance as part of payroll processing.

**Reimbursements** made to employees are exact compensation for actual expenses incurred. The employer may be subject to fringe benefits tax (FBT) depending on the nature of the travel. If the reimbursement is covered by FBT, the amount is deductible to the employer, it is not assessable income to the employee, and the employee cannot also claim a deduction. If it is not subject to FBT, because the expense is deductible, then it is also not assessable or deductible by the employee. Reimbursements are paid in arrears, and may be paid as part of payroll processing or external to payroll as an expense.

## PAYG Withholding on Car Allowances

**PAYG is deducted for the following kinds of allowances:**

- Allowances paid for working conditions, such as first aid allowance, shift allowance or danger allowance.
- Allowances paid for things that aren't tax-deductible, such as non-deductible travel between work and home, or meal allowances that are over and above the award.
- Allowances paid for things that are expected to be tax-deductible, such as tool, uniform or dry-cleaning allowances.
- Allowances paid for cents-per-kilometre vehicle use (at rates prescribed by the Tax Office), in excess of 5,000 km per year.

**PAYG is NOT deducted for these kinds of allowances:**

- Allowances paid for cents-per-kilometre vehicle use (at rates prescribed by the Tax Office), up to 5,000 km per year.
- Allowances paid for laundry (not dry-cleaning), up to the allowable threshold amount.
- Allowances paid for overtime meal allowances, up to the reasonable allowances amount as specified in ATO annual rulings

## Payment Summaries

### Payroll Setup

When you are required to pay an allowance, each type of allowance should be set up with a separate Wage Category and Linked Expense account. When setting up the Wages Category you can override the Employee's Wage Expense Account and choose to link the category to a new expense account, for example Car Allowance, listed under Employment Costs.

### Payment Summary Setup

When you set up the Payment Summary Fields you will need to specify each allowance by name and select this field to be included in the Payment Summary. Note that allowances are to be reported separately, not reported at Gross Payments. Remember to check the new Wage Category setup is correctly for Superannuation and PAYG.

Allowance Type	PAYG Withholding?	Shown on Payment Summary?
Cents per kilometre car expense payments using ATO rates		
<ul style="list-style-type: none"> <li>For payments made by applying the ATO rate to the number of kilometres travelled where the usage is up to 5,000 business kilometres.</li> </ul>	No	Yes (show total allowance separately in allowance box with an explanation)
<ul style="list-style-type: none"> <li>For payments made by applying the ATO rate to the number of kilometres travelled where the usage is in excess of 5,000 business kilometres.</li> </ul>	Yes (from the payment for the excess over 5,000 kms)	Yes (show total allowance separately in allowance box with an explanation)
Reimbursements	No	No

## What is the Cents per Kilometre Method?

The employee can use this method to claim up to a maximum of 5,000 business kilometres per car even if he has travelled more than 5,000 business kilometres. For example, if he travelled 5,085 business kilometres, he can only claim the cost of travelling 5,000 kilometres with this method. He cannot claim for the extra 85 kilometres.

The employer must track how many kilometres have been paid, as the tax treatment differs once the employee has been paid for 5,000km—see above table. Both you the employer and the employee need to be able to show how you worked out your business kilometres.

## Cents per Kilometre Rate 2015-2016

In previous years, there were several rates in use according to the size of the vehicle. From 1 July 2015, the ATO has changed this to one rate for all vehicles: **0.66 cents per kilometre**.

## Superannuation on Car Allowances

Under Superannuation Guarantee Ruling 2009-2 most allowances are liable for super unless the ATO has determined that an exemption applies.

In relation to allowances one exemption relates to allowances for work related expenses that are expected to be fully expended by the employee. Car allowances sometimes fall into this category.

However you need to look at your organisation's allowances before you decide super is NOT payable. For instance, if the employer pays a fixed car allowance with no calculation for business usage costs (most common), superannuation must be paid as the employer cannot justify to the ATO that the allowance was designed to be fully expended.

Here are some scenarios of car allowances that are NOT superable.

- If a car allowance is paid by reimbursing cents per km allowance, this is not liable for super guarantee.
- If a fixed car allowance is paid, that has been calculated on the estimated business related travel costs for the employee's car, there is no super guarantee liability.

The employer would have to have an audit trail of how the allowance was calculated. They would need to estimate the expected kilometres to be travelled for the year and determine the reasonable costs per km of the employee's vehicle. This could be done using sources such as NRMA, RACV or similar organisations.

The employer might document the estimate and arrive at, say \$9,250 operating costs for the car for the year (for business related travel only). If the employer chooses to pay a car allowance of \$9,250 in those circumstances, the Super Guarantee Act would deem the allowance a 'reimbursement of expense' and it would not be liable for super. The calculation does not have to be lodged with the ATO – the employer just needs to keep the calculation available in case of ATO audit.

## From the ATO Superannuation Guarantee Ruling

### Allowances

65. For the purposes of the SGAA, all allowances, except expense allowances and allowances that are fringe benefits under the FBTAA, received by an employee, are included in 'salary or wages'. Expense allowances are dealt with under paragraph 72 of this Ruling.

### Expense allowances and reimbursements

72. Expense allowances, that is, those allowances paid to an employee with a reasonable expectation that the employee will fully expend the money in the course of providing services, are not 'salary or wages'.

**Example:** If the employer decides to pay a flat rate per pay period to cover private vehicle usage, this would be classed as taxable for the employee as this kind of allowance would not be considered

necessarily fully expendable, as no vehicle records are required to be provided by the employee. With this flat allowance “by way of unconditional extra payment”, the employee receives it regardless of what expenses were incurred, receives superannuation and pays tax on it.

**Example:** If an employee uses her own car for work purposes and documents the kilometres travelled at the ATO cents per kilometre rate above, and the employer reimburses her for the exact amount calculated, this is classed as a reimbursement and is not subject to PAYG or superannuation, nor is it required on the payment summary.

## References

- [ATO Superannuation Guarantee Ruling](#)
- [ATO Tax on Allowances](#)
- [ICB PAYG Payment Summary Guide](#)
- [FairWork Penalty Rates and Allowances](#)