

# Tax and Paying People – Allowances, benefits, lump sums

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When you pay your employees sums in addition to their normal wages, the tax treatment depends on what the payments are for and the circumstances that apply.

## Allowances

A straightforward reimbursement to the employee for out of pocket work-related expenses isn't taxable. Mileage, meals, and tools (including telecommunication devices) are examples. If the amount of the allowance is more than the actual amount of the expense, then the difference is taxable. You will pay FBT on it or the employee will be subject to PAYE.

Though the basic principle is simple, there are different rules for different expenses.

- If an employee buys something needed for the job, such as tools, reimbursements for assets costing less than \$500 are tax-free
- With reimbursements for telecommunication devices (including usage plans), the amount that can be paid tax-free depends on whether the device is principally used for work or for private use
- Drivers and musterers can have part of their salary treated as a non-taxable allowance if they supply their own dogs, horses, and saddles. Calculate the amount to be paid as a tax-free allowance on the basis of either what the actual expense was, or a reasonable estimate of the likely expenses

## What about travel?

Where you pay a travel allowance to an employee, you need to determine whether you are liable for FBT (if you paid for the travel) or the employee is liable for PAYE (if you reimbursed the employee's travel costs). For a travel allowance to be tax-free, the travel must be 'on work' rather than just 'getting to work'. Different factors affect the tax treatment. Contact us about your situation.

## Relocations

If you pay or reimburse an employee's relocation costs, the payment will generally only be tax free if the employee's home is a substantial distance from the new workplace and the payment must reflect the actual cost. Use [Inland Revenue's list](#) to identify relocation expenses that can be reimbursed tax free.

## Can I claim GST on benefits and allowances paid to employees?

You may be able to claim GST on allowances paid to employees if the allowances are for work-related expenses, and you are registered for GST. Keep all relevant tax invoices. You can't claim GST for items that aren't employment-related, so this generally rules out claims on benefits.

## Benefits

Benefits include anything that benefits the employee. They're not wages as such, but part of the employee's total employment package. As they're a perk of the job for the employee, you, as the employer, will usually pay fringe benefit tax on the value of the benefit.

Benefits fall into several categories: non-cash, cash, and so-called special benefits. Confusingly, sometimes benefits are referred to as allowances, but the tax treatment is different.

### Non-cash

Non-cash benefits are common in farming businesses and examples include accommodation, power, phone, firewood, and food.

If they're all non-cash benefits, then the only tax due will be fringe benefit tax payable by the employer on the value of the benefit.

### **Cash**

Sometimes it's easier to pay the employee the value of the benefit than it is to just provide it (e.g. wet weather gear). In these cases, you must deduct PAYE on behalf of the employee.

An exception to this is where the clothing is a uniform specific to the business, branded or distinctively work-related clothing, such as overalls or protective clothing worn for workplace health and safety. Where you provide this, it's exempt from FBT. Where you pay allowances to cover it, they're tax exempt.

### **Cash reimbursements**

Sometimes you'll have an agreement with the employee that you'll provide benefits, and the employee will reimburse you for them. Agree on the value of the benefit to be deducted from wages (make sure to obtain the employee's signed authorisation for this). As the amounts reimbursed to you are income, you also pay income tax on these.

Accommodation is a common example. If the employee reimburses you but pays below market value for the benefit, the difference between the amount they reimburse you and the market value is taxable. You pay fringe benefit tax on the difference.

Where more than one employee shares the accommodation, the taxable value is apportioned equally between those employees or on a reasonable basis, e.g. if one employee has a smaller room. Once again, you need to agree this with the employees and document that agreement.

### **Special benefits**

These include life insurance and personal accident premiums paid for an employee, ACC loss of earnings compensation, and prize money at sporting events and competitions. See the section on tax treatment.

### **Holiday pay**

The employer is liable for PAYE on pay for annual leave and statutory holidays.

### **Lump sum payments**

These include bonuses, cashed-in annual leave, payments for accepting restrictive covenants, exit inducement payments, gratuities, or back pay, redundancy payments, retiring allowances, and overtime. Employees are most likely liable for PAYE on these payments. Note that:

- the PAYE rate will vary depending on the employee's total taxable income
- ACC earners' levy won't apply above the maximum liable income threshold
- redundancy payments and retiring allowances are not subject to ACC earners' levy

# Tax treatment

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## Allowances - reimbursing staff for work-related expenses

Is it a straight reimbursement?	Employer No tax liability	Employee No tax liability
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- Calculate PAYE (and normal deductions, ACC, KiwiSaver, Student Loan Repayments etc) on gross wages (excluding the reimbursement) then add the reimbursement allowance to net wages
- Claim GST on the allowance

Is it a reimbursement for telecommunication devices and/or usage plans? Is it used principally for work or private use (refer agreement with employee)?	Employer -	Employee PAYE
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- If principally for work, 75% of device costs can be reimbursed tax-free
- If principally for personal use, 25% of device costs can be reimbursed tax-free
- If reimbursing payments are less than \$5 per week, then a de minimis exemption may apply
- Deduct PAYE on anything reimbursed over these amounts

Is it a reimbursement for mileage?	Employer -	Employee -
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- Use the mileage/kilometre rates or a record of the actual costs to calculate reimbursement

Is there a taxable component?	Employer -	Employee PAYE
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- Calculate PAYE on the total of gross wages and the taxable value of the reimbursement, then add the tax-free amount of the allowance to net wages
- Show taxable and tax-free amounts in the wage record. Only show the taxable amount in the payday filing information
- Claim GST on the allowance

## Benefit - providing a benefit to the employee

Is it a non-cash benefit the employee pays nothing for?	Employer FBT	Employee -
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- Return FBT on the value of the benefit

Does the employee reimburse you for some of the non-cash benefit but not full market value?	Employer Income tax on reimbursement FBT on difference	Employee PAYE
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- Deduct PAYE on gross wages (including the reimbursement amount)
- Deduct the reimbursement from net wages
- Record reimbursement as income and return income tax on it
- Return FBT on the difference between the value of the benefit and reimbursement

Does the employee reimburse you for full market value?	Employer Income tax on reimbursement	Employee PAYE
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- Deduct PAYE on gross wages (including the reimbursement amount)
- Deduct the reimbursement from net wages
- Record reimbursement as income and return income tax on it

### Holiday pay - pay for annual leave and statutory holidays

What's the gross amount payable for holiday pay?	Employer -	Employee PAYE
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- Deduct PAYE on total of gross wages and holiday pay

### Special benefits

Life insurance/personal accident premiums paid for an employee

Does the policy pay out to employee or you?	Employer	Employee
To employee	-	PAYE
To employer	Income tax and FBT	-

- If the proceeds are to go to the employee, include the gross premium with wages and deduct PAYE
- If the proceeds are to go to you, pay FBT on the premiums; don't deduct PAYE. You incur an eventual income tax liability on the proceeds

Does the policy cover only work-related accidents or all accidents? (for policies excluding ACC cover)	Employer	Employee
Only work-related accidents	-	-
All accidents	FBT	-

- If the policy covers only work accidents, no tax is payable. No deductions for premiums are available
- If the policy covers all accidents, FBT is payable

ACC loss of earnings compensation

Are you paying the employee up until when compensation is payable?	Employer -	Employee PAYE
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- Deduct PAYE on gross wages as normal

Are you subsidising the employee receiving compensation?	Employer -	Employee PAYE
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- Deduct PAYE on the extra payment you make

Are you paying the employee for ACC to reimburse you later?	Employer -	Employee PAYE
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- Deduct PAYE on gross wages as normal

Prize money at sporting events / competitions

What's the amount of prize money?	Employer Withholding tax	Employee -
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- Deduct withholding tax for any amount over \$500

## Lump sum payments

Regular bonuses paid in the year, e.g. cash incentives, production bonuses, overtime

What's the gross amount payable to your employee?	Employer -	Employee PAYE
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- Deduct PAYE (and ACC earners' levy) on total of gross wages and the bonus amount for the pay periods in which bonuses were earned

Annual/special bonuses, cashed-in annual leave, payments for accepting restrictive covenants, exit inducement payments, gratuities, or back pay

What's the employee's total taxable income?	Employer -	Employee PAYE
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- Deduct PAYE (and ACC earners' levy) on gross wages
- The PAYE rate will differ depending on level of income. ACC earners' levy won't apply above the maximum liable income threshold

Redundancy payments (employment is terminated by employer decision) and Retiring allowances (when an employee has completely finished employment)

What's the employee's total taxable income?	Employer -	Employee PAYE
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- Deduct PAYE on gross wages
- Taxed at lump sum rates but not liable for ACC earners' levy