New Zealand
Payroll Practitioners
Association
Developing and Supporting
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Allowances

Benefit, Reimbursing and Travel

Things to think about when creating a new allowance

It is important before creating an allowance to think about the following:

- What is the purpose of the allowance?
- Why does it need to be separate from the base wage or salary?
- How often will this allowance be paid and what are the criteria for payment?
- How will it be applied for or claimed? And how will it be authorised and processed?
- Does it need to be paid through payroll?
- Is the allowance setup in the payroll system?
- If it is to be done through payroll, can it be done and what amount of extra work will it involve?
- How much will this allowance actually cost per pay period, monthly, annually?
- What happens when the employee terminates their employment?
- What happens to this allowance when the employee is on leave (any leave type)?

Impact of taxable allowances on Holidays Act 2003 leave rates

If the allowance is a taxable allowance, it will become part of the taxable gross and when inflate the leave rate proving under the Holidays Act 2003.

Example:

Employee B get a $10,000 taxable motor vehicle allowance. Their annual salary is $45,000 so when they go on leave, their leave rate is based on taxable gross earnings of $55,000.

When is the allowance not paid?

One of the most common questions NZPPA is asked through the PayTech AdviceLine is whether the employer can stop paying an allowance to the employee when the employee is on leave. The answer is “**Yes**” but it all depends on what was agreed and how it has been applied.

To do this:

- in the employee’s employment agreement, it must clearly state that the allowance will only be paid to the employee while they are working.

Example:

Your taxable motor vehicle allowance will not be paid to you while you are on any agreed leave.

Your taxable motor vehicle allowance will not be paid to you while you are on any type of leave from the company.

Reviewing existing allowances

NZPPA would suggest that all allowances provided to employees are reviewed annually for the following reasons.

- To check whether the allowance still meets the requirements that the allowance was set up for.
- If the allowance is a reimbursement, to check that this is still the case (for business purposes).
- To confirm that any employees claiming a reimbursing allowance are still eligible for this type of payment.

Allowances

Taxable allowances are added to the employee's gross earnings and PAYE is deducted from this total.

Three types of allowances are commonly paid by agreement; they are:

- benefit allowances (taxable)
- reimbursing allowances (non-taxable)
- travelling allowances (non-taxable).

Benefit allowances

Benefit allowances are payments made in addition to salary or wages, which benefit the employee. A benefit allowance is taxed with the employee's wages in the pay period it's paid.

Example:

Market value of accommodation	$ 250 per week
Less rent paid	$ 100 per week
Value to be added to wages and taxed	$ 150 per week

If the employee paid no rent, the value to be taxed would be $250 per week.

Any allowance you pay to an employee instead of providing them with accommodation is fully taxable.

Other types of Benefit Allowances

Higher duties allowance

When an employee is asked to act in a higher position than their own and is paid an allowance to compensate them for the extra responsibility this can be called a Higher Duties Allowance.

Key points to consider:

- **This is a taxable allowance and would go into gross earnings for Holiday Act calculations.**
- **It should be for a defined period of time in writing.**
- **The agreement should state that this allowance is not paid when the employee is on leave (sick, bereavement, public and annual).**

Shift Allowance

Shift work is outside the usual hours of employment for ordinary day workers. A shift allowance is paid to employees on shift work to compensate for their having to work outside the usual span of hours fixed for day workers. For example: the worker working 8 hours on a night shift is paid an extra amount for the inconvenience of working at night. The extra amount is the shift allowance.

Key points to consider:

- **This is a taxable allowance and would go into gross earnings for Holiday Act calculations.**
- **It should be clear what shifts and times it is applied to.**

Meal allowances

Employers typically meet an employee's meal costs when linked to work-related duties to recognise that these meals may be more expensive for the employee than normal meal costs at home.

There are two specific exemptions:

- An exemption applies of up to three months for meal payments if the employee is required to work away from their normal work location because they're travelling on business.
- Payments to cover working meals and light refreshments when working off the employer's premises are exempt without any upper time limit.

Clothing payments

There are two types of clothing payments that will be exempt from tax. They are payments:

- provided to cover the cost of distinctive work clothing, e.g., uniforms, and
- to meet the costs of plain clothes allowances paid to members of a uniformed service, provided certain conditions are met.

Reimbursing allowances

Reimbursing allowances are payments made to employees to compensate them for expenses they've incurred while doing their job—such as mileage allowances, tool money or overtime meal allowances.

IMPORTANT: Actual cost or reasonable estimate

It is very important to assess any new reimbursing allowances to ensure the reimbursement is for actual cost or a reasonable estimate of the amount of expenditure likely to be incurred by the employee or group of employees for which the reimbursement is payable.

Example:

- Employee goes on a training course paid by their employer and pays $10 for car parking, on return to work they lodge an expense claim as they have incurred an expense while working for their employer.

Overtime Meal Allowance:

For overtime meal allowance, overtime means the time an employee works for an employer beyond their ordinary hours of work as set out in their employment agreement.

CW 17C Payments for overtime meals and certain other allowances
Eligibility requirements: overtime meals
(3) Subsection (1) applies only if—
(a) the employee has worked at least 2 hours' overtime on the day of the meal; and
(b) either—
- **(i) the employee's employment agreement provides for pay for overtime hours worked; or**
- **(ii) the employer has an established policy or practice of paying for overtime meals.**

Travelling allowances

Employers need to decide how to tax a travelling allowance paid to an employee.

An allowance paid for an employee’s usual travel costs between home and work is taxable.

A travel allowance is tax free to the extent that the amount paid reimburses an employee’s additional transport costs, is for the employer’s benefit, and one or more of the following special circumstances exists:

- the employee is working outside the normal hours of work (e.g., overtime, shift or weekend work)
- the employee needs to transport work related tools, equipment or materials (e.g., the employee normally takes the bus to work but has to use some other type of transport to carry work-related gear)
- there’s a temporary change in workplace
- the employee is travelling to fulfil a statutory obligation for the employer
- there’s some other condition of the employee’s job (e.g., the employee usually takes the bus to work but their employer requests using their private vehicle while the company car is in the workshop)
- there is no adequate public transport system serving the workplace.

Other types of Reimbursing Allowances

Tool allowance

Tool allowance can be for the upkeep of tools that are the property of the employee but are used in the workplace as a requirement of their position i.e. mechanic.

Key points to consider:

- This is a non-taxable allowance and would not go into the gross earnings for Holiday Act calculations.
- To make this a non-taxable allowance the allowance must be for the reimbursement of the cost to maintain tools.
- There should be a schedule of tools the employee has to maintain.

Uniform/Dry Cleaning allowance

This allowance is paid to the employee to maintain a uniform that is a requirement of the employee position.

Key points to consider:

- This is a non-taxable allowance and would not go into the gross earnings for Holiday Act calculations.
- To make this a non-taxable allowance the allowance must be for the cost of cleaning a uniform that is only used for work.

Using a kilometre rate for business running of a motor vehicle

The Tier One rate can be applied for the business portion of the first 14,000 kms (total) travelled by the vehicle in each income year, after which the Tier Two rates will apply.

2018 /2019 Kilometre Rates		
Vehicle Type	Tier One Rate	Tier Two rate
Petrol or Diesel	79 cents	30 cents
Petrol Hybrid		19 cents
Electric		9 cents