

Fact sheet: Reimbursing allowances paid to employees

A reimbursing allowance paid by an employer to an employee is tax free if it compensates the employee for employment-related expenses.

If the allowance is not so much reimbursing an employee for work-related costs, but more in the nature of a monetary benefit - such as a general clothing allowance or an allowance for working in dangerous or dirty conditions - then the allowance is not tax-free. Inland Revenue regards it as monetary remuneration and subject to PAYE.

Private vehicles used for work-related purposes

Inland Revenue allows an employer to reimburse employees - including shareholder-employees - for using their private vehicles for work-related purposes.

The employer can choose to:

- reimburse actual costs incurred by the employee, or
- use the Inland Revenue kilometre rate, or
- use other published mileage rates, as long as they represent a reasonable estimate. For example, the AA makes mileage rates available free to members and at a cost to non-members. To obtain AA rates call 0800 500 333
- reimburse costs based on a reasonable estimate of the costs likely to be incurred by the employee or a group of employees

Inland Revenue will accept the standard kilometre rate as being a reasonable estimate of the costs likely to be incurred by an employee. An employer may choose to use the applicable vehicle type rate per kilometre shown for reimbursing employees:

2017/2018 Kilometre Rates		
Vehicle type	Tier One rate: First 14,000 kms	Tier Two rate: After 14,000 kms
Petrol or Diesel	76 cents/km	26 cents/km
Petrol Hybrid		18 cents/km
Electric		9 cents/km

Where an employee has kept a logbook or other evidence for work-related use, the 76 cents/km rate can be applied to the first 14,000km. If evidence has not been kept the rate of 76 cents/km will be limited to the first 3,500km (25% of 14,000).

The rate applies irrespective of engine size. It does not apply to motorcycles.

Note that for the 2018/19 income year, employers may reimburse employees using the new Tier One Rate of 76 cents per kilometre from 4 July 2018 (being the date of an Operational Statement released by Inland Revenue). However, the two tiered rates as set out above must be used for the 2019/20 and subsequent income years.

Travel for work-related purposes

Any reimbursing allowance for travel must meet the following criteria:

- the transport costs being reimbursed must be additional to costs incurred in travelling between the employee's home and place of work
- the costs must be attributable to one or more of the following work-related factors:
 - time of work: the time of day or days of the week the employee is required to work, cause the employee to incur additional transport costs
 - **For example:** A commercial cleaner travels by bus to start work at 8 pm and finishes at midnight, by which time there is no bus available to travel home. The employee travels home by taxi.
 - carrying work equipment: the employee is required to bring work equipment to work, which requires him or her to use a particular means of transport
 - **For example:** The Company van/truck is double-booked and the employee uses their own van/truck to complete business deliveries.
 - temporary change in worksite: there is a temporary change from the normal place of work of an employee in relation to the same employer
 - **For example:** An employee is assigned to work at another branch across town for eight months. He or she incurs the cost of additional bus trips for that period.
 - the absence of a public passenger transport system

If you pay your employee more than the amount they incurred as a cost on your behalf, then that excess is treated as monetary remuneration and is subject to PAYE.

Other allowances

Instead of reimbursing actual expenditure incurred by an employee for any other work-related purposes, an allowance may be paid to the employee based on a fair and reasonable estimate of work-related expenditure likely to be incurred.

Some methods which can be used to show that the payment is fair and reasonable include:

- carrying out a survey of expenditure incurred by employees
- adopting an industry average agreed upon by Inland Revenue and representatives of that industry; or
- following a public statement issued by Inland Revenue on that class of allowance

Our Recommendation

Check all reimbursement allowances thoroughly to ensure they are genuine reimbursement for work-related costs and not rather allowances deemed to benefit the employee. If you need to check whether an allowance (or portion of an allowance) is tax-free for the employee and subject to PAYE, please contact us.

Last reviewed: 14 August 2018