Travel allowance or company vehicle

Discounted cash-flow model

Individual circumstances determine whether a better tax benefit can be derived from the use of a company vehicle or a travel allowance. With the more stringent parameters for calculating tax benefits from travel allowances and the use of company vehicles resulting from recent changes to the legislation, it has again become necessary to determine whether the use of the company vehicle or a travel allowance is most tax-beneficial for a specific individual.

When doing this, it is important to consider:
- the total kilometres travelled during a year of assessment,
- the split between business and private use, and
- certain other variables.

A number of assumptions were made when this discounted cash-flow model was used. These assumptions were as follows:
- The motor vehicle was purchased in terms of a forty-eight month finance lease agreement. Its cost was R171 000. The finance lease was obtained at a nominal rate of 11% a year. The lease payments were paid monthly in arrears and repay the full cost of R171 000 plus interest.
- The motor vehicle is a ‘motor car’ as defined in the Value-Added Tax Act.
- It was purchased on 1 March 2005.
- At the end of the financing period the market value of the motor vehicle will be 60% of its cost (including value-added tax (VAT)). The lessee will take over the motor vehicle without paying an additional amount.
- If the employee has had the use of the vehicle, the employer will award it to him at the end of the forty-eight month period at no cost.
- Fuel and maintenance costs are R0,98 per kilometre.
- Insurance costs are R500 a month (payable at the end of each month).
- The annual licensing fee is R108 (payable at the end of the first month of each financial year).

The cash-flow model discounts the net after-tax cost of the different alternatives to their current value.
- A real rate of 12% for the employer and 10% for the employee are used.
- The tax rate of the employer is 29%.
- The marginal tax rate of the employee is 40%.

References

The shortcut key for an en dash in Microsoft Word is CTRL+* minus sign on the numerical key pad.

4 The reference 'GNR' refers to a regulation Gazette.
• The employer and the employee pay their tax liabilities (except employees' tax (PAYE)) for a specific year, six months after year end. PAYE for a specific month is paid on the last day of that month.
• The employer is a category C VAT vendor. The only VAT implication taken into account is the cost of the output VAT payable on the fringe benefit of providing the use of a company vehicle to an employee.
• The employer does not have an assessed loss brought forward from the previous year of assessment.
• The employee does not earn commission.
• With the use of a company vehicle the employer bears all its costs, but these are financed out of the employee's package.

It is important to note that all the calculations are done on the assumption that the total cost of the package to the employer will be the same under both alternatives. These assumptions are then applied to different options. The net after-tax cost of the employee’s cash flow is discounted to compare the net present values of the various options.

Table 1 deals with the 2006 year of assessment. It covers the situation when no log book is kept. It reveals that the travel allowance is more beneficial if more than 22 250 kilometres are travelled in a year. As the kilometres travelled increase, so does the benefit of the travel allowance. The benefit of the travel allowance will, however, decrease if more than 32 000 kilometres are travelled and no log book is kept. If 45 000 kilometres are travelled, without a log book being kept, the use of the company vehicle is by far the better option. This conclusion should in most situations be true for vehicles valued up to and including R360 000.

Table 2 relates to the 2007 year of assessment (including all amendments, with the exception of the possible changes in the rates for calculating the deemed costs and the adjustment to the output VAT on the fringe benefit). From this table the following conclusions are reached:

1 This is limited to 8000 kilometres per employee for a year of assessment and it is paid at the maximum 'tax-free' deemed rate per kilometre of R2.46.
No travel allowance is taken into account as it was assumed that this vehicle is used solely for private purposes (being a second vehicle).