

Allowances and reimbursements

Payroll Tax Act 2007

Revenue Ruling PTA011

Preamble

The *Payroll Tax Act 2007* (the Act), which commenced on 1 July 2007, rewrites the *Pay-roll Tax Act 1971* and harmonises the payroll tax legislation in Victoria and NSW.

The definition of wages in section 13 of the Act includes allowances. Employers often pay employees various types of allowances either to compensate them for unfavourable working conditions or to cover estimated expenses. Allowances are also commonly paid to comply with award requirements. Common examples of allowances include motor vehicle, tools, accommodation, tea, meal, travel, dirt and first-aid allowance. Alternatively, an employer may reimburse an employee the exact amount of expenses incurred.

The purpose of this Revenue Ruling is to explain the payroll tax treatment of allowances and reimbursements paid to an employee and any person taken to be an employee under Division 7 of Part 3 of the Act.

Ruling

Allowances are generally subject to payroll tax. The only allowances that are not wholly taxable are motor vehicle allowances, accommodation allowances and living away from home allowances. For more information on these allowances, refer to the Revenue Ruling PTA005.

On the other hand, reimbursements are only taxable where they are subject to fringe benefits tax under the *Fringe Benefits Tax Assessment Act 1986* (the FBT Act). A reimbursement of an expense is not subject to payroll tax if the reimbursement has all the following characteristics:

- at the time of payment, the expense has already been incurred by the employee (if the payment was made in advance, the employee has provided the employer with a receipt relating to the expense and refunded any excess from the advance payment)
- the expenditure by the employee was incurred in the course of the employer's business, and
- the precise amount is reimbursed.

However, if a reimbursement is subject to fringe benefits tax, it is also subject to payroll tax regardless of whether the reimbursement has all the above characteristics. For more information on the payroll tax treatment of fringe benefits, refer to Revenue Ruling PTA003. A reimbursement that is an exempt fringe benefit under the FBT Act is also exempt from payroll tax.

Allowances and reimbursements paid under an employment agency contract

The principles mentioned above also apply to allowances and reimbursements paid under an employment agency contract by an employment agent to their service providers (on-hired workers). Under Division 8 of Part 3 of the Act, the employment agent is liable for payroll tax payable on payments (including allowances, fringe benefits and superannuation contributions) made to on-hired workers under an employment agency contract.

This Revenue Ruling is effective from 1 July 2007.

Please note that rulings do not have the force of law. Each decision made by the State Revenue Office is made on the merits of each individual case having regard to any relevant ruling. All rulings must be read subject to Revenue Ruling GEN.001.