

Fringe benefits – Right of use of motor vehicle

Reference to the Act: Paragraph 2(b) and 7 of the 7th Schedule

Meaning: A taxable benefit shall be deemed to have been granted where an employee is granted the right of use of any motor vehicle for private or domestic purposes, The cash equivalent of the value of the taxable benefit shall be so much of the value of the private use of such vehicle as exceeds any consideration given by the employee to the employer for the use of such vehicle during such period, other than consideration in respect of the cost of the licence, insurance, maintenance or fuel in respect of such vehicle.

Determined value of motor vehicle means: Vehicle was acquired under a bona fide agreement of sale or exchange concluded by parties acting at arm's length: the original cost of the vehicle to the employer (excluding finance charges, interest, sales tax borne by him/her) Determined value included Value-Added Tax (VAT) with effective 1 March 2011. Where the vehicle was held by the employer under a lease and the ownership thereof was acquired by him/her on the termination of the lease or is held by the employer under a lease agreement only: the retail market value thereof at the time the employer first obtained the right of use of the vehicle or where at the time the lease was a lease as contemplated in paragraph (b) of the definition instalment credit agreement in Section 1 of the Value-Added Tax Act, the cash value thereof as contemplated in the definition of cash value in the said section, must include VAT effective 01 March 2011.

Where the employer has granted an employee the right of use of a motor vehicle and a limit was placed on the value of such vehicle to be acquired for this purpose by the employer and the employee makes a contribution towards the purchase price of a more expensive vehicle, the determined value shall be the determined value as at the date on which the employee was granted the right of use of such motor vehicle for the first time.

Where an employee and the motor vehicle allocated to him/her are both transferred to an associated institution, the determined value of the motor vehicle must be determined as on the date that the employee first became entitled to the right of use of such vehicle.

In any other case, for example, a gift, the market value at the time the employer first obtained the right of use of the vehicle.

Reducing the determined value of the motor vehicle: If the employer acquired the vehicle or the right of use of the vehicle 12 months or more before the date on which the employee is granted the right of use of the vehicle, a depreciation allowance must be deducted from the value of the vehicle as determined. The allowance is calculated according to the reducing balance method at the rate of 15% for each completed period of 12 months, calculated from the date on which the employer first obtained such vehicle or the right of use thereof to the date on which the employee was first granted the use of the vehicle.

Example: A vehicle with a cost of R55 000 (inclusive of VAT and finance charges) was acquired by the employer 1 January 2008. Employee A uses the vehicle for 30 months from 1 January 2008 where after the right of use was granted to employee B. • With regard to

employee A, the determined value for the period he has the use of the vehicle is R55 000 (inclusive of VAT).

- With regard to employee B, the determined value of the vehicle is calculated as follows:

Cost price on 01/01/2008	55 000
Less: depreciation allowance for period 01/01/2008 to 31/12/2008 ($R55\,000 \times 15\%$)	8 200
Less: depreciation allowance for period 01/01/2009 to 31/12/2009 ($R46\,750 \times 15\%$)	7 103
Determined value on 01/07/2010	39 737

Note: The depreciation allowance can only be granted for each completed period of 12 months.

Value to be placed on the benefit: For each month during which the employee is entitled to use the vehicle for private purposes, the value is 3,5% of the determined value of the motor vehicle. Effective 1 March 2011, the percentage rate for all employer-provided vehicles will be 3.5% per month of the vehicle's determined value. However, vehicles with maintenance plans included within the purchase price at the time of purchase will trigger only a 3.25% monthly fringe benefit. Use of motor vehicle for a period less than a full month: Where the employee has the use of the vehicle for part of a month, the amount of the value for private use, must be determined in the same ratio as the number of days the employee had the

use of the vehicle to the total number of days in the month. **Example** The employer allocates the use of a motor vehicle with a determined value of R60 000 (inclusive of VAT).

to the employee. The employer bears all the costs in respect of fuel and maintenance. The taxable value of the benefit is R2 100 per month. ($R60\,000 \times 3,5\%$)

- **Employee bears the costs of fuel and maintenance:** The employer allocates the use of a motor vehicle with a determined value of R80 000 (inclusive of VAT). to the employee.

The employee bears all the costs in respect of fuel and maintenance. The taxable value of the benefit is R2 480 per month. [$R80\,000 \times (3,5\% - 0,22\% - 0,18\%)$]

- **Employee pays compensation for the use of the vehicle:** The employer allocates the use of a motor vehicle with a determined value of R120 000 (inclusive of VAT). to the employee. The employee pays R200 per month compensation to the employer for the private use and bears all the costs in respect of fuel but the employer bears the costs of maintenance.

The taxable value of the benefit is R3 736 per month. [$R120\,000 \times (3,5\% - 0,22\%) -$

R200] • **Employee receives a travel allowance in respect of the relevant vehicle:** The employer allocates the use of a motor vehicle with a determined value of R130 000 (inclusive of VAT). to the employee. The employee receives a travel allowance of R1 000 per month

and bears all the costs in respect of fuel and maintenance. The taxable value of the benefit is R4 225 per month. ($130\,000 \times 3.25\%$)

Reducing the value of the benefit: Where the employee does not receive a travel allowance or advance in respect of the vehicle and the employee: • For each month during which the

employee is entitled to use the vehicle for private purposes, the value is: 2,5% of the

determined value of the motor vehicle if the employee has the use of more than one motor vehicle simultaneously, the value of the second or successive vehicle must be

calculated at 4% – the vehicle with the highest determined value must be taxed at 2,5% if the employee receives a travel allowance in respect of the relevant vehicle, the value must be calculated as if the vehicle is the second vehicle (4%).

Note: No reduction in the value of private use may be made for any period that the vehicle is temporarily not used for private purposes. If an employee is, however, required to travel for business purposes away from his/her usual work place by his/her employer for a period exceeding one month and leaves his/her company vehicle at the premises of the employer, no benefit accrues for the duration the employee is away.

No value: The private use, by an employee, of a motor vehicle shall be deemed to have no value, if: • The vehicle is available to and is used by other employees of the employer in general and the private use of the vehicle by the employee is infrequent or is merely incidental to the business use and the vehicle is not normally kept at or near the residence of the employee concerned when not in use outside business hours • The nature of the employee's duties are such that he/she is regularly required to use that vehicle for the performance of such duties outside his/her normal hours of work and he/she is not permitted to use such vehicle for private purposes (other than travelling between his/her place of residence and place of work) or private use which is infrequent or is merely incidental to its business use.

Important: If the employee keeps an accurate record of the distance travelled for private purposes and the distance so travelled is less than 10 000 kilometres per year, the Commissioner must upon the assessment of the employee's liability for normal tax for the year of assessment reduce the value placed on the private use of the vehicle, calculated under subparagraph (4), by an amount that bears to that calculated value the same ratio as the number of kilometres travelled for business purposes bears to the total amount of kilometres travelled in such vehicle during that year of assessment.

Use of Motor Vehicle R203 974

$(R203\,974 \mid 3.25\%) \mid 12 \text{ months}$

Cost = R523 010.26 →

