Accommodation provided to employees

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Some employers provide residential accommodation for their employees, especially when the employees work far from their homes. While this provides some practical benefit to the employees who save money and time by not commuting between home and work, they should be taxed on the value of the accommodation, whether it is furnished, unfurnished, supplied with or without meals, power, water or other utilities.

In some cases, this arrangement gives rise to a taxable fringe benefit, but employers can help employees to reduce the tax burden.

The provisions of paragraph 9, read with paragraph 2(d) of the Seventh Schedule of the Income Tax Act, hold that employees must be taxed on the cash equivalent of the benefit. These sections provide a number of calculation methods to determine the rental value of this accommodation, but in essence, the value is determined by the property’s rental value, less any amount that the employee pays toward the accommodation provided.

Sometimes an employer may source and provide rental accommodation from a third party to the employee. In these instances, the determined rental value can be higher than the actual value, giving rise to a fringe benefit, which is higher than the actual cost, or economic benefit to the employee. As a result, employers have to apply to SARS for a tax directive to ensure that the employee’s calculated fringe benefit is in line with the actual market / economic value of the use of the accommodation.

In terms of the Taxation Laws Amendment Bill of 2014 (TLAB),

SARS proposed an amendment to the definition of rental value to cater for these situations. The proposed amendment provides that, if the employer provides rental accommodation that it rents from a third party, the rental value will be considered equal to the actual cost to the employer.

It is anticipated that this amendment will apply in respect of years of assessment commencing on or after 1 March 2015. Until then, employers will still need to apply for the directives to reduce the fringe benefit.

Employers are reminded that an exemption applies to expatriate employees, living in South Africa temporarily, away from their usual place of residence. The employee is not taxed on the accommodation for two years from the date of arrival in South Africa and commencing employment. It also applies if the accommodation was provided and the employee was physically present in the Republic for a period of 90 days in that year of assessment.