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 x 15%)  8 200
Less: depreciation allowance for period 01/01/2009 to 31/12/2009 (R46 750 x 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 x 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 x (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 x (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 x 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 workplace 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.

**Employees’ tax:** The cash equivalent of the benefit accrues monthly and employees’ tax must be deducted.