

# The tax saving opportunities of e-toll

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The introduction of an e-tolling system on roads in certain Gauteng areas were strongly opposed by the parties affected. Not only are consumers faced with a persistent increase in the petrol price, but they are now also exposed to additional traveling expenses each time they pass an e-toll gantry. This situation can be financially overwhelming for some people but fortunately there may be a light at the end of the tunnel for taxpayers.

Subject to certain conditions, two types of taxpayers stand a chance to obtain an Income Tax benefit when they incur e-toll expenses. These taxpayers will normally be local business entities as well as employees provided with a traveling allowance or the use of a company car.

Let us first consider the Income Tax consequences for employees. It often happens that an employer grants a travelling allowance to his employee as reimbursement for business travelling expenses incurred. The employee will be taxed on this allowance but he will be allowed to reduce the taxable amount to the extent that it was used for business purposes. One of the methods used in calculating the deductible business-use-component, is based on the actual travelling costs incurred by the employee. E-toll expenses will form part of these costs and can therefore be deducted from the travel allowance, of course only to the extent that it relates to business use. It must be apportioned using the total business kilometers travelled in relation to the total distance travelled.

An employee may obtain another tax benefit if he or she is

provided with the use of a company car. As it constitutes a fringe benefit, the employee will be taxed on this benefit. However, if he or she is able to supply an accurate logbook indicating the distance travelled for private and business purposes, he or she will be entitled to a deduction on assessment of his/her Income Tax return. This deduction will also be based on actual expenses incurred by the employee (including e-toll levies) and must be apportioned using the total private kilometers travelled in relation to the total kilometers travelled.

Business entities can also use the e-toll system to their advantage when calculating their normal Income Tax liabilities. In terms of the general deduction formula, an entity will be entitled to deduct travelling expenses from its taxable income provided it was incurred in the production of income. Therefore the deduction will only be allowed if the e-toll fees relates to travelling for business purposes. If an employee or a director travels from their home to work and vice versa, or they are on holiday and they pass a gantry in the process, it will be regarded as private travel and no deduction will be allowed for any e-toll fees incurred.

The burden of proof is on the taxpayer to provide SARS with evidence confirming that the expenses were actually incurred. Therefore it is advisable for entities to retain receipts, invoices or statements confirming the amount of e-toll fees paid during a year of assessment. This will ensure that the deduction is allowed during an investigation or audit performed by SARS where documentary proof will normally be required.

It is normally difficult for SARS to determine if travelling was undertaken for business purposes or not. The implementation of an e-tag system may be helpful in this process. Vehicles travelling on e-toll roads on a frequent basis will probably be fitted with an e-tag to benefit from the discounts it entitles an e-road user. Since this e-tag is

automatically recognised by the e-toll system each time the vehicle passes a gantry, the user's account is updated with the transaction. SARS can use this information to determine the exact time and date of the transaction and the registration number that reflects on the system will indicate if a business vehicle was used.

In addition to the Income Tax benefits arising from e-toll, there may also be beneficial Value Added Tax (VAT) benefits for registered VAT vendors. Any amount paid in the form of e-toll will be allowed as an input tax credit provided that travelling took place in the course of business and it was part of making a taxable supply. For example: If an auditing firm incurred e-toll expenses amounting to R1 140 while they were travelling to a client's business premises to perform their duties, they will be entitled to claim back the VAT portion of the expense amounting to R140 ( $14/114 \times R1\ 140$ ). On the contrary, if a taxi company incurred e-toll expenses during the transportation of passengers in South Africa, they will not be allowed to claim back any input tax credits since an exempt supply was made.

It is important to note that entities will only be allowed to claim an input tax credit if they are in possession of a valid tax invoice. Normally e-toll fees will be lesser than R3 000 and therefore an invoice has to meet the following requirements: it has to reflect the words "Tax Invoice" as well as the name, address and VAT registration number of the supplier (in this case it will be SANRAL). There also has to be an indication of the serial number of the invoice; the date issued, a description of the services supplied as well as the amount of e-toll levied (including VAT).

Although business entities may be concerned about the extra financial burden they will incur as a result of the e-toll system, they can be reassured by the possible savings in taxes that is available. As indicated above, it is extremely important for taxpayers to retain the necessary documentary

evidence, otherwise SARS will count back any amounts claimed for VAT or Income Tax purposes.