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Is a logbook really necessary?

Or can SARS use code 3702 to audit potential business kilometers travelled?

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I have often wondered whether the South African Revenue Service (SARS) officials thoroughly review the submitted logbooks when taxpayers claim for travel expenses incurred as a result of business travel or are these requested just to tick a box? This sense of wonder has been recently resolved, SARS audits the logbooks to the extent of even requesting the details of the person or company being visited.

SARS recently changed the format in which logbooks should be captured. It is now compulsory to keep a logbook of all business kilometres travelled if taxpayers want to claim a travel deduction. The logbook must contain the following minimum information relating to business travel:

- The date of travel
- Total Kilometres travelled (business and private)
- Travel details (where to and reason for the trip)

Taxpayers have to record their odometer readings on 1 March each year (the first day of the tax year for individuals), and again on the last day of February the following year (the last day of the tax year for individuals).

The difference between the closing and opening readings will give the total kilometres travelled for the year.

It is true that the above exercise can be quiet stressful sometimes, you could also simply forget to update the logbook timeously. Which again poses the question of whether the logbooks submitted to SARS are a true reflection of the taxpayers business travel.

SARS however reserves the right to audit and query the content or information recorded by the taxpayer in any logbook.

Is there not a way to redirect SARS audit focus and resources on other things?

Let's look into this further.

Travel Allowance

The Income Tax Act No.58 of 1962 (Income Tax Act) allows taxpayers who receive a travel allowance to claim a deduction for the use of their private vehicles for business purposes. Reference is made to Section 8 (1)(b)(ii)&(iii) of the Income Tax Act.

A travel allowance is any allowance paid or advance given to an employee in respect of travelling expenses for business purposes.

Generally, the two different travel allowance classifications are—

- A travel allowance given to an employee to finance transport (for example, a set rate or amount per pay period).
- A reimbursement given to an employee based on actual business travel.

Let us now have a look at the difference between the two.

Travel allowance

The total travel allowance (100%) must be reflected on the IRP5 certificate under code 3701.

80% of the travel allowance paid to an employee is subject to the deduction of employees' tax. Where the employer is satisfied that at least 80% of the use of the motor vehicle for a year of assessment will be for business purposes. 20% of the allowance is subject to the deduction of employees' tax. This determination must be done on a monthly basis to cater for any possible changes in employee's circumstances.

A perfect example of this would be the working situation during the current Covid 19 pandemic. Employees had structured their packages to cater for business travel but during the pandemic, no travel or even less travel was required.

Reimbursive allowance

A reimbursive travel allowance is where an allowance or advance is based on the actual distance travelled for business purposes (that is excluding private use). For the 2022 tax year, the rate per kilometre fixed by the Minister of Finance is currently 3.82 per kilometre.

It is trite practice that most employers would offer their employees a rate per kilometre that is above the fixed rate by the Minister (e.g. R4,40 instead of R3,82) – reference is made to Notice 271 of the Government Gazette, paragraph 4 of the Fixing of Rate per Kilometre i.e. Motor Vehicle Regulation. In such an instance, the IRP5 code to use is code 3702, which is a taxable code.

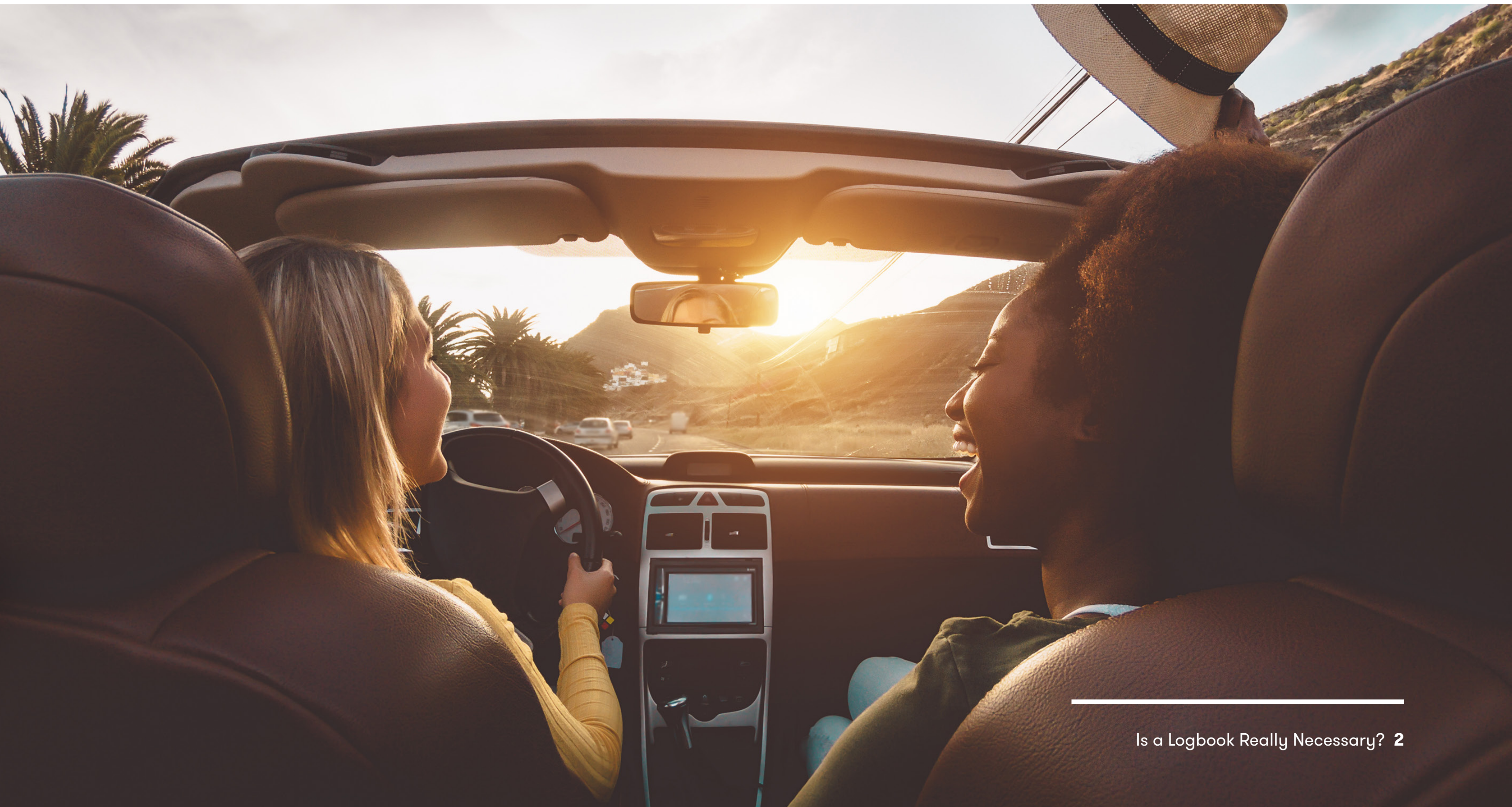
Where the employer reimburses the employee at a rate lower than the prescribed rate (e.g. R3,70 instead of R3,82), the IRP5 code to use is 3703 which is a non-taxable code.

Let us now assume that the employee received both travel allowance and reimbursive allowance of code 3702 and discuss below.

Hybrid of travel allowances

Where a travel allowance is paid in addition to a reimbursive allowance or reimbursive allowance is paid in addition to a travel allowance, both the amounts will be combined on assessment by SARS. These combined allowances will be treated as a taxable travel allowance. Generally, the employee will claim a travel deduction based on kilometres travelled. But before SARS can allow this deduction, it requires a logbook as discussed above.

Let us now address our question of whether a logbook is required or SARS can use the code 3702 to determine the business travel for the tax year.



Basic Test

Considering the hybrid of travel allowances mentioned above, the general business practice is that employers will reimburse employees based on business kilometres travelled. Is it not correct then to consider what is reflected under the reimbursement code 3702 as business kilometres travelled?

The only question from SARS should be how much was the employers' reimbursement rate or by how much is the employers' reimbursement rate high when compared to the fixed rate by the Minister?

Example: The total business kilometres travelled for the period is 21 000km per the taxpayer's submitted logbook. The amount that is reflected under code 3702 is R48 000. It was confirmed that the company reimburses its employees at a fixed rate of R4,40. Therefore the estimated business travel for the said employee should be R48 000/R4,40 = 10 909 business kilometres that were approved and paid by the employer.

The question for SARS to pose then would be - why are the business kilometres per the logbook submitted by taxpayers higher than what was reimbursed by the employer?

Example: code 3702 reflects R48 000 as indicated above, which deems the employee to have travelled 10 909 kilometres for business purposes vs a logbook showing 21 000 business kilometres travelled (difference of 12 091 i.e. 21 000 km – 10 909 km.).

Well, it may be arguable to say that the taxpayer did not claim all its travel expenditure (due to one reason or the other) hence the amount reflecting under code 3702 is less than the actual business kilometres per the logbook.

This argument would again be reasonable if the variance between the actual business kilometres per the logbook and deemed business kilometres per code 3702 is not material. Now taking the difference of business kilometres not claimed in the above example of 12 091, this would imply that the taxpayer forego R53 200 (12 091 × R4,40) worth of travel reimbursement. Now, show me an employee that does not want to be compensated or reimbursed for expenditure incurred for business purposes!

The onus is still however on the taxpayer or employer to prove to SARS the correctness of the details therein.

Conclusion

Being tax compliant and 'paying our fair share' is not just good for taxpayers, but also contributes to the positive growth of our country's economy which in turn benefits all South Africans.

In line with SARS's continued effort to improve compliance and to make it even easier for taxpayers to manage their tax affairs, a review of the process followed currently to claim travel expenses will go a long way . We therefore urge SARS to continue trying to find means and ways for more taxpayers to be auto assessed- e.g. auto assessment of allowing a travel deduction based on code 3702. This will help lessen the administration burden of having to maintain yearly logbooks. The normal rule will apply where if a taxpayer is not in agreement with the auto-assessment, and can over-ride it.

Should you however need assistance with the correct format of the SARS log-books and assistance with the general employees' tax services, please contact us.

Contact us

Please get in contact with our professional team should you require any further information about Employees Tax.

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