1. **Statement**

The purpose of this document is to provide the correct PAYG withholding treatment of allowances intended to cover travel costs. This document covers Living Away From Home; Relocation Car Travel; Domestic and Overseas Travel and Kilometric Motor Vehicle and Vehicle Mileage Allowances.

2. **Scope**

Compliance with this standard is mandatory. This standard applies to all employees, contractors and consultants within the Department of Health divisions and commercialised business units as well as Hospital and Health Services.

3. **Content**

Allowances should normally be paid through the payroll system and be subject to PAYG withholding rather than being paid through accounts payable. This is because allowances paid to employees are income in the hands of the employee, and as such are subject to PAYG withholding. Allowances paid to an employee should be reported on their payment summary.

**Reimbursements v Allowances**

An allowance is a payment usually of a predetermined amount to an employee to cover an estimated expense. It is paid regardless of whether the recipient incurs the expected expense.

Typically, an allowance:

- Is a predetermined amount.
- Is paid even in the event the expected expense is not actually incurred.
- Does not give control to the employer over how it is spent.

On the other hand, a reimbursement:

- Compensates the employee for the exact amount of expenditure incurred.
- Usually carries an obligation for the employee to substantiate the expenses prior to reimbursement.
- May be paid in advance of the expense being incurred (TR 92/15).

**Tax Implications**

**Subject to PAYG deductions**

Most allowances fall into the classification of “salaries and wages” and consequently form part of an employee’s assessable income for Income Tax purposes. They are also generally considered to be “withholding payment” amounts from which PAYG must be withheld. However, allowances paid under a genuine salary sacrifice agreement are not subject to PAYG withholding.
While allowances are assessable income in the employee’s income tax return, the employee may be entitled, in some circumstances, to claim deductions for expenses against the income. For eligible expenses to be claimable against assessable allowances, substantiation rules usually apply.

This means the expense must have been incurred and supported by appropriate documentation. Employees considering claiming deductions against allowances should obtain independent tax advice on these matters.

**Not subject to PAYG deductions**

There are three types of allowances that do not have PAYG deducted from the payment. These are living away from home allowance, relocation allowance (paid as a mileage allowance) and overseas and domestic travel allowances where overnight accommodation is required and the allowances paid are within the reasonable amounts specified by the ATO.

**Living Away From Home Allowance (LAFHA)**

LAFHA is intended to subsidise the costs an employee incurs for living away from home, while still maintaining their usual place of residence for a period generally greater than 21 days.

LAFHA is a fringe benefit and recent changes to taxation law mean that there are new rules for minimising the taxation implications of LAFHA. Please refer to *HR circular 09/12 – Living away from home allowance (LAFHA) – Federal budget tax changes* for more detailed information and procedures relating to this allowance.

Because LAFHA is a fringe benefit, it does not have to be paid through the payroll system and is not subject to PAYG withholding. As a result, LAFHA should not be included on the employee’s PAYG payment summary, other than as part of the reportable fringe benefits amount.

For more information about the FBT implications for LAFHA please see the following publication. *Living Away from Home Allowance - Factsheet.*

**Relocation Car Travel Allowance**

Relocation car travel allowance is an allowance paid to an employee on a rate per kilometre basis for the purpose of relocation, transfer, or appointment. Like LAFHA this allowance is a fringe benefit. As such, it does not have to be paid through the payroll system and is not subject to PAYG withholding and should not be included on the employee’s PAYG payment summary, other than as part of the reportable fringe benefits amount.

Please refer to *FBT Procedure – Payments/Reimbursements made in relation to Relocation/Transfer & Appointment Expenses* for more detailed information and procedures relating to this allowance.

**Domestic and Overseas Travel**

Domestic and overseas travel allowance is an allowance paid to an employee because the employee is travelling in the course of performing their duties, and is usually only paid for relatively short-term travel.

These travelling allowances are assessable income to the employee. If the amount of the allowance has been fully expended, there is no need to include the income in assessable income in their income tax return. Likewise, the related expenses won’t be claimable as deductions either in the income tax return.
Where travelling allowances paid under PSC Directive and HR Policy are within the reasonable limits set annually by the ATO there is no requirement for PAYG withholding or payment summary reporting.

The ATO has recognised some towns as having a higher cost for travelling and has deemed a higher rate of reasonable expenses for these towns to address this issue. It should be noted that reasonable limits only apply to the centre or townships specifically listed in the high cost centre and high cost country centre tables. Nearby towns will not qualify for claiming at the higher rate. If amounts are paid in excess of the ATO's reasonable limits they are to be paid through the payroll system and subject to PAYG withholding.

Part Day Travel
Under certain conditions, part day travel allowances (allowances NOT extending overnight) are paid for travel away from the employee's ordinary residence where the travel does not involve absences overnight (refer Directive 9/11). As the travel does not involve sleeping away from home, part day travel allowances are not regarded by the ATO as travel allowances and associated costs are considered to be non-deductible expenses because the meals costs are of a private and domestic nature.

As a result, the ATO requires part-day travel allowances to be included in total gross payments on payment summaries. In addition, the ATO requires PAYG deductions to be withheld from payments for part day travel allowances. Therefore, part day travel allowances must be processed through the payroll system.

Overseas Equipment allowances are required to be paid via the payroll system, they will be subject to PAYG withholding on the full amount of the allowance payment, and be included in gross payments in the employee’s payment summary.

Vehicle Mileage Allowances
The vehicle mileage allowance is an allowance paid to an employee who uses their private motor vehicle to undertake official duties. This would occur in situations where a pool car is unsuitable or unavailable for example.

Where the kilometres travelled in a financial year are less than 5,000 kilometres, PAYG would not be required to be withheld by the employer. It is important to note that if the total business kilometres an individual has claimed from all sources exceeds 5000 kilometres the individual may expose themselves to a PAYG shortfall. Therefore, it is the responsibility of an individual to seek independent taxation advice when claiming from more than one employer.

Under Public Service Commission Directive 20/16 employees with vehicles on novated leases are eligible to claim motor vehicle allowances. However, these allowances should be paid through the payroll system and included in the gross salary and wages reported on the employee’s payment summary. As a Novated lease vehicle is technically the employer’s car, it can be expected that employees would be unable to claim a deduction on their personal income tax return for business travel in a novated lease situation.

Overtime Meal Allowances
In TD 2017/19 the ATO has determined that the reasonable overtime meal allowance limit is $30.05 per meal for the 2017/2018 financial year.
The maximum overtime meal allowance that can be paid per meal under Directive 02/18 and HR Resources Policy C15, which calls in the Directive, is $21.00. As this does not exceed the reasonable limits set by TD 2017/19, there is no requirement for PAYG withholding or payment summary reporting. However, if the allowance is actually paid and should it exceed the reasonable amount, the whole allowance must be paid through payroll, the excess over the reasonable amount must be taxed (at marginal rates), and the whole amount must be included in the payment summary.

**Allowances and non-employees**

**Who is a “non-employee”?**

A “non-employee” is a person engaged as a member of the staff and/or working with other members of staff, without being employed as an employee of the Department.

Thus, a non-employee could be any one of the following, without limiting the scope:

- a contractor working on his own, while carrying on a restricted business, and engaged for varying periods of time, set or ad hoc
- a contractor, working for a labour-hire agency as a sub-contractor to the agency
- an employee of any business entity working temporarily within the Department
- a volunteer.

**Taxation implications**

The PAYG withholding system in Schedule 1 of the *Tax Administration Act 1953* applies to all payments to employees, whether the payees are employees of the payer entity, or of any other entity. There is no need for any relationship to exist between the payer and the employee’s employer.

Most allowances fall within the definition of “salaries and wages” and consequently they are assessable income. They are also withholding amounts from which tax must be withheld under s.12-35 which requires a withholding to occur if the payment is made to an individual who is an employee of any employer.

While allowances are assessable income, the payee may be able to claim tax deductions, depending upon the circumstances in which the expenditure has been incurred. The payees should be instructed to obtain their own independent tax advice on these matters.

If an employee of another entity is directly reimbursed on a cents per kilometre basis for the cost of using a car, such a benefit will be a withholding payment and must be paid net of PAYG withholding tax as an allowance.

**Payment to a supplier**

Where a supplier in the course of carrying on an enterprise fails to quote an ABN, payments in relation to the supply, including reimbursements of expenses, are withholding payments. Refer to *PAYG Standard - PAYG withholding obligations* for information on the withholding process.

**Payment to an employee of another entity**

Where payments to employees of another entity are similar to salary and wage, or allowance payments to Queensland Health employees PAYG withholding should occur.

If a visiting health practitioner is paid by Queensland Health while that payee is an employee of a practice entity, for an allowance or such like, the payment will attract PAYG withholding. Similarly
allowances for travel costs will have to be paid net of PAYG withholding if paid to an employee of another entity.

**Payment to volunteers and patients**
Payments to volunteers do not fall within the category of withholding payments. Accordingly, there is no need to make any withholding from their payments.

**Payments to other non-employees**
Any payments to persons other than those listed above, or in circumstances other than those covered above, including payments under the Patients Travel Subsidy Scheme and the Spectacles Subsidy Scheme, are not withholding payments.

**Recommendations**
If payments to employees of another entity are contemplated, the preferred method is to arrange to have the allowance or other payments paid to the proper employer of the employee, for payment to the intended recipient. The need to withhold any PAYG will then rest with the proper employer.

**Goods & Services Tax**
Please refer to GST Standard on ‘Allowances and Reimbursements’ for further information on GST implications and the correct coding of the payments.

### 4. Related legislation and documents

- HR Policy D2 – Travelling, Relieving and Living Expenses
- HR Circular 09/12 – Living away from home allowance (LAFHA) – Federal budget tax changes
- PAYG Procedure - Allowances Relocation, Trans & Appointment Expenses
- FBT Procedure – Payments/Reimbursements made in relation to Relocation/Transfer & Appointment Expenses
- Public Service Commission Directive 20/6 - Motor Vehicle Allowances
- TR 92/15 Income tax and fringe benefits tax: the difference between an allowance and a reimbursement
- TR 2002/21 Pay As You Go (PAYG) Withholding from salary, wages, commissions, bonuses or allowances paid to office holders
- TR 2004/6 Income tax: substantiation exception for reasonable travel and overtime meal allowance expenses
- TR 2005/16 Income tax: Pay As You Go – withholding from payments to employees
- TD 2017/19 Income tax: what are the reasonable travel and meal allowance expense amounts for 2017-18 income year?
5. Definitions (optional)

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