

COVID-19 and deductions resulting from your motor car in the 2021 tax year

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2021 Year of assessment – COVID-19 and your motor car

The COVID-19 lockdown and a subsequent migration towards working from home may have a profound impact on an individual taxpayers' income tax liability due to their cars having been parked in their garages for extended periods during the 2021 tax year.

This article deals with the potential impact of the lockdown on company car fringe benefit tax and travel allowance deductions.

Introduction

In a previous article we dealt with the potential deduction of home office expenses where employees are working from home. We came to the conclusion that the circumstances under which a deduction for home office expenditure can be claimed are quite limited. Home offices must be used exclusively for business purposes and must be specifically equipped for the business conducted.

In this article we deal with the impact of working from home on deductions against travel allowances and fringe benefits tax on company cars.

Travel allowances

Currently 80% of travel allowances are subject to the deduction of PAYE. When submitting tax returns for a tax year employees may make deductions against the allowances based on log books proving business travel.

Before Covid-19 made its presence felt, most recipients of travel allowances were also happy recipients of income tax refunds (an annual tax bonus) when they claimed business travel costs against their travel allowances.

Then came March 2020 lockdown ...

For the 2021 tax year the annual "bonuses" are likely to disappear and potentially transform into tax debts to SARS. The reason for this is the likelihood of low actual business travel during the lockdown period.

And don't get too clever ...

SARS is likely to look with circumspection at business travel reflected in log books. Unless you were conducting an essential service, there are certain periods in the 2021 tax year that you were prohibited from being on the roads. And if you were working from home, why all the business travel?

Be very careful with those creative log books.

Company car fringe benefits

The bad news is that whether or not your company car is parked in your garage and never used, fringe benefit tax remains payable on the employer provided motor car on the basis that you had the right to use the vehicle.

But wait, there is some light at the end of the tunnel. Where an employee has kept accurate records of business travel with the company provided car, the fringe benefit value placed on the use of the vehicle can be reduced on assessment based on the ratio of business travel to total travel.

If the vehicle was parked unused in the garage for the entire tax year, there is no relief as there would be no business travel to take into account.

Conclusion

It is not all doom and gloom. Proper planning can still ensure that your tax liability is minimised.