The SA guide to tax-efficient cars: A study on how to drive more for less

David Cattell
DAVID CATTELL

TAX EFFICIENT CARS

A STUDY ON HOW TO DRIVE MORE FOR LESS

THE SA GUIDE TO

WITH COMPLIMENTS

Ford Motor Company
OF SOUTHERN AFRICA

Foreword by
PROF MAEVE KOLITZ
essential accessories for non-ford drivers

The SA Guide to Tax-Efficient Cars
A study on how to drive more for less

DAVID CATTELL
## CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td></td>
<td>xii</td>
</tr>
<tr>
<td>Introduction</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Chapter 1.</td>
<td>Perks Tax on “Company Cars”</td>
<td>2</td>
</tr>
<tr>
<td>Chapter 2.</td>
<td>Perks Tax on “Travel Allowances”</td>
<td>37</td>
</tr>
<tr>
<td>Chapter 3.</td>
<td>Perks Tax on Second (and Subsequent) Cars</td>
<td>87</td>
</tr>
<tr>
<td>Chapter 4.</td>
<td>Perks Tax on Cars used by the Self-Employed</td>
<td>92</td>
</tr>
<tr>
<td>Chapter 5.</td>
<td>Conclusion</td>
<td>105</td>
</tr>
<tr>
<td>Appendix A.</td>
<td>Latest Income Tax Tables</td>
<td>107</td>
</tr>
<tr>
<td>Appendix B.</td>
<td>Latest Travel Allowance Tables</td>
<td>108</td>
</tr>
<tr>
<td>Appendix C.</td>
<td>Historic Fuel Prices</td>
<td>109</td>
</tr>
<tr>
<td>Appendix D.</td>
<td>Average Historic Fuel Prices</td>
<td>111</td>
</tr>
</tbody>
</table>
WHO SHOULD PURCHASE?

This book has been written for the following profile of readers:

- Tax Specialists
- Chartered Accountants
- Financial Advisors
- Human Resource Managers
- Financial Managers
- Fleet Managers
- Remuneration Specialists
- Car Sales Consultants
- Motor Industry Marketing Managers
- F & I Managers
- Individuals concerned with saving tax.

This book has been written with the goal of being accessible to the broad sphere of this target market and as such it avoids jargon and other terms and abbreviations that could unnecessarily confuse the message of the text.

DISCLAIMER

The author has taken care in preparing this book but does not accept any responsibility for any inaccuracies that may exist. You are advised to use it as a guide and you should consult an expert before taking any decisions based on this information.

Information in this guide may change after the date of publication (July 2002).

CONSULTING, PRESENTATIONS AND TRAINING

The author does consulting, presentations and training to the motor industry and to corporate employers. These can be arranged by contacting the author by e-mail at dcattell@mweb.co.za.
If the acquisition of a new motor car is correctly structured, it can provide employees with an attractive and tax efficient fringe benefit. There is, however, no quick and easy answer to the question of how best to structure the acquisition: should the employee acquire the car in his own name with a travel allowance being granted by his employer or should he opt for a company car? There are many complex factors that need to be taken into consideration when making this decision.

David Cattell has written a guide that will assist both employees and employers faced with the decision of how best to structure the acquisition of a new motor car to understand the impact of the many factors that must be considered and to make the correct decision. The principles and tax rules discussed in the guide are illustrated with numerous examples that will help readers to make sense of the complex tax rules that apply to motor car fringe benefits.

Maeve Kolitz
July 2002

"Every man is entitled, if he can, to order his affairs so that tax under a tax statute is less than it otherwise would be."

Quote from a ruling in 1935 involving a case between the Duke of Westminster and the Commissioners of The Inland Revenue.
AUTHOR'S ACKNOWLEDGEMENTS

Metaphorically, the writing of this book was hardly the equivalent of riding upon an express train flying along a straight path from A to B. It was more like riding upon an old steam train as it puffed its way, twisting and turning, along a windy mountainous route, ever so often running out of steam or being derailed and, after delays, having to be put back upon its tracks. It was not an unpleasant journey: there were memorable moments of great satisfaction with wonderful scenery. But as with many long journeys, there were other times when it seemed to comprise only long, hot and sometimes tedious stretches with no end in sight. I have a number of people to thank for the refreshments en-route and for the assistance with changing the points and signals whenever the train reached intersections in the track. They include Jacques van Schoor, Lee Goddard, Natalie Stoltz, Troy Clark, Linda Neuhaus, Andre Potgieter, Barry Vorster, Philip Ratcliffe, Steve Ayres, Martin Sweet, Laura England, Andrew Maggs, Philip Copeman, Roland Reid, Steve Miller, Maeve Kolitz, Beverley Penny, and Pat Ruthven. Thanks, guys, for all the chats, ideas, guidance and support. I’m also very appreciative of the efforts of many of those in SARS’ legal team whom I engaged in a number of fascinating debates.

I’m indebted to the incredible efficiency of the publishing team at comPress. In particular I’d like to thank Renate Vogel, Gareth Chiles, Ross Frylinck and Dale Jordaan. It is a pleasure working with you.

Most importantly, I could never have done this research and would never have reached the final station without the unfailing support and continual encouragement of my wife, Michelle – my fellow adventurer.

This book is dedicated to my late mother, Norma Cattell, who remains an inspiration and a guide.
THE AUTHOR

David Cattell started his career in the early eighties as the youngest full-time lecturer to be appointed at the University of the Witwatersrand. Nowadays he specialises in the perks tax on motor vehicles and writes, consults, does training and develops software in this field.

© Copyright 2002 – David Cattell

"David Cattell has an ability to analyse and present complex data in a logical and easily understood fashion. He also has an in-depth knowledge of the motor industry. In *The SA Guide to Tax-Efficient Cars* he has used these skills to produce a practical, informative and comprehensive treatment of the tax impact of different vehicle ownership options. It is an invaluable aid to anyone concerned with financial decisions about owning and using motor vehicles."

MARTIN WESTCOTT, MD of P-E CORPORATE SERVICES SA, LEADING REMUNERATION CONSULTANTS

"At long last someone has conducted a comprehensive study regarding the tax implications relating to the purchasing and running of cars in South Africa. David Cattell's book is concise and easy to understand and I believe it to be well received within the industry."

Toby Venter, Managing Director, Porsche Centre South Africa

"The financing and taxation of perks cars in South Africa are both subjects of considerable complexity, which David Cattell's book reduces to understandable dimensions. Our own studies show that, unless reasonable and legitimate tax avoidance measures are followed, a vehicle can earn the fiscal up to 130% of its original purchase price during the first ten years of its life on the road. This book should be essential reading for Human Resource executives, and beneficiaries of car schemes and travel allowances."

Tony Twine, Econometrix

"This book highlights the intricacies of tax planning for motor vehicles in South Africa. It walks a delicate balance between being informative and helpful in this sensitive arena which affects each and every person subject to taxation on their vehicle perk. Fleet planners, operators and vehicle policy decision makers do well to heed the advice."

ROLAND REID, FLEET OPERATIONS MANAGER, FORD MOTOR COMPANY OF SOUTHERN AFRICA

"Practical knowledge that you can't be without when purchasing a motor vehicle. A must-read for anyone who wants to finance their vehicle in a cost-effective manner."

MARTIN SWEET, BA LLB HDIPTAX, MARKETING CONSULTANT TO SEVERAL LEADING SA CORPORATIONS
The typical buyer of a new car in South Africa today is likely to spend more per month on the car than he does on his house. This astonishing anomaly of life in South Africa is attributable not only to the very high costs of motoring in this region but also to the fact that South Africans are crazy about cars. We tend to elect to drive better cars here than do our counterparts in Europe and America. We consider cars a very important part of our lives.

This guide has been inspired by the opportunity that exists to bring down these costs, not only by the very obvious means of choosing a less expensive model but also by (the more appealing) means of structuring the initial purchase in such a way as to realise the full tax-efficiency that is available.

One faces a myriad of choice when buying a car. There are over 700 models of cars available as new in South Africa at this stage. Each one of these is offering a very different proposition: not only those of different styles, configurations, specifications, features, etc. as we’d associate with the physical product but also a different proposition as regards the costs and manner of ownership. Some cars offer a high fuel economy; others a high resale value; others, free maintenance or low insurance... It’s a complicated choice, especially when you consider that many cars are chosen for reason of their brand-appeal. Motor manufacturers are masters at creating an aura and mystique around their brands. Some makes of cars attract some people and repel others, making some passionately loyal to what their brand represents.

The choices don’t stop there. One also has to choose the manner in which to purchase the car. There might be the choice of whether or not to finance it, for those of us fortunate enough to have the cash. Otherwise there’s the consideration of whether to opt for a lease, instalment sale or rental agreement. ...Of whether to opt for a Full Maintenance Lease. ...Of whether to pay a deposit or to structure the deal that there’s a residual payment owing at the end. ...Of whether to build in annual increments in these payments. ...Of how soon to pay the car off. ...Of how soon to aim to replace the car. ...Of the manner and extent to insure and secure the car. Etc.

All of these choices have considerable and significant tax implications and this guide will serve to illustrate not only the manner in which the tax liabilities are incurred but also the techniques that may be employed to reduce this tax exposure to its legal minimum.

There is a confusion in the market between the “price” of a car and its “cost”. Buyers often consider the cost of a car to be its ticket price. This couldn’t be further from the truth because, in effect, by buying a car the new owner has committed himself to all of its associated expenses and risks for the next few years until he replaces it. These associated expenses – such as those of fuel, interest, servicing, depreciation, repairs, insurance, security, tyres, licensing and perks tax – are all directly a function of the choice of vehicle and of the choice of the manner in which it is purchased. A car that has a ticket price of, say, R150,000 will probably cost in the region of R500,000 before the owner replaces it. It is the R500,000 cost that is surely more relevant than the ticket price on the windscreen and it is estimates of the monthly costs of the car that should form the basis of any decisions. It is the latter that determines the affordability of the car and this guide will show how to adopt this approach.

It gets even more complicated for the employer. He is faced with the need to find a tax-efficient car scheme that is equitable and fair to his staff, and at the same time affordable to the business. Cars, and the schemes by which to fund them, often account for as much as 30% of executives’ total remuneration. It is obviously important that every effort is made to structure this cost in such a way as to be as efficient as possible, whilst rewarding employees with access to the vehicle to which they aspire.

The Budget Speech of the Minister of Finance in February this year has increased the appeal of what you’re reading about here: it is clear that very few tax-efficient perks are going to remain available to salaried staff this year and in the years ahead. Despite the withdrawal of the benefit of many perks, the company car and car allowance have remained untouched. We are therefore being left with little other than our cars as a measure by which to avoid tax and the significance of the company car and car allowance are consequently all the more important.
INTRODUCTION

This book delves deeply into the issues surrounding company cars and car allowances. It is a specialist publication that looks to give perspective and insight by contemplating the recent history of the legislation governing the taxes in this area, how they've evolved and where we can imagine them to be headed. It looks at a quantitative assessment of the current laws, and by doing so it highlights the opportunities and pitfalls that arise, whether they've been created by those who write the laws by way of their intent or (more likely) by their neglect.

The book gives many graphical illustrations to make its point: it is said that a picture can often be more effective than a thousand words.

Theory is all good and well but it's often a lot more difficult to put it into practice. This guide has consequently gone to great lengths to include many practical examples – a lot of which illustrate tricky situations that are otherwise difficult to interpret.

The appendices provide some useful information that one often needs to have close to hand, when contemplating calculations of this nature.
Perks tax on "Company Cars"

A taxable benefit arises in terms of paragraph 7 of the Seventh Schedule of the Income Tax Act, when an employer grants an employee the right to use a motor vehicle for his own private use. For the purposes of this book, a vehicle provided by an employer to their employee to which the latter has the right of use shall be refered to by the colloquialism of a "company car". The employer needn't of course be a company. It could be an individual, a close corporation, a trust, the government, or any other such organisation.

Furthermore, the term "company car" is typically not one associated with delivery vehicles or "pool cars" but instead is one rather applied to vehicles that an employee is being given the right to use for his personal benefit.

It is the private use of the vehicle that is considered the fringe benefit. If an employee were to be using the car exclusively for business use (for example, as a delivery vehicle) then there is no "fringe benefit" that is being enjoyed.

The taxable value of the fringe benefit is directly proportional to the "determined value" (or in other words, simply speaking, the "purchase price") of the vehicle, regardless of the extent to which the employee makes use of the vehicle. The latest value of benefit has been set at 1.8% per month of the "determined value".

Example:

An employer purchases a Ford Ikon costing R100,000 (excluding VAT) on 9 August 2002 for the purposes of use as a company car by Mr Sympol. The taxable value of the fringe benefit given to Mr Sympol in the tax year that ended as at the end of February 2003 is as follows:

<table>
<thead>
<tr>
<th>Determined value</th>
<th>R100 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly taxable value of fringe benefit (1.8% x R100,000)</td>
<td>1 800</td>
</tr>
<tr>
<td>Number of months (or part thereof)</td>
<td>7</td>
</tr>
<tr>
<td>Taxable value of the fringe benefit for the year ended February 2003</td>
<td>R12 135</td>
</tr>
</tbody>
</table>

(R1000 x [6 + (31-8)/31])

It is obviously significant that the fringe benefit valuation is made regardless of the extent – or nature – of use of the vehicle (unless the private use can be shown to be less than 10,000 km a year). This implies that the valuation is unfairly prejudiced towards those who make extensive private use of their vehicle. This is done at the expense of those whose private use of their vehicle is minimal (but nevertheless over 10,000 km p.a.). Company cars are therefore better suited (as being more tax-efficient) for office-bound staff. In instances where company representatives, for example, are doing a high proportion of business travelling, a car allowance structure may be more appropriate.

101 Determined Value

The determined value of the vehicle is to be assessed¹ as follows:

- where the vehicle was purchased by the employer under normal 'arms-length' conditions, it is the original purchase price that was paid excluding financing costs, interest, sales tax and VAT; or

- where the vehicle is being leased by the employer or where the vehicle was previously leased by the employer and then subsequently purchased at the end of the lease, it is the original cash value of the vehicle, i.e. the

¹ According to paragraph 7(1) of the Income Tax Act No 58 of 1942 (as amended)
original capital amount that was paid by the lessor (i.e. the bank), excluding VAT; or

- in any other instance, it is the original market value of the vehicle as of when the employer first obtained the right of use of the vehicle.

There are two conditions that apply to the above:

- that in the event that the employee was not the original beneficiary of the vehicle and that some prior beneficiary/ies had been granted the use of the vehicle by the same employer for at least 12 months before the employee was granted its use, then the 'determined value' of the vehicle may be discounted (on a reducing balance method of depreciation), from its original value (as assessed above), by 15% per annum for every completed period of 12 months that there was before the employee was granted the vehicle's use; and

- that where the vehicle was purchased by the employer from an 'associated institution' whilst the employee already had the use of this vehicle, the determined value shall be the determined value (as described above) as of when the employee was first granted the vehicle's use.

Please note that an "associated institution" is described in paragraph 1 of the Seventh Schedule as one of the following:

- if the employer is a company, then any company that is managed or controlled, directly or indirectly, substantially by the same persons is regarded as an "associated institution"; or

- if the employer is not a company, its "associated institutions" will be any company that is managed or controlled, directly or indirectly, by the employer or by any partnership to which the employer is a member; or

- a company pension fund, more fully described in paragraph 1(i)(c) of the Seventh Schedule as "any fund established solely or mainly for providing benefits for employees or former employees or former employees of the employer and any company which is ... an associated institution..., but excluding any fund established by a trade union or industrial council and any fund established for post-graduate research otherwise than out of moneys provided by the employer or by any associated institution..."

**Example >>**

As an example of the first condition above, the employer purchases a MAZDA 626 costing R100,000 (excluding VAT) on 15 June 1997. Employee Mrs Smashalot is originally granted the use of this MAZDA as a company car and when she leaves the company in August 1999, the employer reallocates the car to Mr Glum who is given its use as from 12 September 1999.

The taxable value of the fringe benefit given to Mr Glum in this respect in the tax year that ended as at the end of February 2001 is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original &quot;determined value&quot; (as at 15 June 1997) (applicable to Mrs Smashalot)</td>
<td>R100,000</td>
</tr>
<tr>
<td>15% Depreciation for the first 12 months prior to Mr Glum's use</td>
<td>15,000</td>
</tr>
<tr>
<td>Reduced balance, to June 1998</td>
<td>85,000</td>
</tr>
<tr>
<td>15% Depreciation for the second 12 months (15% x 85,000)</td>
<td>12,750</td>
</tr>
<tr>
<td>Reduced balance, to June 1999</td>
<td>72,250</td>
</tr>
<tr>
<td>Taxable value of the fringe benefit to Mr Glum</td>
<td>6,026</td>
</tr>
<tr>
<td>(1.8% of R72,250, x (4 months + (30 days - 11 days)/30 days))</td>
<td></td>
</tr>
</tbody>
</table>

**Example >>**

An employer Acme (Pty) Ltd hires a Ford TX5 from an unassociated/unrelated party, RentAWreck Car Hire cc. The car was originally bought by RentAWreck in June 1997 for R120,000. Acme hires the car as from April 1998 (when the vehicle has a retail value of R80,000) and gives it to their employee Miss Bea to use as from December 1999 (when the vehicle has a retail value of R80,000).
THE TAXABLE VALUE OF THE FRINGE BENEFIT GIVEN TO MISS BEA IN THIS RESPECT IN THE TAX YEAR THAT ENDED AS AT THE END OF FEBRUARY 2001 IS AS FOLLOWS:

"Determined value" (as at April 1998) R80 000
15% Depreciation for the 12 months from April 1998 to March 1999 12 000
Reduced value, as of when Miss Bea was given use of the vehicle 68 000
Taxable value of the fringe benefit to Miss Bea (1.8% of R68,000, x 12 months) R14 688

EXAMPLE>>>

An employer XYZ (Pty) Ltd buys a Ford Telstar from PQ (Pty) Ltd which is another subsidiary within the group of companies to which XYZ belongs. The car was originally bought by PQ in June 1997 for R120 000. XYZ buys the car in April 1998 for R80,000 and gives it to their employee Miss Handown to use as from December 1999 (when the vehicle has a retail value of R60,000).

The taxable value of the fringe benefit given to Miss Handown in this respect in the tax year that ended as at the end of February 2001 is as follows:

"Determined value" (as at April 1998) R80 000
15% Depreciation for the 12 months from April 1998 to March 1999 12 000
Reduced value, as of when Miss Handown was given use of the vehicle 68 000
Taxable value of the fringe benefit to Miss Handown (1.8% of R68,000, x 12 months) R14 688

EXAMPLE>>>

An employer XYZ (Pty) Ltd buys a Mazda 626 in April 1998 from PQ (Pty) Ltd which is another subsidiary within the group of companies to which XYZ belongs. Miss Smith, who is an employee of XYZ is already the beneficial user of the vehicle as from new. The car was originally bought new by PQ in June 1997 for R120,000. XYZ bought the car from PQ for R80,000.

The taxable value of the fringe benefit given to Miss Smith in this respect in the tax year that ended as at the end of February 2001 is as follows:

"Determined value" (as at June 1997) R120 000
Taxable value of the fringe benefit to Miss Smith (1.8% of R120,000, x 12 months) R25 920

Please note that under normal circumstances the use of a company vehicle is considered to be of the same value to an employee regardless of how long he has been using it. It will continue to generate the same value of benefit as long as the same employee remains the beneficiary. Should the company adopt a policy of rotating its cars between employees, this would produce a tax benefit.

EXAMPLE>>>

An employer leases a new Ford Telstar in March 1995 that had a "determined value" of R100,000. After five years, the company has paid off the vehicle but Mr Stable, their employee, is still driving this car when it is 6 years old having been the driver of the car since it was new. The value of the fringe benefit in the tax year that ended February 2001 is still R1800 per month (R106,000 x 1.8%). The value of fringe benefit for the full tax year is R1800 x 12, or R21,600.

EXAMPLE>>>

An employer has a policy of rotating or "swopping" its cars between employees every year. It has two Mazda Etudes that cost R80,000 each initially when they were both purchased in September 1997. Mr Swopalot and Mrs Switchowitz swopped cars on 1 March 2000 in preparation for reducing their tax exposure in the 2001 tax year.

The value of the taxable benefit for each of them in respect of the tax year that ended as at the end of February 2001 is as follows:

Original "determined value" (as at September 1997) R80 000
15% Depreciation for the first 12 months 12 000
Reduced balance, to September 1998 68 000
15% Depreciation for the second 12 months (15% x 68,000) 10 200
Reduced balance, to September 1999 57 800
Taxable value of the fringe benefit to each employee (1.8% of R57,800, x 12m) R12 485
If instead the company were not to adopt this policy, the employees would each have the following taxable exposure:

**Original "determined value" (as at September 1997)**
- **Taxable value of the fringe benefit to each employee**
  - \(1.8\% \times \text{R80,000} \times 12\text{m})

The saving in taxable income for each of these two employees is therefore R4795 in the 2001 tax year alone. As each year progresses, the tax saving will improve until they replace the cars.

### 102 PARTIAL MONTHS

In those instances where the employee has had the benefit of the right of use of a vehicle for only part of a month (such as when he took delivery of the vehicle in the middle of a month or when it was given back mid-month), the net value of the private use for the full month is to be adjusted that it is applied only to that portion of the month to which the employee had the right of use, measured in days.

It is immaterial whether the employee used their company car or not. If an employee has had the **right** to use a car, they will be taxed on the private use thereof whether or not they took advantage of it. An employee cannot seek relief from this taxation for any periods whilst they were away, without access to the car, unless their employer withdrew their right to use the company car during these periods.

One way to save tax is therefore for the employer to make it a policy, or to give a specific instruction to a single taxpayer to cater for just one instance, that company cars are not to be used whilst staff are, for example, overseas. It would add further credence if they were to require that the cars be left in the company's basement or carpark during these times.

It is not enough to say that, in the absence of such a policy or instruction, that the employee is obviously removed from having the beneficial use of the vehicle whilst he was abroad, and that therefore he is entitled to not being liable for this perks tax over this period. In the absence of such a policy, it could easily be argued by SARS that his family, friends or other nominees are continuing to have access to the vehicle and to its use. As discussed later with regard to chauffeurs, the taxpayer does not **himself** have to drive the car for him to be regarded as having the beneficial use of it.

### 103 TAX STRUCTURING

Another issue that is bound to give rise to some tax avoidance in the forthcoming years, especially by way of creative packaging and marketing by the motor manufacturers and dealers, is the opportunity that arises because of the poor definitions within the Act of the purchase price of the vehicle and that of its market value.

It has become customary within the industry that the ticket price of a car include more than the purchase of the physical product. An increasing number of financial services are being built in as being standard or offered as optional accessories. The obvious one is that of the basic warranty. Others can comprise low-cost insurance, low interest rates, more extensive warranties, maintenance agreements, guaranteed buy-backs, holidays from insurance payments for several months, similar holidays from financial payments, and cash refunds. The costs of all of these "give-aways" are having to be recouped from the price paid for the car and are hence, in effect, built into the purchase price.

Whilst this is standard practice with the marketing of all cars (to some or other degree) it raises some fascinating issues and opportunities. At a simple level, imagine the consequences of R20,000 in value being built into the price of an executive car in order that increased value is seen to be delivered. (An example would be that of a maintenance plan. In this case, one is able to avoid the relatively unpredictable costs of servicing and repairs in favour of paying more, as a definite capital amount, at the initial purchase price.) If this car is bought as a "company car" the recipient beneficiary will be having to pay tax on an extra R360 per month (1.8% of R20,000) as a result of the inflated ticket price. Measured over 60 months, the employee will be having to pay tax on an extra R21,600 in income.

2 See page 64.
If this were invoiced separately instead, and not built into the purchase price of the car, a considerable amount of tax could be saved. It can reasonably be argued that these supplementary charges do not relate to the purchase of the physical product, and are hence not necessarily to be considered as part of the Determined Value. If, for instance, the added value were to be in respect of a maintenance contract or were to be for the purpose of subsidised insurance, these are costs that are assumed as being part of the employer's normal expenses (albeit normally on a monthly basis). They have therefore already been built into the 1.8% monthly valuation.

It is hereby suggested that the 1.8% valuation has implicit in it that it is expected that the employee will receive the benefit of a fully maintained car. This is so because in terms of paragraph (4)(a)(ii)(bb) of the seventh schedule, should the employee be having to pay for the maintenance of the car (including that of the costs of repairs, servicing, lubrication and tyres) then the 1.8% deemed value is to be reduced by the amount of R85 per month. Thus the standard scenario must be that the 1.8% deemed value includes the costs of such maintenance.

By paying tax on a deemed value of 1.8% per month, the employee is thus reasonably expecting the cost of maintenance to be covered by his employer. The extent of these costs and the manner in which his employer incurs them is quite possibly of little concern to him. If, for instance, his employer elects to buy a maintenance contract as an ‘insurance’ against irregular, excessive and unbudgeted expenses, then it is of little consequence to the employee who shall derive no more value from the fringe benefit for reasons of this policy. Why then should he pay extra if such an “insurance policy” were built into the purchase price of the car? If instead, the maintenance contract were invoiced separately, it should not be regarded as a fringe benefit.

It does not take a giant leap to imagine the possibilities by which lower purchase prices (generating lower amounts of fringe benefits tax) can be created by means of an extensive unbundling of all of a vehicle's financial services.

A further simple way by which to reduce the fringe benefits tax on a company car would be to discount the purchase price of the new car and, correspondingly, to discount the trade-in price of the taxpayer's old car to make up for it. This will also have the benefit of reducing the amount of VAT payable (by the employer) on the net transaction.

**Example>>>

Shrewdies (Pty) Ltd is looking to buy a new Volvo S40 as a company car for R200,000 (excluding VAT) and trade in a Mazda 626 for R80,000. The transaction would give rise to a fringe benefit for their employee that has a value of R3600 per month and the nett cost to the employer is R148,000 (including R28,000 in VAT). If, instead, Shrewdies were to persuade the dealer to give them a 10% discount on the Volvo and only R60,000 for the Mazda, the employee's fringe benefit would be worth only R3240 p.m. and the nett cost to the employer would be reduced to R145,200 (including R25,200 in VAT).

**104 ACCESSORIES**

The determined value of a vehicle includes the value of any original accessories. If any accessories are fitted later, one has either to adjust the determined value (to include their cost) or else be taxed separately on the accessories on the grounds of being given the right of use of an employer's assets. If one opts for the latter approach, the taxable value imposed on the accessories (in terms of paragraph 6 of the Seventh Schedule) is at a rate of 15% p.a.

**105 EMPLOYEE'S CONTRIBUTION – PAYMENTS BY THE EMPLOYEE TO THE EMPLOYER**

In terms of paragraph 7(2) of the Seventh Schedule, should the employee make any contribution to their employer for the right to use an employer-provided car, the taxable value of the fringe benefit will be reduced by the amount paid. This reduction in taxable value is limited to the extent that it cannot be made to exceed the normal (1.8%) value and the taxable value of the car therefore cannot enter into negative territory.
This adjustment to the monthly valuation may be similarly applied to the monthly calculation of PAYE.

This reduction of the 1.8% valuation shall not apply if the employer were to pay any additional and related allowance to the employee. This anti-avoidance mechanism prevents a scheme that went into use whereby the recipients of company cars were paid an additional car allowance in order to fund a corresponding contribution that the employees would make back to their employer. The taxable value of the company cars was being reduced to nil (with the payments by the employee to their employer negating the 1.8% value), and the necessary car allowances were made to be relatively minimal.

Nowadays, in order to get the benefit of this adjustment to the 1.8% value, the employee will have to fund the contribution towards the company car without the combined benefit of also receiving a "car allowance".

**106 EMPLOYEE'S CONTRIBUTION**

**PAYMENTS BY THE EMPLOYEE FOR FUEL**

There is the assumption inherent in the 1.8% valuation that all expenses associated with the car are being paid for by the company. If instead the employee were to bear any expense, there are mechanisms provided for in subparagraphs 7(4)(a)(i), 7(4)(a)(ii) and 7(8) whereby the taxable value of the vehicle is reduced to compensate the employee.

7(4)(a)(i) provides for one instance of where the employee bears the cost of fuel. If the employee were to pay for all of the fuel used for his private travel, then he is to be compensated by having the 1.8% fringe benefit value reduced by R120 per month. This adjustment also affects the calculation of the monthly PAYE.

How is it determined whether the employee has paid for all of the fuel used privately, as opposed to that used for business? Bear in mind that the private use of the car includes the employee's trips between his place of residence and his place of work. Business trips and private trips are often therefore being made intermittently and it is obviously impossible to physically keep separate the fuel necessary for both types of use.

There are at least three ways imagined in which an accounting determination can be made that will provide sufficient proof. Firstly, there could be the instance in which all of the fuel costs are being paid for by the employee, regardless of whether the car is being used privately or for business. If the employee were not to pay for any fuel, this would provide fair proof that the employee has paid for all of the fuel used privately. (He will also have paid for all of the fuel used for business, for which he's not being compensated here, but more of that later.)

Secondly, he could pay for some tanks of fuel, but not all of them, as long as he can show that he has paid for at least the proportion that amounts to his private use.

**Example >>**

A taxpayer does 20,000 km in total over the tax year and he can show, by using a logbook, that his business usage added up to 9000 km. His employer sometimes allows him to fill up his tank at his company's expense but most times he fills up his tank at his own expense. He can show that the total amount paid by the company for his car's fuel was R2843 whilst he has receipts for R4329 for petrol that he paid for himself. Thus, it can be seen that he paid for around 60% of the cost of fuel, whilst his private use of the car was only 55%. He's therefore paid for all of the fuel used privately and he therefore qualifies for the R120 p.m. reduction.

Thirdly, he could pay for all of the fuel and be refunded by his employer for the cost of his business use. What then constitutes a fair refund? What are the implications of the employer paying 60c or R6.00 for every kilometre of business use?

Any amount paid by an employer to an employee in order to compensate the latter for the expense of using a vehicle (not necessarily theirs), is dealt with in terms of s 8(1)(b) of the Act. It is specified that the amount that shall be deemed taxable shall be that amount that is in excess of what is deemed to be the expense as determined by the tables (see Appendix B) published in the Gazette. However, the instance of a payment by an employer to his employee made specifically in respect of a company car is dealt with as an exception to this rule. It is instead prescribed that the tabled rates shall not apply in
this instance. The alternative is that an "acceptable calculation based on accurate data" is to be furnished as proof of the actual expenses.

What constitutes an "acceptable calculation"? There are three possibilities that come to mind:

1. That the employee may have kept record (possibly with the use of a "Petrol" or "Garage Card") of his total expense of fuel. He will furthermore have record of the distance of business use, seeing as this was the basis by which his employer refunded him.

2. That the employee has not kept record of his actual cost of fuel, but a reasonable estimate can be made of the fuel consumption of his vehicle. In this instance, the average fuel prices recorded over each of the recent tax years that are available in Appendix C should be useful.

3. That the Vehicle Operating Cost rates (the "AA Rates") published by the Automobile Association of South Africa may be accepted as a reasonable estimate. Whilst bearing in mind that the AA Rates are reviewed every month, and with fuel prices recently having undergone considerable adjustment every month, it is the average rates for the tax years that are, for the purposes of this calculation, especially useful.

And so this is the mechanism by which to handle instances of where the employer is over-compensating the employee for the expenses the employee is having to incur when using the employer's company car. As regards whether the employee is entitled to his R120 per month reduction, this will depend on whether he is paying for more of the fuel proportionately than what represents private use. On this basis it needs to be argued that he needn't pay for all of the fuel in its entirety, but only that he has effectively paid for all of the fuel used privately.

### Examples

**Mr Chargalot** has a Land Rover Discovery as a company car and a Garage Card that he uses to pay for all of his petrol. His total cost of petrol for the 2001 tax year can thus be shown to be R10,000. His total mileage over this period was 30,000 km and his employer has given him 80c per kilometre as a refund on his cost of petrol for 8000 km of business trips.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (8000 km x 80c)</td>
<td>R6 400</td>
</tr>
<tr>
<td>Deduction</td>
<td></td>
</tr>
<tr>
<td>Proven cost of petrol (R10,000 / 30,000 km x 8000 km)</td>
<td>2 667</td>
</tr>
<tr>
<td>Net Taxable Income</td>
<td>R3 733</td>
</tr>
</tbody>
</table>

**Mr Botha** has a Mazda Etude as a company car with an engine capacity of 1800 cc. His total mileage over this period was 30,000 km and his employer has given him 80c per kilometre as a refund on his cost of petrol for 8000 km of business trips.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (8000 km x 80c)</td>
<td>R6 400</td>
</tr>
<tr>
<td>Deduction</td>
<td></td>
</tr>
<tr>
<td>Estimated cost of petrol (8000 km / 100 km x 10 litres x R3.45 as the average petrol price for the year)</td>
<td>2 760</td>
</tr>
<tr>
<td>Net Taxable Income</td>
<td>R3 640</td>
</tr>
</tbody>
</table>

**Mr Nologg** has a Jaguar X-type as a company car and a reasonable estimate of the fuel consumption of his vehicle (measured by way of an "urban-cycle") (as published by CAR Magazine) is 10 litres per 100 km. His total mileage over this period was 30,000 km and his employer has given him 80c per kilometre as a refund on his cost of petrol for 8000 km of business trips.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (8000 km x 80c)</td>
<td>R6 400</td>
</tr>
<tr>
<td>Deduction</td>
<td></td>
</tr>
<tr>
<td>Estimated cost of petrol (8000 km x 41.2c as the average rate per km)</td>
<td>3 296</td>
</tr>
<tr>
<td>Net Taxable Income</td>
<td>R3 104</td>
</tr>
</tbody>
</table>
Mr Paydalot keeps records (using a Garage Card) of all times when he buys petrol. His total spend on petrol for the year amounts to R8000 and his total mileage for the year is 20,000 km. His employer refunds him 30c per km for 4000 km of business use of the car.

<table>
<thead>
<tr>
<th>Total cost of petrol</th>
<th>R8 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of petrol used &quot;privately&quot; (R8000 x 16,000 / 20,000)</td>
<td>(6 400)</td>
</tr>
<tr>
<td>Cost of petrol for business use</td>
<td>1 600</td>
</tr>
<tr>
<td>Employer's refund (4000 km @ 30c)</td>
<td>(1 200)</td>
</tr>
<tr>
<td>Shortfall in employer's contribution</td>
<td>R400</td>
</tr>
</tbody>
</table>

In this instance, the employer has not over-compensated Mr Paydalot for his true cost of petrol and therefore has not effectively subsidised his cost of petrol for his private use. Mr Paydalot, by way of having paid for all of his fuel used in respect of his private mileage, is therefore entitled to the R120 pm reduction.

Mr Bettaoff has similarly kept records for the same usage. In his instance, he is fortunate to have his employer pay him 60c per km whenever he undertakes a business trip.

| Cost of petrol for business use (as above) | R1 600 |
| Employer's refund (4000 km @ 60c) | (2 400) |
| Surplus in employer's contribution | R800 |

In this instance, the employer has paid Mr Bettaoff in excess of his true cost of petrol and has therefore in effect subsidised the cost of his private use. Mr Bettaoff is therefore not entitled to the R120 pm reduction because he himself has not had to bear all of the cost of fuel used privately.

Paragraph 7(8) of the Seventh Schedule describes the adjustment to the 1.8% valuation that can be made at the time of submitting the annual tax return to compensate for all instances of where the employee has had to incur the costs of running his company car. In order to qualify for this reduction, it is not necessary that the employee pay all of the costs of the private use of the car. Furthermore, it should be noted that this reduction is not additional to the 7(4)(a)(i) reduction described above but rather replaces the R120 pm reduction in the event that it is being claimed. Note that the R120 may already have been claimed on a monthly basis when calculating the PAYE, and this 7(8) adjustment can serve to ensure a greater reduction when claimed as part of the final annual assessment.

In terms of paragraph 7(8), all of the fuel expenses that have been incurred by the employee may be claimed, without limitation, other than that all of these claims (together with any maintenance and other expenses) may not exceed the unadjusted (1.8%) valuation.

Ms Naidoo drives a Mazda Etude as a company car that cost her employer R140,000 (excluding VAT). She spends a total of R10,000 on petrol for the year and her total mileage is 22,000 km.

| Cash equivalent value of the private use of the company car (1.8% x R140,000 x 12 m) | R30 240 |
| Paragraph 7(8) reduction for Ms Naidoo's cost of fuel | (10 000) |
| Net taxable value of company car | 20 240 |

Ms Cohen, is in the exact same situation as her colleague Ms Naidoo in the above example except that she gets paid 30c per kilometre for 3000 km that she does on behalf of the company.

In this instance, Ms Cohen would not qualify for a reduction in terms of paragraph 7(8) on account of the fact that she has received an allowance from her employer to refund her for her expense. She might however qualify for a R120 pm reduction in terms of subparagraph 7(4)(a)(i).

As a test to see if the company has effectively paid for the cost of her private fuel (which would disqualify her from this R120 reduction):

---

3 Even though this adjustment gives rise to a deduction of R1440, it may nevertheless be preferable to the taxpayer to alter claim his expenses on the basis of paragraph 7(8) described on page 17.
Company's refund for the cost of petrol (3000 km @ 30c) R900
Ms Cohen's cost of petrol used for business (R10,000 x 3000 / 22,000) (1 364)
Shortfall in employer's contribution R464

She therefore qualifies for the R120 pm reduction and her net tax exposure will be as follows:

Cash equivalent value of the private use of the company car (as above) R30 240
Paragraph 7(4)(a)(i) deduction for Ms Cohen's cost of fuel (R120 x 12 months) (1 440)
Net taxable value of company car R28 800

It is important to remember that the employee can claim for any cost of fuel, even if this arises for example only because his car scheme requires that he pay for the fuel that he uses whilst he is on holiday.

107 EMPLOYEE'S CONTRIBUTION - PAYMENTS BY THE EMPLOYEE FOR THE MAINTENANCE OF THE CAR

Similarly as regards the cost of fuel, there are allowances that cater for an employee to recoup any costs that he incurs if he has to pay for any of a company car's maintenance. Again, it was assumed when valuing the private use of a company car (at 1.8% per month of its "determined value") that the company will be paying for all of its costs of maintenance.

There is however an important difference between the treatment of maintenance costs (subparagraph 7(4)(a)(ii)) and the treatment of fuel costs (7(4)(a)(i)). In the instance of fuel costs (as described above), the employee has to show that he has paid for all of the cost of fuel relating to the private use of the car, in order to qualify for the R120 per month reduction. With maintenance costs, however, the employee has to have paid for all of the costs (and not just the costs of the private use) of maintaining the car ("including the cost of repairs, servicing, lubrication and tyres") in which case he will qualify for a reduction of R85 per month.

What constitutes the 'full cost' of maintaining a vehicle? It would appear only necessary that it is shown that the employee has paid for the specifically mentioned costs relating to "repairs, servicing, lubrication and tyres", in order that they will qualify for this deduction. It does not appear necessary in this instance that any broader definition of the costs of maintenance needs to be taken into account (as might include the costs of cleaning, licensing, security tracking, etc.).

Again, as with the handling of the cost of fuel, the alternative adjustment that arises in terms of paragraph 7(8) can serve to ensure that the reduction is not limited to R85 pm. This is however reliant on the employer not paying the employee any allowance or reimbursement as a refund for these expenses. Paragraph 7(8) would appear to facilitate that any expenses relating to the vehicle that are borne by the employee may form the basis of a reduction. Thus, it is possible that the employee can claim for any expense that he has had to incur including those in respect of cleaning the vehicle, of licensing, of security tracking, of insurance premiums, of insurance excesses (in the event of a claim), of repairing damage to the vehicle, etc. (but excluding any cost of traffic fines).

MR MOYO is the beneficiary of a Ford Ranger Double Cab as a company car that originally cost his employer R200,000 excluding VAT. The company requires that he pays for all of the car's fuel and maintenance, which, over the course of the past tax year, have cost him R110,000 and R7000 respectively. Mr Moyo's marginal tax rate is 40%.

Mr Moyo qualifies for the R120 and R85 monthly reductions when calculating his PAYE exposure. The monthly value of the vehicle is therefore as follows:

Cash equivalent value of the vehicle (R200,000 x 1.8%) R3 600
Fuel reduction (120)
Maintenance reduction (85)
Monthly taxable value of fringe benefit R3 395
Tax levied on fringe benefit (40% x R3 395) R1 358

Mr Moyo qualifies for the R120 and R85 monthly reductions when calculating his PAYE exposure. The monthly value of the vehicle is therefore as follows:

Cash equivalent value of the vehicle (R200,000 x 1.8%) R3 600
Fuel reduction (120)
Maintenance reduction (85)
Monthly taxable value of fringe benefit R3 395
Tax levied on fringe benefit (40% x R3 395) R1 358

4 See Income Tax Court, Date No. 1490, published on p 108 of vol.63 of S.A. Tax Cases Reports, also Joffe and Co (Pty) Ltd v Commissioner for Inland Revenue (1944 Appellate Division 157 at pp163-164), and Port Elizabeth Electrical Tramway Co. v Commissioner for Inland Revenue (B 562C 13 at pg 18).
At year-end, the following adjustment can be made with the assessment:

- **Cash equivalent value of the vehicle (R3600 x 12m)**: R43,200
- **Actual cost of petrol**: (10,000)
- **Actual cost of maintenance**: (75,000)
- **Net taxable value of fringe benefit**: 26,200
- **Tax levied on fringe benefit (40% x R26,200)**: 10,480
- **PAYE levied on the fringe benefit (R1358 x 12)**: (17,112)
- **Net tax refund owing in this regard**: R5,816

### 108 TAKING TRANSFER OF A COMPANY CAR

If the employer allows the employee to buy a company car at some stage, most probably at the time at which it is due for replacement, the employee has to be careful that this transaction might give cause for an exposure to a further fringe benefits tax. If the taxpayer receives the vehicle at anything less than its market value, they will be liable for the tax on the difference between this market value and the amount that they've paid. It is commonly accepted practice that the market values used are those contained in the corresponding Auto Dealers' Digest published by Mead & McGrouther.

### 109 POOL CARS

If the car is one that is shared between staff in general and if the car is not kept at the employee's home at night, nor does the private use of the car amount to anything more than "incidental", then this won't constitute a fringe benefit.

More specifically, a company-provided vehicle will be considered as contributing no value of private use under the following circumstances:

- if the vehicle is available to and is in fact used by employees of the employer in general;
- if any private use of the vehicle by the taxpayer is infrequent or merely incidental to its business use; and
- if the vehicle is not normally kept at or near the taxpayer's place of residence when it is not in use.

Alternatively, a vehicle will also not be considered as offering value if the nature of the taxpayer's work is such that he regularly requires the business use of the vehicle after-hours and he is not allowed to use the vehicle other than for business purposes or for travelling between home and work.

### 110 MINIMAL PERSONAL USE

If the private use of the car is less than 10,000 km per annum, one may be able to negotiate a reduction to the fringe benefit valuation. For a guide as to the nature of private versus business use, please see the definitions on page 38.

In the event of wanting to claim this adjustment for a vehicle that has not been in use for a full 12 months of the tax year, one will need to show that the private mileage was less over the period than the annualised rate of 10,000 km. For example, should a taxpayer have been given the use of a vehicle for six months of the tax year, he will need to show that he's used the vehicle for less than 5000 km privately to qualify for this reduction.

**Example >>**

Mr Ndlovu is given a Volvo V40 as a company car on 1 September 2000 that cost his employer R200,000 excluding VAT. He keeps a logbook and finds that he's used the vehicle for only 3500 km of private use before 1 March 2001.

The ordinary (unadjusted) value of the fringe benefit is R3600 per month (= R200,000 @ 1.8%). The taxable value for the year is therefore R21,600 (= R3600 x 6 months).
THE SA GUIDE TO TAX-EFFICIENT CARS

This is assuming though that the taxpayer will have derived the value from 5000 km of private use (= 10,000 x 6/12 months) whereas he has only used the car for 3500 km. The taxable value could therefore be reduced to 70% (= 3500 / 5000) of R21,600, that is R15,120.

111 HISTORY

The current (1.8%) valuation of this fringe benefit has remained constant as from July 1997. This followed a massive 50% overnight hike from 1.2% p.m. (that had been in place since August 1991). Prior to the 1991 increase, there had been a schedule by which the taxable value was determined in which the purchase price and engine capacity were taken into account.

Figure 1 shows how, with the added effect of car price increases, the Receiver's valuation of company cars has been increased over the past 15 years. The tax on company cars was the subject of frequent review up until August 1991. It then settled (on the value of 1.2%) for a relatively long period until July 1997 when it was hiked up to the current value of 1.8%. This graph makes comparison between the tax on a BMW 325i/323i (as it has evolved) and a Mercedes 230E/230 and how that's changed since July 1987.

One has also to consider that individual's income tax in general has in effect gone up over the past few years. This is despite the Minister of Finance's repeated statements over this period on how he has been bringing the tax rates down. To quote Minister Manuel from his 2001 Budget Speech: “Since 1995, personal... taxes have been reduced significantly.” The South African taxpayer has been presented with “good news” stories every year on how he is being offered relief by way of lower taxes.

112 FISCAL DRAG

Every year, the Minister of Finance attempts to show the extent to which he's offering taxpayers a substantial drop in their rates of tax. The Minister inevitably quotes examples in his Budget Speeches in support of this argument, but (interestingly) these have always inevitably (and conveniently) ignored the significant effect of inflation. Inflation gives cause for an effect known as "fiscal drag" or "bracket creep". Trevor Manuel himself described this phenomenon in his 1999 Budget Speech. "We have again this year sought to protect taxpayers from the effects of inflation on income. Typically what happens is that when wages increase in response to inflation, individuals get pushed into a higher tax bracket, even though in real terms their incomes have not changed. This is known as fiscal drag or bracket creep."

EXAMPLE >>>

Mr van Reensburg earned R100,000 in net taxable income in the tax year that ended in February 1998. His employer gives him an inflation-based increase in March 1998 of 8.58% that effectively has only kept his real (effective, inflation-adjusted) income the same. The buying-power of his "new" income of R108,583 for the 1999 tax year is therefore no more than it was the previous year.

The tax tables in respect of 1998 were as follows:

<table>
<thead>
<tr>
<th>TAXABLE INCOME IN THE RANGE -</th>
<th>19% OF EACH R1</th>
</tr>
</thead>
<tbody>
<tr>
<td>R30,001 - R35,000</td>
<td>R5700 plus</td>
</tr>
<tr>
<td>R35,001 - R45,000</td>
<td>R7200 plus</td>
</tr>
<tr>
<td>R45,001 - R60,000</td>
<td>R10,400 plus</td>
</tr>
<tr>
<td>R60,001 - R70,000</td>
<td>R16,550 plus</td>
</tr>
<tr>
<td>R70,001 - R100,000</td>
<td>R20,850 plus</td>
</tr>
<tr>
<td>R100,001 or more</td>
<td>R24,050 plus</td>
</tr>
</tbody>
</table>
THE SA GUIDE TO TAX-EFFICIENT CARS

The tax tables in respect of 1999 were as follows:

<table>
<thead>
<tr>
<th>Taxable income in the range</th>
<th>Taxable income (most of the amount over prior block)</th>
<th>Rate of tax on this income block</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to R31,000</td>
<td>19% of each R1</td>
<td></td>
</tr>
<tr>
<td>R31,001 - R46,000</td>
<td>R39,060 plus 30% of the amount over R31,000</td>
<td></td>
</tr>
<tr>
<td>R46,001 - R60,000</td>
<td>R10,390 plus 39% of the amount over R46,000</td>
<td></td>
</tr>
<tr>
<td>R60,001 - R70,000</td>
<td>R15,850 plus 43% of the amount over R60,000</td>
<td></td>
</tr>
<tr>
<td>R70,001 - R120,000</td>
<td>R20,150 plus 44% of the amount over R70,000</td>
<td></td>
</tr>
<tr>
<td>R120,001 or more</td>
<td>R42,150 plus 45% of the amount over R100,000</td>
<td></td>
</tr>
</tbody>
</table>

Superficially, it would appear from these tables that the tax rates have dropped (as professed in the Budget Speech). And in monetary terms, they have. The Minister typically would quote an example as being that the tax on a R100,000 income has dropped from R30,835 (= R34,050 less a primary rebate of R3,215) to R29,183 (R33,350 less a primary rebate of R3,515); a net decrease of 3.2%.

These "generous tax savings" (that are typically reported as newspaper headlines) turn out in reality not to be savings at all. Instead, the tax that would be owing on the increased (and yet equivalent) income of R108,583 in 1999 was increased to R33,612. This represents an increase in tax of 9.00%. Or in other words, a real increase (that is, beyond the rate of inflation) of 0.42%. The buying power of the net after-tax income has in fact, in this example, been eroded.

To be fair, the 2002 Budget announced the greatest effort in recent years to reduce the levels of individuals' income tax. Even though fairly considerable changes were made to the tax rates, this one year cannot be taken in isolation. Fiscal drag is something that accumulates from year to year, much like the proverbial rolling stone that gathers moss.

Furthermore, one cannot consider the changes in tax rates without also simultaneously taking cognisance of the changes to the legislation affecting the definition of what constitutes "taxable income". The government has this year withdrawn many fringe benefits (such as home offices and entertainment expenses) which will effectively go towards increasing the taxable income of many who also benefit from company cars and car allowances.

Nevertheless, let us consider the current year in which the newspaper headlines shouted out that individuals are to enjoy a 25% reduction in tax. Let us ignore the abolition of some of the other fringe benefits and consider a simple example in which an executive person earned a taxable income of R400,000 in the year that ended in February 2002.

His tax on R400,000 in the 2001/02 year was R146,220. He then received an inflation-linked increase of 7%, raising his taxable income to R428,000 (the equivalent sum of money, one year later). His tax on R428,000 in the 2002/2003 year is going to be R144,140. If we take the effect of inflation out of this number, so that we can make a fair "apples-for-apples" comparison, his tax has dropped from R146,220 to R134,710 (in 2002 terms), i.e. a 7.8% reduction. Not bad.

This is the second time in recent years that we've seen any significant effective drop in tax rates for high-income earners. Figure 2 illustrates this fairly well and shows the results of an interesting analysis. The chart shows the average rates of tax that have been payable by those who have earned an equivalent of R40,000 per month, in March 2002 terms (adjusted for inflation using the CPI). This year we've seen a substantial drop from 37.5% to 34.4% (in respect of this example). The only other year that we've seen this extent of relief was two years ago, in March 2000, when it dropped from 41.0% to 37.6%. This has come after years in which the tax level was climbing (up until March 1995), after which it was kept fairly much the same (at its peak of around 41%).

Although the effect each year of fiscal drag may appear minimal, it is the combined accumulative effect, over a longer-term period, that should present a concern. After all, in any one year, it is reasonable to expect instances of where the effective tax rate might have gone up for some taxpayers and yet be counter-balanced by a real decrease in the following year. It is rather the overriding, accumulative trend over several years that is significant.

10 The 2002-2003 tax year, details of which were announced in the February 2002 Budget Speech.
11 Consumer Price Index, published by Statistics SA.
In 2002 it does at least appear that not only are we getting relief from the peak that arose at the time of the hand-over to the present government, but that there's an on-going intent to keep this downward momentum going forward.

The longer-term analysis (going back to 1987), shown in Figure 2, shows an instance of someone who has earned no increases other than inflationary adjustments since July 1987 who in March 2002 terms is earning a taxable income that is the equivalent of R40,000 per month.

They will have paid 8.85% more tax in 1987 (in real terms) than in March 2002. The average rate of tax, in this example, has gone from around 38% (in 1987) to around 34.4% (in 2002).

Despite these recent favourable adjustments to the tax tables, we shouldn't allow ourselves to ignore the simultaneous efforts that have been made to redefine that that constitutes "taxable income". Many fringe benefits, that previously provided some means by which to reduce the calculated taxable income, have been removed or adjusted. Company cars, in particular, were revalued in July 1997 that overnight they were considered 50% more valuable to employees (up from 1.2% to 1.8% p.m.)

---

12 Measured in accordance with the Consumer Price Index published by Statistics South Africa

13 Measured in accordance with the CPI published by Statistics SA
"real" rate of increase) and yet look how the tax on the cars effectively increased (beyond the rate of inflation) by the average compound rate of just over 8% p.a. for both the BMW and Mercedes, over the past fifteen years. (Inflation was a further 9.2% p.a. on average.)

The prices of these cars went up by an average of around 12% p.a. over this period (roughly 3% above the rate of inflation). This is little wonder, of course, with the devaluation of the Rand14. Having said that, today's models of these cars are very much improved on the models they replaced, and they in turn were improvements on the ones they replaced before that...

We've grown to expect so many more airbags, so many more speakers, more performance, better fuel consumption, more luxury, better ergonomics, more features, better quality, more reliability, better roadholding and greater safety. ABS, ESC and other active/passive safety interventions of our driving skills (or the lack thereof) have increasingly become the norm. The above-inflationary increases in price can be said to be largely attributable to the fact that we're getting more today that in previous generations of the same model of car, and yet these cars still (normally) occupy the same marketing niche as the models they replaced.

They're still comparable as being equivalent. Our standards and expectations of cars just keeps getting higher.

With the perks tax on company cars increasing15 at 5% beyond the rate at which car prices are increasing16, it can be said that this increase has predominantly been caused by the reviews in the legislation that have revalued the fringe benefit. In particular, our current burden can be attributed to the review that took place in July 1997 when company cars were suddenly considered 50% more valuable.

113 FUEL AND MAINTENANCE ADJUSTMENTS

Further examples of how leaving the legislation unadjusted (or underadjusted) every year gives rise to an effective increase in taxation are the deductions of R120 and R85 per month in respect of an employee's contributions for fuel and maintenance. These values were last reviewed (and increased from R100 and R62, respectively) over ten years ago17. There seems little reason, if one is to understand the intent of the legislation, for these values not to have been regularly reviewed in order to track the costs of their underlying cause. And the underlying costs have increased dramatically. The pump price of 93 octane petrol on the Reef was R1.30 / litre when the deduction was changed to R120 pm. By comparison, it was R4.03 in April 2002. If R120 were thought to be fair value of an employee's payment for fuel in 1991, this should surely be updated to an equivalent value of R372 pm now.

Looked at another way, this deduction attempts to place a value on the petrol used for 10,000 kilometres of private use. If an average fuel consumption of 11 litres / 100 kilometres is to be assumed, then this deduction should have been given a monthly value of R119 in 1991, on the basis of the following calculation:

<table>
<thead>
<tr>
<th>Private distance travelled p.a.</th>
<th>10 000 km p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divided by 12 months</td>
<td>833 km p.m.</td>
</tr>
<tr>
<td>Equivalent consumption of fuel (@ 11 litres / 100 km)</td>
<td>91.67 litres</td>
</tr>
<tr>
<td>Equivalent value of fuel (@ R1.30 / litre)</td>
<td>R119.17</td>
</tr>
</tbody>
</table>

15 At 8% p.a. beyond the rate of inflation.
16 At 3% p.a. beyond the rate of inflation.
17 They were changed as from 1st August 1991
The original R120 per month therefore appears to have been a fair and reasonable valuation at the time at which it was done in 1991. The same calculation however done for March 2002, presents a monthly value of R369.43 (= 91.67 litres @ R4.03). The R120 and R85 valuations are long overdue for review.

Similarly, one can test the reasonableness of the 1.8% value.

The 1.8% value is presumably meant to represent the value of use of a car with fuel, servicing, repairs, insurance, licensing and all other expenses thrown in, for a distance of 833 km p.m. (i.e. the equivalent of 10,000 km p.a.). If one uses the AA Rates as a guide, a R114,000 car (inclusive of VAT) of 1800 cc doing a typical 28,000 km per year will cost in the region of 211.7c per km. Usage of 833 km is therefore worth R1764. As far as this example goes, the 1.8% valuation (an equivalent of R1800) appears to be spot on!

Notice, however, that this valuation is extremely sensitive to the mileages travelled – in respect of both the total distance for which the vehicle is being used as well as the private distance. For example, if the taxpayer were to be office-bound and were hence to be using his company car for minimal business use, say 2000 km a year, the taxable value of his fringe benefit (as in the above example) would remain R1800 p.m. Its real value, however, will be around R4486 pm\(^{18}\). One can conclude from this analysis that whilst the 1.8% valuation appears fair for those doing 10,000 km p.a. of private use, it is very attractive for those whose private mileage is in excess of this distance.

The above chart shows how the 1.8% valuation does not suit taxpayers who are using their vehicles in the manner described in the lowest band and the band immediately above it. For example, reading the chart one can see that anyone doing more than approximately 30,000 km p.a. in total mileage, whilst doing less than 14,000 km p.a. in private mileage, will be on the "wrong side" of the 1.8% valuation. The value that they will be deriving from the fringe benefit will, in other words, be less than 1.8%. People who fit this description should avoid a company car if they have the alternative of a car allowance.

Conversely, one can see that company cars are very well suited to those who do a high private mileage, especially if, at the same time, their business mileage is minimal. People such as office-bound staff who live far from their offices would do well to opt for a company car, if they have a choice.

Table 1 below shows this same information (for the case of a car costing R100,000 excluding VAT). The monthly values shown reflect the value\(^{19}\) of the private use of the car (according to the AA Rates) over and above the 1.8% taxable value.

---
\(^{18}\) = 26,000 km of private use @ 211.7c / 12 months
\(^{19}\) This is according to costs as at March 2002.
Table 1. Showing the monthly likely cost of running a R100,000 vehicle (excl VAT) over and above the 1.8% valuation given to a company car.

<table>
<thead>
<tr>
<th>Total mileage</th>
<th>10,000</th>
<th>12,000</th>
<th>14,000</th>
<th>16,000</th>
<th>18,000</th>
<th>20,000</th>
<th>22,000</th>
<th>24,000</th>
<th>26,000</th>
<th>28,000</th>
<th>30,000</th>
<th>32,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12,000</td>
<td>1,288</td>
<td>1,568</td>
<td>1,948</td>
<td>2,328</td>
<td>2,708</td>
<td>3,088</td>
<td>3,468</td>
<td>3,848</td>
<td>4,228</td>
<td>4,608</td>
<td>4,988</td>
<td>5,368</td>
</tr>
<tr>
<td>14,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16,000</td>
<td>1,167</td>
<td>1,527</td>
<td>1,947</td>
<td>2,327</td>
<td>2,707</td>
<td>3,087</td>
<td>3,467</td>
<td>3,847</td>
<td>4,227</td>
<td>4,607</td>
<td>4,987</td>
<td>5,367</td>
</tr>
<tr>
<td>18,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Showing the monthly likely cost of running a R100,000 vehicle (excl VAT) over and above the 1.8% valuation given to a company car.

114 VAT IMPLICATIONS FOR THE EMPLOYER

The employer is not be allowed to claim any input tax in respect of VAT for any vehicle bought by the company if that vehicle fits the description of a "motor car" (as defined) unless the company is in the business of being a "motor dealer". Vehicles that are not motor cars (such as motorbikes, light delivery vehicles, trucks, earthmoving equipment, etc.) do however qualify for input tax.

"Motor cars" are defined as vehicles that are designed predominantly for the use of transporting passengers that have three or more wheels, that are able to accommodate more than one passenger but not more than sixteen, and that have an unladen mass of less than 3500 kg. The definition includes station wagons, minibuses and double-cab light delivery vehicles and excludes single-cab light delivery vehicles, ambulances and caravans.

Motor dealers are however granted a special case of relief. If the employer is a vendor whose business activity continuously or regularly involves the supply of motor cars in the ordinary course of their business, they can claim the VAT incurred on their purchase of motor cars. They can even claim the VAT in respect of the cars that they themselves will be temporarily using or that they will be using as demonstration models.

When an employer eventually sells a motor car (on which they will not have enjoyed the benefit of input tax) they will not need to charge VAT on the price of the sale.

Although most employers' purchasing of cars is therefore without the benefit of being able to claim back the cost of VAT, they can still claim the cost of VAT incurred on the running expenses of the vehicles, provided that the vehicles are being used for the company's business of generating taxable income. In consequence, such employers will also have to account for the "clawing back" of this VAT by way of an output tax imposed on the private use of company vehicles by employees (or directors).

The value of the transaction relating to the private portion of the running expenses of company cars has been valued at 0.30% per month20. This total, however, includes the costs relating to the capital purchase, financing and fuel - all of which are either not subject to input tax or are tax exempt. The 0.30% valuation relates solely to the portion of the costs that are accountable to the maintenance and insurance of the vehicle.

If the vehicle was purchased in such a way that it did enjoy the relief of VAT input tax (for example, for reason that it is a "bakkie" that is not classed as a "motor car"), the value of the transaction by which an employee is granted its monthly use, is deemed to be 0.60% instead of 0.30%.

Under the ordinary circumstances of motor cars given to staff as company cars, the employer (who is a vendor) is liable to pay VAT every month of the amount of 14/114 x 0.3% x the determined value22 of the company car.

20 Of the car's determined value.
21 That is, the use thereof.
22 Please see page 3 for details.
In the event that a company car is granted to an employee in the course of the employer’s business of making exempt supplies, the employer is entitled to declare the company car as a similar VAT exempt transaction. An example would be that of a bank that renders financial services.

If a company car is granted to an employee who is engaged in both taxable and exempt supplies, the amount of output tax should be split to match the division in the associated supplies.

In the event that the employee has had to bear the cost of maintaining his company car, the monthly consideration (as determined using 0.3% or 0.6%) may be reduced by the amount of the actual cost to the employee, or by R85 (multiplied by the split, if applicable, between taxable and exempt supplies), whichever is the lesser amount.

Similarly, in the event that the employee has made a contribution to his employer for the use of his car, the monthly consideration may be reduced by the portion of that contribution that may be accountable to the maintenance costs of the car for which the employer has derived the benefit of input tax. Any contribution by an employee to the cost of fuel has no consequence in this regard, because fuel is exempt from VAT.

**SUMMARY**

- Company cars are well suited to those who do little in the way of business mileage. They are especially valuable to those who, in addition, also live far from their work or who have some other reason for making a lot of private use of their vehicle.

- Company cars are not well suited to those who do a lot of business travel. Sales representatives and others who are often on the roads, will do better to opt for buying their own cars and to take a car allowance where they will find greater tax efficiency.

- Company cars are currently valued at 1.8% per month of their original purchase price, excluding VAT. This current valuation is far higher than it's ever been before, and even though the general levels of tax have not increased in recent years, the perks tax that is imposed on company cars has become increasingly onerous.

- Opportunities exist by which to structure the purchase of a company car as being more tax efficient. Ideally, one is wanting the company to be billed separately for the costs of the "financial services" associated with the car (such as service plans and warranties) and one is wanting to get a lower trade-in on one's old car in exchange for a corresponding higher discount on the new one.

- Another tip is for employers to withdraw the rights of their employees to use their cars, whilst they are away for any length of time (such as if they are abroad).

- A further tip is for employees to remember to claim for any costs that they themselves had to incur for fuel or for maintaining their company car. An example of an opportunity that may be overlooked is if the employee is having to pay for fuel whilst he is on leave.

- Having said this, it doesn't typically offer any additional tax-efficiency for car schemes to be structured such that staff are made to be responsible for these costs.
Although there have in the past been some tax-efficient schemes whereby staff would be given company cars together with a car allowance (to compensate them for incurring the costs of running these cars themselves), it is no longer attractive to do so.

People who do less than 10,000 km p.a. for their private purposes (including driving to work and back), have a basis by which to have the tax on their company cars reduced.

Pool cars, and other commercial company vehicles, that are not assigned to any individual for their personal use, do not give rise to any fringe benefits tax.

**Chapter 2**

**Perks tax on “Travel Allowances”**

The colloquial term of a “car allowance” is one that the Income Tax Act refers to as a “travel allowance”. These two terms are used intermittently as synonymous throughout this book.

It has become increasingly popular for employers not to own a fleet of vehicles for the use of their staff. Rather it has become popular that employers will require that their staff use their own vehicles for which they refund them with travel allowances.

Travel allowances typically take one or a combination of two forms: they are either fixed monthly amounts or an amount paid per kilometre of business use.

A taxable fringe benefit arises when an employer overcompensates their employee. If instead the amount of the allowance is a fair and true reflection of the actual cost (that the employee has had to incur on behalf of the company in respect of the business use of their vehicle), no taxable fringe benefit will have arisen. The employee will simply have been given fair compensation for an expense that would otherwise have had to be borne by the company in some other way.

When, however, an employer goes beyond what is necessary as a fair and reasonable refund, and he is found to have overcompensated an employee, the extent to which the allowance exceeds the cost will be the extent to which a taxable benefit will have occurred.
Please note that an employer's car allowance is meant only to reimburse their employee for the business use of their car (and not for its entire expense) and that anything in excess of this will be taxed (ultimately) as if it were additional salary. There is therefore no benefit (other than a cashflow advantage that will be covered below) in getting an excessive car allowance rather than the equivalent salary. If, on the other hand, the car allowance is too low, the tax deduction (in respect of the legitimate cost of the business use of the car) will be limited to the amount of the allowance. The thinking that appears apparent in the legislation is that the employer should be paying the employee what he considers to be a reasonable refund for his expense. The employer isn’t in control of the expense though and the employee could be choosing to incur an expense that’s excessive relative to his employer’s needs. An example would be if an employee were to elect to drive a Range Rover when the employer has based his allowance on an assumption of the need for a Mazda Sting.

How then does one determine what is the cost of the vehicle’s business use to the employee? There are several acceptable methods by which to do so but all of them rely on the same premise. One must first calculate his overall cost of running his car and then one has to split this proportionately between his business and private mileage.

As regards the determination of his overall cost, this can either be done by proof of his actual expenses or it can be looked up on a table that is published in the government gazette for this purpose.

201 WHAT CONSTITUTES “BUSINESS USE”?

Travel between a taxpayer’s place of residence and their place of business is regarded as private use. Travelling from work to business appointments is typically found to be business use. Travelling to the shops for a person’s private shopping, to holiday destinations and to friends and relatives, etc. is obviously private use. Although this distinction is usually fairly simple, there are a number of instances that can prove to be less certain.

Take, for example, the case where the taxpayer works from home. Or where the taxpayer has two offices from which he works. Or when he travels from home directly to a business appointment. There are many similar instances that complicate the apparently simple general rule.

If an employee works from home then all trips made to customers or clients from home will be classed as business trips. If, however, the employee is temporarily assigned or contracted to a particular client (for example, for the purposes of an audit) and he is given temporary office accommodation at the client’s for the duration the project, the client’s location will be regarded (temporarily) as the employee’s place of business. Travel from home to this place of business will then be treated as private use.

Similarly, if an employee whose usual place of business changes temporarily (possibly for the duration of a project), their travel costs from home to the new temporary location (and back) will be treated as private travel.

In a more general sense, when a taxpayer has two or more places of business (perhaps different businesses in which he is involved or different branch offices of the same business) any travel from home to any of these locations will be regarded as private travel. Furthermore, if he travels between any of these business locations, the travel costs are only deductible (as business use) if the two locations relate to the same business.

If the nature of a person’s business is that they are required to temporarily relocate themselves in order to conduct their business, the expenses of travelling to these new locations will be regarded as business travel. There is an interesting case involving a jockey, in which it was held that his expenses of travelling from home to race meetings in towns other than his own were business expenses whereas his travelling from home to races in his own town was regarded as private. Similarly, if he took up temporary residence in another town where a race meeting was being held, for the purposes of the race, his travelling from this temporary residence to the race was “private”.

If a taxpayer does not work from home but visits a client by travelling directly from home, the costs of such trips has been accepted as being business related.

23 See page 60
24 See page 84
25 The latest example is presented in Appendix B
27 See ITC 247 (1932) 6 SATC 379.
One can therefore determine the split between business and private use by keeping a logbook of all business trips.

**Deemed Private Use**

As an alternative to a logbook, s 8(1)(b)(ii)(aa) stipulates that the first 14,000 km p.a. will be deemed to have been private mileage, whilst anything over 32,000 km p.a. will again be considered private. As an example, where the taxpayer has used his vehicle for 20,000 km p.a., only 6,000 km of that will be considered to be business use. 30% of his overall expenses\(^{28}\) will in this instance be considered to be business related. If instead someone has done 36,000 km, 18,000 km of this will be deemed private and the other 18,000 km will be considered business use. In this instance, the total expenses should be split 50/50 to determine the proportional cost of business use.

Figure 8 below illustrates the effect of this legislation. One can see that the best one can claim as business-use (in the absence of a logbook) is 56%, and this arises when the taxpayer is travelling an annual distance of 32,000 km.

This explains the popular practice of many tax practitioners over the past few years to frequently submit tax returns using 32,000 km as the mileage travelled. Whilst there's been speculation about this practice being clamped down on, specifically by means of introducing a check against the annual mileages being reported on vehicle licensing submissions, this practice appears to be ongoing (with ongoing success).

Clearly, there is often a great incentive for keeping a logbook. The next chart (Figure 9) illustrates the annual tax saving that results from keeping a logbook (in the case of a car that cost R100,000, including VAT, on which the taxpayer is using the gazetted table to illustrate his expense, if his marginal tax rate is 40%) under the following four circumstances:

- Where he can show that all of his usage beyond 8000 km p.a. is business use;
- where all usage beyond 14,000 km is business use;
- where 80% of the total mileage is business use; and
- where 60% of the total mileage is business use.

\(^{28}\) = 6000 / 20,000 km
The benefit of keeping a logbook in these examples is illustrated as being anything up to R17,700 (in the case of doing 60,000 km and being able to log 52,000 km as business use). (This is in respect of a car that cost only R100,000.) Clearly, a taxpayer in receipt of a car allowance would be foolish not to record his business trips unless he is genuinely desk-bound.

**WHAT DETERMINES THE "COST" OF OWNING AND RUNNING A CAR?**

For these purposes, the cost of owning and running a car can be calculated on the basis of the actual expenditure or on the basis of a table of deemed expenses, published in the government's Gazette. If the actual expenses amount to less than the deemed expenses, one will obviously wish to rather claim the latter, even though there are records of proven costs. One may otherwise use the table as a default when there are no acceptable records.

The value of the vehicle to be used when looking up the table is (in all instances where the purchase is a bona fide purchase agreement done at arm's length) to be the purchase price inclusive of VAT, but excluding any finance charges or interest. Where a vehicle is being leased, the value is the original purchase price paid by the lessor (inclusive of VAT) and where the vehicle has been ultimately purchased from the lessor by the taxpayer on the termination of a lease, the value shall remain the original purchase price paid by the lessor. In other instances (where, for instance, the vehicle has been purchased at an artificial price agreed to by a related buyer and seller), the value shall be determined as the market value at the time that the taxpayer first obtained the vehicle or its right of use. This market value is to include an amount in respect of VAT that would have been payable had the vehicle been bought at the market price.

When the taxpayer instead chooses to prove his expenses, the following can all be claimed:

- Lease payments in full (if bought under a lease agreement);
- wear and tear, at a rate of 20% p.a. (if bought for cash or under an instalment sale agreement);
- interest costs (if bought under an instalment sale agreement);
- fuel;
- servicing and repairs;
- insurance premiums;
- licensing;
- tyres;
- security tracking;
- cleaning; and
- the costs of employing a driver (if any).

In addition to the above, it would appear that a taxpayer can claim for the expense of repairs of damages done in any accidents whilst the driver was engaged in a business trip. This could include all related expenses resulting from the accident such as having to hire a temporary replacement car, etc. Although there has been little written on this subject, and there's little in the way of relevant case law, it appears necessary that the taxpayer demonstrate that these expenses were incurred in the production of income. He will, in other words, need to show that he was making a trip on behalf of the company (thus affording him the income of his car allowance). These costs would not need to be split as usual between business and private usage before being apportioned as a business-related expense.
It is not possible to claim for the expense of traffic fines\textsuperscript{32}, or for the premiums towards credit life cover, or for the expenses relating to damages caused in an accident whilst the driver was engaged in the private use of the vehicle.

It could be argued that if the taxpayer were to have an accident in his car, and if he was not engaged in a business trip at the time, that the resulting costs of damages have been incurred in the pursuit of the “production of income”. It could be said that, if it were not for the car allowance, the taxpayer could have adopted an alternative mode of transport but that it was for the purposes of earning a car allowance that he has incurred the expenses of running a car. These expenses include the “inefficiencies” of accidental damages. This argument is less likely to succeed though than if the taxpayer were to have been engaged in a bona fide business trip at the time of the accident.

If one combines the effect of the deemed table of expenses and the deemed split between business and private use, one gets the effect illustrated in Figure 10 below. Notice how the 32,000 km annual mileage shows an optimal “ridge”.

\textsuperscript{32} See ITC 1490 (63 SATC 108), Port Elizabeth Electrical Tramway Co v CIR (9 SATC 13 at 18), C Joffe and Co (Pty) Ltd v CIR (1946) AD 157:11 pp 163-164

\textbf{204 WEAR AND TEAR}

In the event that the vehicle was purchased for cash or with the use of an instalment sale agreement, the taxpayer can claim for the depreciation or “wear and tear” of the vehicle at a rate of 20\% per annum on a “straight-line” basis.

\textbf{Example >>}

Mr Sher purchased a Mazda 626 costing R100,000 (inclusive of VAT) on 1 September 1997.

\begin{tabular}{|c|c|}
\hline
Original value of the vehicle, as at 1st September 1997 & R100 000 \\
\hline
Wear and tear, from 1st September 1997 to 28th February 1998 & 10 000 \\
Depreciated value of vehicle, as at 1st March 1998 & 90 000 \\
\hline
Wear and tear, from 1st March 1998 to 28th February 1999 & 20 000 \\
Depreciated value of vehicle, as at 1st March 1999 & 70 000 \\
\hline
Wear and tear, from 1st March 1999 to 28th February 2000 & 20 000 \\
Depreciated value of vehicle, as at 1st March 2000 & 50 000 \\
\hline
Wear and tear, from 1st March 2000 to 28th February 2001 & 20 000 \\
Depreciated value of vehicle, as at 1st March 2001 & 30 000 \\
\hline
Wear and tear, from 1st March 2001 to 28th February 2002 & 20 000 \\
Depreciated value of vehicle, as at 1st March 2002 & 10 000 \\
\hline
Wear and tear, from 1st March 2002 to 31st August 2002 & 10 000 \\
Depreciated value of vehicle, as at 1st September 2002 & Nil \\
\hline
\end{tabular}

“Straight-line” depreciation of 20\% p.a. is, in other words, the “writing off” of the vehicle over a period of five years. It is referred to as the “straight-line” method for reason of its graphic appearance, as shown below in Figure 11 (with the graph illustrating the above example).

This method of depreciation does not do well to describe the nature of depreciation actually experienced. Reality shows that cars depreciate on a curve more resemblant of that depicted in Figure 12 below. Most new cars could lose as much as 30\% of their value in the first 12 months and thereafter the rate of depreciation slows down considerably, at a ever declining rate, typically in the order of 10\%-12\% per annum.
A straight-line method of depreciation therefore does not come close to describing the actual rates of depreciation being experienced. To depreciate the typical car by 20% in the first year would normally be far too inadequate and thereafter, 20% p.a. would normally be too high.

To consider the typical car of five years old as having no value is likewise absurd.

This suggests that the "diminishing-balance" (otherwise known as the "declining-balance" or the "reducing-balance") method of depreciation seems better suited. Applied to the same example as above, it yields more realistic results.

**Example >>>

Using a "declining-balance" method of depreciation, at a rate of 20% p.a., yields the following results:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original value of the vehicle, as at 1st September 1997</td>
<td>R100,000</td>
</tr>
<tr>
<td>Wear and tear, from 1st September 1997 to 28th February 1998 (10% x R100,000)</td>
<td>R10,000</td>
</tr>
<tr>
<td>Depreciated value of vehicle, as at 1st March 1998</td>
<td>R90,000</td>
</tr>
<tr>
<td>Wear and tear, from 1st March 1998 to 28th February 1999 (20% x R90,000)</td>
<td>R18,000</td>
</tr>
<tr>
<td>Depreciated value of vehicle, as at 1st March 1999</td>
<td>R72,000</td>
</tr>
<tr>
<td>Wear and tear, from 1st March 1999 to 28th February 2000 (20% x R72,000)</td>
<td>R14,400</td>
</tr>
<tr>
<td>Depreciated value of vehicle, as at 1st March 2000</td>
<td>R57,600</td>
</tr>
<tr>
<td>Wear and tear, from 1st March 2000 to 28th February 2001 (20% x R57,600)</td>
<td>R11,520</td>
</tr>
<tr>
<td>Depreciated value of vehicle, as at 1st March 2001</td>
<td>R46,080</td>
</tr>
<tr>
<td>Wear and tear, from 1st March 2001 to 28th February 2002 (20% x R46,080)</td>
<td>R9,216</td>
</tr>
<tr>
<td>Depreciated value of vehicle, as at 1st March 2002</td>
<td>R36,864</td>
</tr>
<tr>
<td>Wear and tear, from 1st March 2002 to 31st August 2002 (10% x R36,864)</td>
<td>R3,686</td>
</tr>
<tr>
<td>Depreciated value of vehicle, as at 1st September 2002</td>
<td>R33,178</td>
</tr>
</tbody>
</table>

This is depicted as Figure 13 overleaf. By comparison to Figure 11 above, it bears more resemblance to the situation shown in Figure 12 - with the exception of allowing too little depreciation in the first year and still too much in the years thereafter.
A taxpayer can nowadays choose whether he wishes to adopt the straight-line or diminishing-balance methods of depreciation. It was traditional that Inland Revenue would apply the diminishing-value method but whilst this wasn't prescribed, a taxpayer could apply to have his vehicle depreciated on a straight line. This is no longer the case, and it has become accepted (without the need for any special application) and more so the norm that the straight-line method be used. This obviously results in a quicker writing-down of the vehicle's value with the advantage to the taxpayer that he is able to claim bigger deductions during the life of his vehicle.

Please note that it is normal tax practice that if a taxpayer has claimed wear and tear on an asset to the extent that he has depreciated this asset to a value which is less than the value at which it is ultimately disposed of, the taxpayer will become liable for a recoupment of the excessive portion of such previous wear and tear claims. Similarly, if an asset is sold at a value below its depreciated tax value, the taxpayer can claim a further "scrapping allowance" to account for further wear and tear that had previously been forfeited and not yet claimed.

Interestingly, this normal mechanism of balancing the wear and tear allowance does not apply to motor vehicles that have been funded by way of a travel allowance. There is no risk of recoupment in this instance because the wear and tear of the vehicle is never claimed as a normal deduction, but rather is claimed by way of being "taken into account" (in terms of section 8(1)(a)) in the calculation of a reduction on the travel allowance, before this is accounted for as income. No deduction has therefore taken place that can be reversed. For this reason, in instances of car allowances, one should claim as high a rate of wear and tear as may be granted and one should prefer the more aggressive straight-line method of depreciation rather than the more subtle declining-balance.

Inland Revenue's Practice Note #19 allows a taxpayer to adopt a straight-line method of depreciation, provided that he adheres to the following requirements:

- That he apply this same method to all similar assets, and that he cannot have some assets (of a similar nature) being depreciated on a straight-line basis and others on a diminishing-balance.
- That older assets that have been fully depreciated and not yet sold, be kept on the books at a nominal residual value of R1. This facilitates that the receiver is able to account for those vehicles that are subject to the recoupment allowance.
- That he attach a schedule to his annual tax return detailing any vehicles that were sold during the year, the original date of purchase and the purchase price, its depreciated value at the beginning of the year, date of sale and the sale price, and hence the taxable value of any recoupment or further scrapping that is required.
- That he must maintain adequate records to be able to account for these procedures.
- That he must write off all of the vehicles in equal instalments over the estimated useful lives of the vehicles.
- That the first year's wear and tear is to be adjusted proportionately as from when the vehicle was "acquired and commissioned".

33 Otherwise known as the declining balance method of depreciation
34 See SARS Practice Notes Nrs 19 and 39
35 Similarly, taxpayers who are funding vehicles with travel allowances are also free of the risk of a recoupment of rentals that otherwise applies to those who are claiming the costs of leasing a vehicle. See page 58 for details
It is typically accepted that a car can be written off over four years on a straight-line basis, or at a rate of 20% per annum on a diminishing-balance basis. Nevertheless, a taxpayer can apply for a vehicle to be written off over four years or at 25% p.a. (or at even greater rates) if he believes that he has circumstances that warrant special consideration. An example that is more likely to receive a favourable response is that of a sales representative's car where the car is used for exceptionally high mileages. Another is that of a bakkie used for deliveries or for farming purposes. (Such an application is more likely to be accepted if it is not a double-cab bakkie which is usually interpreted as a passenger-carrying motor car and less likely to be seen as having been purchased for the purposes of carrying a load.)

205DEEMED FIXED COSTS

Notice that the gazetted deemed expenses are fairly generous and it is seldom that a taxpayer will be able to prove expenditure of more than that which he will be awarded by default (i.e. as “deemed”).

<table>
<thead>
<tr>
<th>Value of Vehicle</th>
<th>Tax Tables</th>
<th>AA Rates</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 30,000</td>
<td>R 16,916</td>
<td>R 11,371</td>
<td>49%</td>
</tr>
<tr>
<td>R 50,000</td>
<td>R 25,197</td>
<td>R 18,467</td>
<td>36%</td>
</tr>
<tr>
<td>R 75,000</td>
<td>R 33,873</td>
<td>R 27,206</td>
<td>25%</td>
</tr>
<tr>
<td>R 100,000</td>
<td>R 44,535</td>
<td>R 35,355</td>
<td>26%</td>
</tr>
<tr>
<td>R 125,000</td>
<td>R 51,110</td>
<td>R 43,528</td>
<td>17%</td>
</tr>
<tr>
<td>R 150,000</td>
<td>R 62,677</td>
<td>R 51,725</td>
<td>21%</td>
</tr>
<tr>
<td>R 200,000</td>
<td>R 82,047</td>
<td>R 68,188</td>
<td>20%</td>
</tr>
<tr>
<td>R 250,000</td>
<td>R 101,417</td>
<td>R 83,828</td>
<td>21%</td>
</tr>
<tr>
<td>R 300,000</td>
<td>R 120,787</td>
<td>R 99,560</td>
<td>21%</td>
</tr>
<tr>
<td>R 400,000</td>
<td>R 159,527</td>
<td>R 131,307</td>
<td>21%</td>
</tr>
<tr>
<td>R 500,000</td>
<td>R 198,267</td>
<td>R 162,545</td>
<td>22%</td>
</tr>
</tbody>
</table>

The AA Rates of Vehicle Operating Costs are updated monthly and are purposefully calculated to be generously high: to cater for the bulk of cases that are worse than average scenarios in a broad spread of possibilities. (It is very difficult to estimate the overall operating cost of a car knowing as little as its original purchase price, its engine size and its annual mileage.) The AA Rates and the gazetted table of "deemed costs"37 (used for tax purposes) therefore have a lot in common and are worth comparing. Those who draft the Tax Act say that their intent when deciding the gazetted deemed costs is to have them approximately similar to the AA Rates and that they use the AA Rates as their guide.

The deduction allowed in terms of the table of "deemed" expenses is therefore exceptionally generous. In practice, a taxpayer is going to be hard-pressed to prove expenses that exceed these. Viewed graphically, the difference between the deemed costs and the AA Rates, at least in respect of fixed costs38, is depicted in Figure 14 below.

206DEEMED FUEL COSTS

Interestingly, whilst the deemed Fixed Costs are generous, the deemed Fuel Costs are pathetically low. At today's petrol price39 the deemed Fuel Costs

36 See ITC 1693
37 See Appendix B.
38 "Fixed costs" are the costs incurred even when the vehicle's standing. They include the costs of financing, depreciation, insurance and licensing.
39 High-Octane Petrol at the Reef costing R4.00 / litre, as at 8 July 2002
equate to cars having fuel consumption rates in the range 5.78 to 7.35 litres per 100 kilometres (as an average, across all daily use). This is grossly inadequate as shown in Table 3 below. It is furthermore strange that the spread, from the bottom-of-the-range 1100cc to the top-of-the-range 5000cc vehicle, is as little as 5.78 to 7.35. The top end cars are therefore deemed to only use 27% more fuel than the entry-level fuel misers. This is clearly unrealistic.

<table>
<thead>
<tr>
<th>Value of Vehicle</th>
<th>Equivalent Fuel Cost</th>
<th>Extent of Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 30,000</td>
<td>23.1</td>
<td>38%</td>
</tr>
<tr>
<td>R 35,000</td>
<td>23.5</td>
<td>37%</td>
</tr>
<tr>
<td>R 40,000</td>
<td>23.8</td>
<td>36%</td>
</tr>
<tr>
<td>R 45,000</td>
<td>24.3</td>
<td>35%</td>
</tr>
<tr>
<td>R 50,000</td>
<td>24.8</td>
<td>33%</td>
</tr>
<tr>
<td>R 55,000</td>
<td>25.3</td>
<td>32%</td>
</tr>
<tr>
<td>R 60,000</td>
<td>25.5</td>
<td>31%</td>
</tr>
<tr>
<td>R 70,000</td>
<td>25.9</td>
<td>30%</td>
</tr>
<tr>
<td>R 80,000</td>
<td>26.1</td>
<td>29%</td>
</tr>
<tr>
<td>R 90,000</td>
<td>26.3</td>
<td>28%</td>
</tr>
<tr>
<td>R 100,000</td>
<td>26.5</td>
<td>27%</td>
</tr>
<tr>
<td>R 110,000</td>
<td>26.8</td>
<td>26%</td>
</tr>
<tr>
<td>R 120,000</td>
<td>27.5</td>
<td>25%</td>
</tr>
<tr>
<td>R 130,000</td>
<td>28.1</td>
<td>24%</td>
</tr>
<tr>
<td>R 140,000</td>
<td>28.9</td>
<td>23%</td>
</tr>
<tr>
<td>R 150,000</td>
<td>29.4</td>
<td>22%</td>
</tr>
<tr>
<td>R 200,000</td>
<td>29.4</td>
<td>21%</td>
</tr>
<tr>
<td>R 250,000</td>
<td>29.4</td>
<td>20%</td>
</tr>
<tr>
<td>R 300,000</td>
<td>29.4</td>
<td>19%</td>
</tr>
<tr>
<td>R 500,000</td>
<td>29.4</td>
<td>18%</td>
</tr>
</tbody>
</table>

Table 3. Gazetted "deemed" running costs for tax purposes

A far more realistic table of Fuel Costs would be as shown in Table 4 below. Please note that the deemed rates are considered to be in error to the extent that they are between 32% and 43% below the current cost of petrol.

A more fundamental flaw in the structure of the deemed cost table is the underlying assumption that the kilometre cost of fuel is related to the "value" of the vehicle. If one bears in mind that the "value" of the vehicle could easily be the purchase price of a used vehicle, the table doesn't cope well with situations such as that of an older, large 3000cc car having been purchased.
bought as a used vehicle for only R50,000. The table will be treating this car as having the same fuel consumption as a new 1100cc car (that could realistically be accountable for only half the consumption of fuel). Although the method used in calculating the AA Rates is not perfect (i.e. the method of using the engine capacity of the vehicle), it would be a far better methodology for the deemed cost table to also be structured such that the fuel consumption of a vehicle is a function of its engine size.

207 DEEMED MAINTENANCE COSTS

A similar problem exists with the Maintenance Costs (catering for the costs of servicing, repairs and tyres). It is unrealistic to estimate the maintenance cost of a car on the basis of its "value" (as defined). As with the calculation of the cost of fuel, the problem lies with a used vehicle purchased for, say, R50,000 costing considerably more to maintain than a new car having the same purchase price. Although it is not ideal to use the engine capacity of a car, the solution that has been adopted in the AA Rates (of using the car's engine capacity) is a preferable method.

If one ignores the problem created by used car purchases and if one restricts the assessment only to consider cars purchased as new, Table 5 below shows a comparison between the AA Rates and the gazetted tax tables. This analysis shows the gazetted allowances not to be badly inaccurate relative to the generous AA Rates. In fact, it can be said that the only fault of the deemed costs of maintenance (in terms of their quantum) could occur in high-end, larger and more expensive vehicles (where the deemed cost has been capped at 26.9 cents per kilometre).

<table>
<thead>
<tr>
<th>Value of Vehicle</th>
<th>Gazetted</th>
<th>Approx. AA Rate</th>
<th>Extent of Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 30,000</td>
<td>17.1</td>
<td>19.3</td>
<td>11%</td>
</tr>
<tr>
<td>R 35,000</td>
<td>17.3</td>
<td>19.3</td>
<td>10%</td>
</tr>
<tr>
<td>R 40,000</td>
<td>17.8</td>
<td>19.3</td>
<td>8%</td>
</tr>
<tr>
<td>R 45,000</td>
<td>18.5</td>
<td>19.3</td>
<td>4%</td>
</tr>
<tr>
<td>R 50,000</td>
<td>19.2</td>
<td>19.3</td>
<td>0%</td>
</tr>
<tr>
<td>R 55,000</td>
<td>19.9</td>
<td>19.3</td>
<td>-3%</td>
</tr>
<tr>
<td>R 60,000</td>
<td>20.6</td>
<td>19.3</td>
<td>-7%</td>
</tr>
<tr>
<td>R 70,000</td>
<td>21.3</td>
<td>21.0</td>
<td>-1%</td>
</tr>
<tr>
<td>R 80,000</td>
<td>22.2</td>
<td>21.0</td>
<td>-6%</td>
</tr>
<tr>
<td>R 90,000</td>
<td>22.7</td>
<td>26.2</td>
<td>13%</td>
</tr>
<tr>
<td>R 100,000</td>
<td>23.4</td>
<td>26.2</td>
<td>11%</td>
</tr>
<tr>
<td>R 110,000</td>
<td>24.1</td>
<td>26.2</td>
<td>8%</td>
</tr>
<tr>
<td>R 120,000</td>
<td>24.8</td>
<td>26.2</td>
<td>5%</td>
</tr>
<tr>
<td>R 130,000</td>
<td>25.5</td>
<td>26.2</td>
<td>3%</td>
</tr>
<tr>
<td>R 140,000</td>
<td>26.2</td>
<td>30.0</td>
<td>13%</td>
</tr>
<tr>
<td>R 150,000</td>
<td>26.9</td>
<td>30.0</td>
<td>10%</td>
</tr>
<tr>
<td>R 200,000</td>
<td>26.9</td>
<td>34.0</td>
<td>21%</td>
</tr>
<tr>
<td>R 250,000</td>
<td>26.9</td>
<td>34.0</td>
<td>21%</td>
</tr>
<tr>
<td>R 300,000</td>
<td>26.9</td>
<td>34.0</td>
<td>21%</td>
</tr>
<tr>
<td>R 500,000</td>
<td>26.9</td>
<td>39.5</td>
<td>32%</td>
</tr>
</tbody>
</table>

Figure 15 above shows the extent to which a current new car's price is related to its engine capacity.
In summary, it can be said that the deemed Fixed Costs are 11% to 42% over what they need to be and this generosity more than makes up for a very poor estimate of Fuel Costs (typically around 39% below what it should be). The gazetted table is structurally flawed and is especially poor at catering for estimates of the running costs of vehicles that were not purchased as new. Especially excessive estimates of Fixed Costs will, in these instances, most probably again overcompensate for underestimated Running Costs. On balance, when combined, the tables appear fair as regard their magnitude and will in most instances cover up their problems.

A creative solution for most taxpayers would be to claim the deemed Fixed Costs and most-probably also the deemed Maintenance Costs, whilst providing proof of their own actual Fuel Costs. The above assessment shows that it’s highly unlikely that a taxpayer will not have incurred fuel costs that are at least 30% in excess of those tabled and they are also the easiest to prove (especially if one is using a “Garage Card”). At the moment, however, SARS interprets the Act\textsuperscript{42} to mean that one cannot split the calculation of one’s costs between actual and deemed costs (as suggested here) but rather that one has to adopt the convention of claiming all of one’s expenses each year on the basis of one or the other method. Whether this interpretation is correct is perhaps worthy of debate and of being put to the test.

\textbf{PERKS TAX ON “TRAVEL ALLOWANCES”}

\begin{table}[h]
\centering
\begin{tabular}{lcc}
\hline
 & GL & GLte \\
\hline
\textbf{Fixed cost (R62,677 + R3874 x S)} & R82 047 & \\
\textbf{Ditto (R62,677 + R3874 x 15)} & 120 787 & \\
\textbf{Fuel cost (29,4c x 25,000 km)} & 7 350 & 7 350 \\
\textbf{Maintenance cost (26,9c x 25,000 km)} & 6 725 & 6 725 \\
\textbf{Deemed cost} & R96 122 & R134 862 \\
\hline
\end{tabular}
\end{table}

Assuming that the taxpayer is able to keep a logbook showing that 11,000 km is business use, his tax exposure as regards an allowance of R6000 pm would be as follows:

\begin{table}[h]
\centering
\begin{tabular}{lcc}
\hline
 & GL & GLte \\
\hline
\textbf{Travel allowance} & R72 000 & 72 000 \\
\textbf{Less: Deemed cost of business use (R96,122 x 11,000 / 25,000)} & (42 294) & \\
\textbf{Less: Deemed cost of business use (R134,862 x 11,000 / 25,000)} & (59 339) & \\
\textbf{Net taxable allowance} & 29 706 & 12 661 \\
\textbf{Income Tax (assuming a marginal rate of 40\%)} & R11 882 & R5 064 \\
\hline
\end{tabular}
\end{table}

The annual tax saving that will result from this scheme is therefore R6818 (= R11,882 - R5064).

\textbf{208 TAX STRUCTURING}

A similar but converse opportunity exists, as it does for company cars\textsuperscript{43}, by which the motor industry could adjust the invoice price of cars to suit the avoidance of tax. In the instance of a car that is funded with a car allowance, the taxpayer’s objective is to inflate the invoice price so as to give rise to a corresponding increase in deemed expenses, and hence his deduction.

Motor manufacturers and dealers have an opportunity by which to price their cars to suit this objective. Consider, for instance, a motor manufacturer selling cars with financing at 0% interest, fully insured and fully maintained (for, say, 36 to 60 months). The upfront invoice price of the car could be inflated so as to be made inclusive of these bundled costs.

\textsuperscript{42} And in particular s8(1)(b)(ii)
\textsuperscript{43} See page 9
A further tax-saving opportunity exists by way of a taxpayer’s utilisation of a lease. A taxpayer can elect a short-term lease to great effect. The higher monthly lease payments are deductible and don’t give rise to any exposure to a recoupment of these rentals44 as would be the case if the vehicle were not funded by way of a travel allowance. No recoupment can take place because no deductions were made: the cost of the lease payments are only "taken into account" in the calculation of the taxable portion of the travel allowance before this is added to the taxpayer’s gross income45.

Similarly, a new section 23H46, introduced so as to be effective as from 23 February 2000, which limits the ability of a taxpayer to derive the benefits of aggressive short leases, does not apply to those with travel allowances.

Mr Smit is a wealthy executive interested in a Land Rover that costs R300,000. He is a motoring enthusiast who will wish to replace the car after 12 months. He is interested in exploring the following alternatives:

a) Paying cash, and selling the car for R250,000 12 months later
b) Leasing the car over 36 months, but replacing it after 12 months (with no residual)
c) Leasing the car over 12 months (with no residual)
d) Using an instalment sale purchase over 12 months, with a R50,000 deposit.

He will be doing a mileage of 25,000 km over the 12 months of which his logbook will be able to show that 11,000 km will be business use.

In all four options, his deemed expenses would be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed cost (R62,677 + R3674 x 15)</td>
<td>R120,787</td>
</tr>
<tr>
<td>Fuel cost (29,4c x 25,000 km)</td>
<td>7,350</td>
</tr>
<tr>
<td>Maintenance cost (26,9c x 25,000 km)</td>
<td>6,725</td>
</tr>
<tr>
<td>Total Cost</td>
<td>R134,862</td>
</tr>
</tbody>
</table>

His preference would be to claim the deemed expenses.

Option b - 36 m Lease

His actual tax-deductible expenses are likely to be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>R123,915</td>
</tr>
<tr>
<td>Petrol (25,000 km x 12 litres / 100 km x R3.77)</td>
<td>11,310</td>
</tr>
<tr>
<td>Servicing *</td>
<td>2,200</td>
</tr>
<tr>
<td>Insurance</td>
<td>18,000</td>
</tr>
<tr>
<td>Security tracking</td>
<td>2,400</td>
</tr>
<tr>
<td>Cleaning</td>
<td>2,500</td>
</tr>
<tr>
<td>Licensing</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>R160,625</td>
</tr>
</tbody>
</table>

His preference in this instance would be to claim these actual expenses.

Option c - 12 m Lease

His actual tax-deductible expenses are likely to be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>R324,081</td>
</tr>
<tr>
<td>Petrol (25,000 km x 12 litres / 100 km x R3.77)</td>
<td>11,310</td>
</tr>
<tr>
<td>Servicing</td>
<td>2,200</td>
</tr>
</tbody>
</table>
Insurance 18 000
Security tracking 2 400
Cleaning 2 500
Licensing 300
Total R360 791

Option d - 12 m Instalment Sale

His actual tax-deductible expenses are likely to be as follows:

Net wear and tear (R300,000 - R250,000) R50 000
Interest 20 068
Petrol (25,000 km x 12 litres / 100 km x R3.77) 11 310
Servicing 2 200
Insurance 18 000
Security tracking 2 400
Cleaning 2 500
Licensing 300
Total R106 778

Rather than paying cash, if Mr Smit were to lease the vehicle over 12 months he will create
the following saving in his income tax:

Proved expenses, as per option c above R360 791
Deemed expenses, as per option a above 134 861
Net difference 225 930
Net tax saving (40% x 225,930 x 11,000/25,000) R39 764

Interestingly, Mr Smit's effective net costs of the car over 12 months will be as follows:

Lease payments, petrol, servicing, insurance, security, cleaning and
licensing R160 625
Less: Saving in income tax (40% x R160,625 x 11,000/25,000km) (28 270)
Less: Resale of car (R126,000 / 3 years) (42 000)
Net after-tax cost of car R90 355

If he were instead to have a residual of R126,000 this will improve his cashflow but
increase his effective cost even further. He would then wish to claim the deemed table of
expenses and his effective annual cost would be as follows:

Lease payments, petrol, servicing, insurance, security,
cleaning and licensing R126 851
Less: Saving in income tax (40% x R134,861 x 11,000/25,000km) (23 736)
Net after-tax cost of car R103 115

This example goes to show the potential, by which decisions as regards the leasing of a
vehicle can have a profound effect on a taxpayer's net after-tax cost of motoring. The
strength of this example is however partially reliant on the taxpayer's choice of vehicle being
one that will have a good resale value after 12 months. Most cars do not have an attractive
resale value at this stage, but some sports cars and other new models that are in short-
supply do offer this opportunity.

Note that by means of tax planning, not only has Mr Smit reduced his annual after-tax cost
of a car by more than 54% (from a typical R103,115 to only R47,292) but he has also
derived the benefit of driving a new car every year.

Another opportunity arises for those who don't ordinarily receive a travel
allowance but who could persuade their employer to create one by means of
a salary sacrifice. It has been found acceptable (by the Special Court for
Hearing Income Tax Appeals47) that a person may enjoy the benefits of being
taxed with a travel allowance even if they were to have received that
allowance purely by way of having chosen it at year-end in preference to a

47 See ITC 1635
bonus. It has been found that even if a taxpayer and/or his employer were to construct a scheme whereby the taxpayer could enjoy the benefits of a travel allowance, this scheme would not fall foul of the section 103 anti-avoidance measures provided that the avoidance of the tax was not the sole or main purpose of the scheme. The taxpayer has therefore to show that he is genuinely required to use his vehicle for at least some minimal business purpose.

In another case, it has been held that a taxpayer does not need to own, lease, rent or even personally drive a car in order to benefit from the advantages of a car allowance. In this case, a disabled taxpayer argued that he was being disadvantaged and discriminated against because of his inability to drive a car. His argument was that his colleagues enjoyed a car allowance scheme that offered them a tax-efficiency that was not available to him. The Germiston Special Board found that there was however nothing that prevented this taxpayer from hiring a driver or from finding another means by which to utilise a vehicle, which is all that is required of him to be able to claim its expenses. One has to wonder though whether he could also claim the expense of a chauffeur in this instance.

209 TIMING

Please note that in the above example, a simplification has been made to ignore the timing at which the taxpayer purchased the new car. The timing of the purchase with reference to the tax year calendar, could however be very significant in some instances. If the taxpayer were to have done some tax planning and were to discover the benefits of an aggressive short lease or short period of ownership, he should definitely take the timing of the purchase into account.

If he were, for instance, to purchase a new car at the beginning of June, and if he were to want to adopt a short lease, he should consider shortening the lease further from 12 months to 9 months (to end at the end of February). By doing so, he will create an inflated actual cost for the first tax year whilst the subsequent years will, most probably, entail claims on the basis of the table of deemed expenses.

210 ANTI-AVOIDANCE MEASURES

A scheme of past years that has now been thwarted involved an employee's private car being rented to his employer, only so as to serve to create the perception of a company car of which the employee is the beneficiary. The objective was for the employee to be taxed on the basis of a company car instead of a car allowance.

New legislation now ensures that if a vehicle that is owned or hired, directly or indirectly, by an employee (or his spouse or his child) is let to his employer (or an associated institution) the scheme shall be treated as that of a "car allowance" and not as that of a "company car". Furthermore, it is held that any rental paid by the employer (or its associated institution) plus any expenses that are borne by the employer are to be deemed as the amount of the car allowance given to the employee.

211 THREE COMBINATIONS

By using the techniques and methods described above, the taxpayer can determine whether it is best to submit their tax return on the basis of actual or deemed expenses. Similarly, the taxpayer can determine whether it is best to use a logbook as proof of business mileage or whether it is not better to use the deemed split between private and business use.

There are three different methods or combinations to determine the adjustment against the taxpayer's car allowance:

1. On the basis of his actual expenses and his actual business mileage (as recorded in a logbook);
2. On the basis of what is deemed to be his expense and what is deemed to be his business mileage; or
3. On the basis of his deemed expenses and his actual (logged) business mileage.

48 See Special Court Decision No 121.
49 See page 84
50 See s 8(1)(b)(iv)
## 212 Chauffeur-Driven Cars

If a taxpayer were to employ the services of a driver, this raises a number of very interesting issues. It has been found that a taxpayer needn’t himself drive a vehicle in order for it to qualify as an expense against a travel allowance. In terms of s 8(1)(b)(ii) he has merely to “use” it. Whilst the nature of such “use” is not defined, it has been found by the Chairman of the Germiston Special Board that a taxpayer could hire a driver and still be regarded as its “user”. He has no need to be the owner, lessee, renter or driver of the car. To extend this argument further, it presumably makes no sense that this “use” requires the presence of the taxpayer, sitting in the back seat of the car. As an example, the taxpayer may ordinarily have the duty, on behalf of his employer, to travel to the post office and back to collect the company’s mail. It is surely not material (for the purposes of determining whether the cost of the trip is a business expense of his or not) as to whether the taxpayer or his driver makes this journey as long as the taxpayer has incurred its expense.

Similarly, a taxpayer may ordinarily collect his children from school as part of his private or domestic use of his vehicle. Again if instead his driver were to drive his car, this surely does not require that the taxpayer be present for it to remain, in principle, a private trip that is being undertaken at his expense.

Where a complication arises to confuse this logic, is the instance where the driver uses the vehicle for his (i.e. the driver’s) private use. In this instance, the vehicle’s owner could be the employer of the driver in which case his driver’s private use of the car would constitute the right of use of an employer’s vehicle (for which the driver should be subject to income tax on the basis that it’s his “company car”). The question is whether the mileage of these trips constitutes “business” or “private” use by the vehicle’s owner? There is after all no doubt that this taxpayer’s overall expenses have included the expense of these private trips (of his chauffeur’s), and therefore that the identified expenses associated with these trips have to be treated as either the taxpayer’s “private” or “business” expenses to account for a comprehensive split in the total.

---

51 See Special Board Decision No 121.
52 See Special Board Decision No 121.
53 or lessee, renter, etc. who has secured the beneficial use of the vehicle.
54 See Chapter 1.

---

In s 8(1)(b)(i) it is expressly stated that the cost of any distance travelled that does not constitute the defined “private” travel of the taxpayer’s is by default to be deemed to be a “business” expense. The “private travelling” of the taxpayer’s is further defined to be “including travelling between his place of residence and his place of employment or business or any other travelling done for his private or domestic purposes”. It is hereby argued that the private travel of the taxpayer’s driver does not fit this description and therefore, by default, it could be construed as part of the “business use” of the vehicle.

A further issue can commonly arise where the driver is in the employ of the same employer as the taxpayer. The driver is therefore not the direct expense of the taxpayer albeit that the taxpayer is the beneficiary of this service. One would imagine though that it is unavoidable in terms of paragraph 2(e) of the Seventh Schedule that the taxpayer’s income will be credited with the cash equivalent of the cost of the driver in respect of the “private use” of the driver’s time. (One would hopefully be able to account for the cost of any idle time of the driver as part of his “business use”.)

In the instance where the chauffeur is in the employ of the taxpayer’s employer, the chauffeur’s private mileage is more easily recognisable as the business use of the taxpayer’s vehicle.

What of the costs of the driver? The costs of employing a driver are surely legitimate expenses that a taxpayer could prove to arise as part of his fixed costs of operating a car? It is not specifically dealt with in the Act, nor are there any known practice notes or cases to provide any guidance. Special Board Decision No.121 dealt with a case where a disabled taxpayer was complaining that he was being discriminated against because he couldn’t drive a car and therefore felt that he couldn’t benefit from the tax advantages of a car allowance. In response, the Chairman of the Germiston Special Board argued that he could employ the services of a driver and that he needn’t have to drive a car himself. Surely in this instance, the taxpayer would be entitled to claim the cost of this driver? Most, but not all, taxpayers choose to use the services of mechanics to maintain their car. In these instances, the cost of these services are regarded as legitimate expenses.

55 This would obviously not constitute a component of the travel allowance and the taxpayer would not be able to claim his other travel expenses against this deemed income.
Surely then, the expense of a driver is also to be treated in the same way for this disabled taxpayer? The Act furthermore does not impose any limits on the extent to which a taxpayer can claim a deduction. Taxpayers can and do legitimately claim the expenses of Ferrari's and Roll Royces and they furthermore have discretion as regards how and to what extent they insure and maintain their vehicles. This discretion has surely to extend to whether or not they choose to use a driver, whether they are physically or psychologically dependent on this or not?

213 PAYE

As from 1 April 1998, employers are now required monthly to withhold tax on 50% of car allowances. Previously it was 40% as from 1 July 1997 and prior to that 35%. When the tax on travel allowances was first introduced however, they weren't subject to any interim PAYE and neither should there today be any need for this unusual measure. There is however a great deal of misunderstanding by both employers and employees about the interpretation of these allowances which has led to a very poor utilisation of travel allowance schemes. Employees are typically paid too high a level of car allowance for the vehicles that they've chosen to drive. Looked at another way, employees are being found to be spending too little of their allowances on their cars.

They typically are making the mistake of believing that their travel allowance has the purpose of refunding them for all of their expenses in running their car, as opposed to being a refund only of the cost of the business use of the vehicle.

% of Allowance subject to PAYE:

- 1 August 1991: 25%
- 1 July 1993: 35%
- 1 July 1997: 40%
- 1 April 1998: 50%

The 50% PAYE provision is an attempt to compensate for the fact that, on average, car allowances appear to be twice as high as what they should be. Inland Revenue has had the problem that, if they were not to have introduced this PAYE provision, it was being found that typical taxpayers were being hammered by having to make up for a surprisingly large shortfall when they were ultimately assessed. They were typically found to have made far too little use of their car allowances that couldn't justify deductions large enough to avoid substantial (and uncomfortable) final adjustments at year-end. The introduction of PAYE has cushioned this blow for most but it is unfortunate for those who did interpret the Tax Act correctly and who were already setting their car allowances at appropriate levels for their vehicles. They are now unnecessarily having to pay PAYE on 50% of their allowances and having to wait until their assessment to be refunded these contributions.

214 WHAT GOES WRONG?

One needs to bear in mind that a car allowance is not meant to compensate the employee for all of his expenses in running a car and yet this is the most common mistake people make when budgeting for a new car. If a taxpayer gets a car allowance of, say, R2500 per month and if his business use constitutes 50% of his total mileage, he will need to show that he is spending at least R5000 per month on this vehicle if he is not to wanting to be taxed on this allowance.

It is surprising how many people consider their car allowance (the R2500 in this instance) to be their "budget". Some people estimate their costs of petrol, services, insurance and tyres, and then subtract this from their allowance to give them a "budget" for the lease payment in order to decide their choice of car. They then seem surprised to discover that they are still having to pay tax.

There is no logical reason to use a car allowance as the entire budget. By doing so, one is inevitably giving rise to an exposure to perks tax that one is not, most-probably, budgeting for. This has been the cause for the government to introduce monthly PAYE on 50% of these allowances: it has found that, on average, this is a fair estimate of the extent to which people will fail to be making the correct use of this money.
Let's take an example of a Ford Fiesta that cost R105,000 including VAT, that is being used to travel 20,000 km a year. The deemed expense will be as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Cost</td>
<td>R48 533</td>
</tr>
<tr>
<td>Fuel Cost (26.8c x 20,000 km)</td>
<td>R5 360</td>
</tr>
<tr>
<td>Maintenance Cost (24.1c x 20,000 km)</td>
<td>R4 820</td>
</tr>
<tr>
<td><strong>Total Deemed Cost</strong></td>
<td><strong>R58 713</strong></td>
</tr>
</tbody>
</table>

(If the employee were able to show that his actual expenses exceed this deemed expense, he will rather want to claim on the basis of his incurred expense.)

In this example, 30% (that is, 6000 / 20,000 km) of the total deemed expense of R58,713 will therefore be considered to be a business-related expense. This amount of R17,614 is the amount that can be offset against the allowance received from the employer. If, for example, the company pays this employee an allowance of R1000 per month, the entire allowance of R12,000 will be tax-free. However, please note that, if this were the case, the employee would not be taking advantage of a further R5614 that he/she could be receiving tax-free if the employer could be persuaded to increase the allowance by at least R5614 (most probably by way of a corresponding salary sacrifice). If this restructuring were to be done, the tax saving in this instance would be R2246 (assuming a marginal tax rate of 40%).

If, on the other hand, the employee were to receive a car allowance of R2000 per month to pay for this car, he would be having to pay tax on R6386 of this amount (being the difference between R24,485 and R17,614). This is the same amount of tax as he would have to pay if instead of being given this amount of R6386 as a car allowance, he were to be given it as a salary. He is therefore no worse off by being given a car allowance in excess of his tax-deductible motoring expenses.

Should this person rather have kept a logbook that can prove that his business trips amounted to 8000 km, his tax-deductible expense would climb to R23,485. The advantage of keeping a logbook, in this instance, would therefore be the tax saving on the difference between R23,485 and R17,614, or in other words, an amount of R2348 (assuming a marginal tax rate of 40%).

---

**PERKS TAX ON “TRAVEL ALLOWANCES”**

**215 COMPANY CAR OR CAR ALLOWANCE?**

Legislation introduced in July 1997 (which hiked the tax on company cars up by 50%) has largely levelled the playing field as regards whether to choose the path of a company car or a car allowance.

If one considers Figure 16, it would appear that a company car is always preferable to a car allowance. Unfortunately, this would amount to a simplistic judgement. Notice carefully the underlying assumptions that were made to produce this chart:

- The vehicle’s original value was R100,000, including VAT.
- No logbook is being maintained.
The actual expenses of running the car privately (which would be funded by the car allowance) will be less than the deemed expenses allowed, by default, by the Receiver.

The company bears the entire cost of the company car.

In order to make fair comparison with the company car, the car allowance is being taken as being enough to pay for the entire cost of owning and running the car, including both private and business use – as determined by the standard rates the Receiver uses to assess these cars.

It is especially this last assumption that should be cause for careful inspection.

Figure 17 shows a more realistic picture, using similar assumptions but considering a range of values of cars. The chart shows the taxable values being applied to the private use of a private car relative to the 1.8% p.m. value that is being applied to company cars. This analysis has been done with the assumption that the cost of the vehicle is being determined by way of the deemed table of expenses and the deemed split between business and private use (as is most often the case). The chart displays the net difference between the two, illustrating that at no point is the company car a worse method of valuation than a car allowance.

One can further notice from the chart that the greatest incentive to prefer a company car is when the mileages are low (remembering that the assumption is that no logbook is being kept). Furthermore, one can see the optimal 32,000 km mileage shown as a trough: a valley where the net incentive to opt for a company car is at its minimum. Notice also, that car allowances are especially poorly suited to higher value vehicles doing a low mileage.

This analysis shows that it is essential in order for a car allowance to be more efficient than a company car that the taxpayer either keep record of a logbook or that they are able to show expenses of more than the gazetted deemed tables, or both. The use of a logbook is the most likely means of ensuring that opting for a car allowance can be a better, more tax-efficient option than having the use of a company car.

![Figure 17. The net difference between the valuations of private use of a car allowance and that of a company car.](image)

To extend this analysis further, one should take account of the cost to the company of the alternatives (of granting the use of a company car as opposed to a car allowance). One can thereby determine the extent of the tax saving that the employee might enjoy by sacrificing his salary to the extent of these costs.

**Example:**

Ms Sparrow is offered the choice between getting a Ford Fiesta 1.6 as a company car costing R100,000 (including VAT) or the equivalent car allowance. Both options entail having to sacrifice an amount of her salary that is the equivalent cost to the company. She plans to do 20,000 km per year.

**Company Car**

For simplicity sake, one can use the AA Rates as the basis by which to determine the company's cost of providing Ms Sparrow this vehicle. According to these tables, the cost to the company will be in the region of R51,301 p.a. By opting for a company car, she will therefore be having to sacrifice this amount of salary and will consequently be saving herself the tax that would otherwise be levied on this amount of taxable income.
This alternative will however entail her having to pay perks tax on R18,947*5 worth of
deprecated value (= 1.8%/xR 100,000 / 1.14 x 12).

The net effect for her is therefore as follows:

Salary sacrifice that she will lose
Less: Tax saved on account of this sacrifice (at say 40%)
Money saved by not having to incur the cost of the car herself
Less: Perks tax on the value of the private use of the vehicle
Net (after-tax) benefit

Thus Ms Sparrow would be R12,941 better off each year (because of a tax efficiency gained)
if she were to elect to receive a company car, rather than if she funded this car herself
without receiving a compensatory travel allowance.

Car Allowance

For the purpose of this analysis, it is assumed that the company will pay Ms Sparrow a car
allowance that is the equivalent cost to them as the company car. It makes no difference to
the outcome, provided that the car allowance is sufficient to take full advantage of the tax
deduction available against the allowance.

Assuming that she does not keep record of her expenses or of her trips, this alternative will
however entitle her to a deduction of R16,355 in respect of the deemed cost of the deemed
business use.

The net effect for her is therefore as follows:

Salary sacrifice that she will lose
Less: Tax saved on account of this sacrifice (at say 40%)
Car Allowance received
Less: Perks Tax on the taxable portion of the car allowance
Net (after-tax) benefit

In this instance, Ms Sparrow should elect a company car because it is preferable to her to
the extent that she’d be R6,399 (= R12,941 – R6,542) better off each year than if she were
to elect an allowance.

Figure 18 illustrates a full spectrum of these examples, whilst ignoring the
tax rate applicable to the taxpayer. It is therefore displaying the effect on the
net taxable income of the taxpayer if he were to elect a company car instead
of a car allowance. Bear in mind that this is still based on the assumptions
used in Figure 17, most important of which is that there is no logbook in use.

Please note that this shows (using these assumptions) that there are only a
small segment of scenarios (high-value vehicles doing around 32,000 km
p.a.) where a car allowance is preferable to a company car.

The benefit of keeping a logbook has already been emphasised. It is
extremely well illustrated in Figure 19 where the effect of keeping a logbook
is shown if the taxpayer can show that 50% of his mileage was business
related. Notice that when a logbook is kept (as described), an allowance
becomes preferable in instances where high-value vehicles are doing a
relatively low mileage. With low-value vehicles, the company car route
remains better. The scenarios where the choice of a company car offers the
most benefit relative to an allowance are those of mid-range value vehicles doing high mileages. The tax savings that can result from keeping a logbook for higher-value vehicles can be considerable.

**Figure 19.** The Net Tax Saving resulting from opting for a company car in preference to a car allowance, in instances where a logbook can prove business mileage of 50% of the total mileage.

**Example:**

Mr Bond is contemplating the purchase of a Volvo costing R300,000 and considering whether or not to keep a logbook. He does 25,000 km annually and could show 50% of this to be business use.

Without a logbook, his deduction would be R59,339 whilst a logbook will raise his deduction up to R67,431. The net incentive to keep the logbook is therefore a tax saving of R3237 (assuming a marginal tax rate of 40%).

There are very few exceptions to the rule that in order for a car allowance to be preferable to a company car, it is essential that the taxpayer keep an appropriate logbook.

**Figure 20.** The increase in the deduction (against a car allowance) resulting from the use of a logbook.

The benefits of a logbook are plotted in Figure 20. This chart represents a vehicle of R 150,000 value. The flat plateau shows the region of scenarios where a taxpayer is doing a low business mileage and a high personal mileage, where maintaining a logbook will not be an improvement on what is otherwise deemed to be business mileage. The value of a logbook is shown to be exceptional under other circumstances.

This analysis has been limited to the comparison between company cars and car allowances purely on the basis of the taxation arising on a month-to-month basis during the duration of its use. It does not consider other issues that are essential if one is to make a choice between a company car and a car allowance such as who wishes to own the vehicle (the company or the
employee), who will benefit from any potential capital gain, who's paying the car off, what the initial cashflow implications are when buying the car, what the ultimate cashflow and tax implications are when selling it, and so on.

The decision of whether to opt for a company car or a car allowance depends a lot on the attitude of the parties to risk. Who is willing to take the risk of having to sell the car earlier than expected? Who will take the risk of servicing and repairing an unreliable car? Who will take the risk of the car being stolen or of having to replace it if it's involved in a serious accident? Who will take the risk of unanticipated excessive mileage?

The analysis of the tax differences, as outlined over the past few pages, whilst an important component of a bigger picture, is not to be confused with the big picture itself.

**216 HISTORY**

On page 22 it was shown how the tax on company cars has escalated over the past fifteen years. This obviously raises the question of what has happened to the tax on car allowances over this same period. This is a little more difficult to illustrate. To do so, there are a number of assumptions being made, including the following:

- that the car is being used for a total of 20,000 km p.a.;
- that the table is being used as the method by which to value its usage;
- that no logbook is being kept; and
- that the analysis is only of new vehicles (taking their increases in prices into account).

Figure 21 shows a history of two models of popular cars that were chosen only because their lineage could be traced over 17 years and not because they are any different from the general market. Obviously, these models have nevertheless changed quite considerably over this period of time and it would be best to refer to page 28 for an explanation of the 12% average annual increase in these cars' prices.

In Figure 21, it can be seen that the taxable value of the private use of cars has received fairly regular review and that, whilst it was hit by the adjustment in the deemed private use from 12,000 km to 14,000 km (a 16.67% increase) in March 1997, it has not been subject to any single hike of anything like the 50% increase in the perks tax on company cars made in July 1997.

Figure 22 shows how, nevertheless, the tax for typical people having these cars has gone up to being around thirteen to fourteen times what it was in 1987.

Figure 23 has had the effect of inflation (at the rate of increase in the Consumer Price Index) taken out so as to show that the (typical) tax on the BMW chosen has gone up from R 697 in 1987 to R 2629 p.m. in 2002, when both figures are expressed in today's monetary terms. This is a real rate of increase of 9.5% p.a. over and above the inflation rate which averaged 9.2% p.a. over that same period.
In the instance of car allowances, please bear in mind that the reviews and increases in the "car allowance" tables are good news for taxpayers. These increases in the deemed cost of ownership of a vehicle ensure that the value placed on the business use of a vehicle is increased and thus that the deduction is increased (as a reduction of the taxable portion of a car allowance). This obviously results in a net decrease in the person's taxable income. (The increase in the deemed private mileage, from 12,000 km to 14,000 km, that took place in March 1997, however was obviously not good news.)

If one makes comparison with the analysis of the history of increases on the tax on company cars, one may notice that both forms of car ownership have been fairly equally hit by increases in tax. The 50% jump in the tax on company cars that happened in July 1997 brought the two more closely in line with each other. Up until 1997, the company car was becoming increasingly preferable to a car allowance. Today, it is almost essential that a taxpayer maintain a logbook if they are going to be better off with an allowance than a company car.

217MID-YEAR CHANGES

If the taxpayer has a change in his car scheme during a tax year, or if he changes his vehicle, he is to do separate calculations in respect of each period between such changes.

Each partial-year calculation requires that adjustments are made to the following amounts:

- the initial private mileage of 14,000 km;
- the limit to the mileage that is to be deemed as business use of 32,000 km; and
- the annual Fixed Cost amount as derived from the gazetted table of deemed expenses.
The adjustments need to made that these amounts are “reduced, respectively, by the ratio that the period of use for business purposes bears to 12 months”57.

**Example>>>

Mr Theron works for ABC Corp until the end of March 2001 where he did not receive a car allowance. After leaving ABC he is unemployed for 2 months until starting work with XYZ International on 1st June. XYZ give him a car allowance of R3000 per month that gives him cause to replace his old car (that originally cost him R50,000, including GST) with a new Mazda Etude costing R150,000 (including VAT) and he took delivery of it on 1st September. His mileage in the old car was 12,000 km from 1st March to 31st August and his mileage in the new car is 15,000 km until 28th February 2002.

**Period 1: 1st June 2001 - 31st August 2001**

- Travel allowance (3 months @ R3000) = R9,000
- Fixed cost (R25,197 x 92 days / 365) = 6,351
- Fuel cost (12,000 km x 92 / 184 days @ 24.8c) = 1,488
- Maintenance cost (12,000 km x 92 / 184 days @ 19.2c) = 1,152
- Total deemed expense (of all mileage) = 8,991
- Deemed expense of business use (8,991 x (12,000 x 92 / 184 days - 14,000 x 92 / 184 days + (12,000 x 92 / 184 days))) = (3,703)
- Net taxable portion of allowance = R5,257

**Period 2: 1st September 2001 to 28th February 2002**

- Travel allowance (6 months @ R3000) = R18,000
- Fixed cost (R62,677 x 182 days / 365) = 31,253
- Fuel cost (15,000 km @ 29.4c) = 4,410
- Maintenance cost (15,000 km @ 26.9c) = 4,035
- Total deemed expense (of all mileage) = 39,698
- Deemed expense of business use (39,698 x (15,000 - 14,000 x 182/365) / 15,000) = (21,223)
- Net taxable portion of allowance = Nil

57 See s 8(1)(b)(ii)(bb)

**Reimbursive Allowances**

Besides fixed monthly allowances, it is also popular for employers to compensate their staff with the use of a rate per kilometre for each business trip undertaken. In these instances, it is often that the AA Rates are used by employers to determine fair value.

Reimbursive allowances also arise when employers pay for the petrol used by their staff, typically by way of “Garage / Petrol / Auto Cards”. These are typically compensating staff for their entire use of petrol, inclusive of both business and private use, although some employers place limits on the total amount per month that they are willing to contribute.

Another popular method is for employers to combine a fixed monthly allowance with a kilometre rate or with the payment of the actual petrol used.

A further situation can arise with a hybrid of the traditional company car and car allowance schemes. An employer could elect not to pay directly for any of the costs of running its company cars. It could instead expect that its staff pay all or some of these expenses, in return for which it gives its employees allowances.

In such instances (where a taxpayer is in receipt of an allowance in respect of a company vehicle of which he has the right of use) he is not entitled to claim a deduction against this allowance based on “deemed” expenses or a “deemed” business usage. He has to maintain a record of his actual expenses so that these are able to be used as the basis of calculation of his deduction.

In instances where reimbursive allowances (that is, where the employer is paying the employee an amount per kilometre) are combined with fixed monthly allowances, one has to treat the composite total as one would a normal monthly allowance. Everything that has been paid to the employee by the employer is to be added up and made subject to PAYE (on 50%) and the final calculation on assessment, as it would if it were a monthly allowance. This should include any payments made directly by the employer on the employee’s behalf such as the direct payment [often done by way of a corporate “Petrol Card”) of any fuel or maintenance of the vehicle.
219 ALTERNATIVE RATE FOR INSTANCES OF LOW BUSINESS USE

If the taxpayer’s business mileage amounts to no more than 8000 km per annum he may elect to use the (fully inclusive) rate of 153 cents per kilometre as the value of his deduction. He will obviously do this in instances where he finds that 153 cents is greater than the results of his alternative methods of calculation.

EXAMPLE

Ms Tucker drives a Mazda 323 that cost her R20,000 (including VAT). She receives a car allowance of R1000 per month as well as 80c per kilometre for her business use of the car. In the tax year that ends in February 2003, she plans to travel around 18,000 km including 6000 km of business trips.

The deemed expense will be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Cost</td>
<td>R16 916</td>
</tr>
<tr>
<td>Fuel Cost (23.1c x 18,000 km)</td>
<td>4 158</td>
</tr>
<tr>
<td>Maintenance Cost (17.1c x 18,000 km)</td>
<td>3 078</td>
</tr>
<tr>
<td>TOTAL Deemed Cost</td>
<td>R24 152</td>
</tr>
</tbody>
</table>

This is the equivalent of R1.34 per kilometre (= R24,152 / 18,000 km) which is less than the alternative of R1.53 otherwise available to her.

She will therefore be liable for tax on the following income, in respect of the allowance:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly allowance</td>
<td>12 000</td>
</tr>
<tr>
<td>Reimbursive allowance (6000 km @ 80c)</td>
<td>4 800</td>
</tr>
<tr>
<td>LESS: Expense of business use (6000 km @ 153c)</td>
<td>(9 180)</td>
</tr>
<tr>
<td>NET Taxable Allowance</td>
<td>R7 620</td>
</tr>
</tbody>
</table>

220 PAYE ON REIMBURSIVE ALLOWANCES

If the taxpayer’s income in respect of his car is limited to a rate per kilometre of business use and if the rate is less than 153 cents per kilometre, the employer may not deduct PAYE on this monthly income. If however:

- this reimbursement is an amount that is in addition to a fixed monthly allowance; or
- if the compensation is calculated without reference to the actual business use of the vehicle (for example, as a blanket payment of the cost of all petrol); or
- if the amount of reimbursement is for more than 153 cents per kilometre;

then all of the various payments by the employer are to be added together and collectively treated as the travel allowance, and 50% of it is to be subject to PAYE.

If the taxpayer’s sole income in respect of their car is a reimbursive allowance and if they have satisfied the above requirements whereby this income is not to be subject to PAYE, this income need not be declared on their IRPS, nor in their annual tax return, provided that the total business mileage is not greater than 8000 km for the year.

A new anti-avoidance measure disallows the advantages that used to be possible in instances where a taxpayer used a company car and in addition received a reimbursive allowance (for less than 8000 km) of less than 153c/km. It used to be that he could receive the latter allowance free of tax. It is instead now required that whatever allowance is received under these circumstances is to be included in the taxpayer’s taxable income (against which he is entitled to a deduction for any “business” expense).
INADEQUATE ALLOWANCE

If, for whatever reason, a taxpayer's cost of the business use of his vehicle is in excess of his (accumulative) allowance, his taxable income in respect of this allowance will be reduced to being nil. The excessive cost will not be allowed to "spill over" and have the effect of reducing his overall taxable income (as would a "normal" deduction). It is limited to only having the effect of reducing the taxable portion of his income earned in respect of his need to travel.

The taxpayer may have two means by which to determine that he doesn't lose the full benefit of this deduction:

- he can attempt to ensure that he chooses a vehicle of an appropriate value relative to his allowance; and/or
- he could possibly ensure that his employer adjust his package so as to reallocate some of his salary and have it expressed as a "travel allowance".

A taxpayer might be imagined to have either of two objectives in his attempt to "optimise" the extent and use of his allowance:

- he may wish to ensure that he fully uses his allowance that the (tax-deductible) expense of his business use is exactly equal to his allowance. This will give rise to a full refund of the (unavoidable) monthly PAYE contributions; or
- he may wish to ensure that 50% of his allowance is equal to the expense of his business use. This will have the effect that his monthly PAYE deduction will be roughly correct and that there will no need for any refund or further contribution at the time of his assessment.

CAPITAL GAIN

Paragraph 53(4) of the Eighth Schedule of the Income Tax Act specifies that any vehicle funded by way of a travel allowance is to be free of exposure to capital gains tax.

SUMMARY

- Car allowances have become increasingly popular as an alternative to company cars. This is partly due to increasing perks tax being imposed on the latter.
- The perks tax on car allowances arises solely where the employer overcompensates his employee for the expense of the business use of his private car. Various methods are prescribed by which to value the business use of a specific car, and hence to value the extent to which the employer's allowance is considered excessive.
- One method by which to do so is to record the employee's actual expenses of his overall use of his car, and then to divide this according to another actual record of the split between his business use and his private use.
- A second method relies on the expenses that are deemed to have been incurred in running a car, split according to mileages that are deemed "private" or "business" related.
- A third method is a hybrid of the first two: to use deemed expenses and split them according to logged mileages.
- In the event that a logbook has not been kept, the first 14,000 km p.a. are deemed private as is also the distance travelled that is beyond 32,000 km p.a..
- For those who do make genuine business use of their cars, there can often be considerable benefit to keeping a logbook of these trips.
- There is no exposure to the recoupment of wear and tear and also not to the recoupment of rentals for those in receipt of a travel allowance.
- Tax planning can therefore include the benefits of aggressive short leases and otherwise of writing the cost of the purchase of a vehicle off over as short a time as possible.
If an employee is paid an allowance that is less than full compensation for his expense of the business use of his car, he cannot claim the expenses that are beyond the amount of the allowance.

Car allowances are subject to having monthly PAYE deducted from 50% of their value. If an employee makes greater use of their allowance, they will be refunded the PAYE that they will have contributed in the interim, and vice versa if their use of their allowance is less than the 50% provisional estimate.

Several situations can arise when an employer grants an employee more than one concurrent company car or car allowance:

1. The employee could have the use of two or more company cars, concurrently;
2. He could have an allowance (or more than one) that is being used to fund two or more concurrent vehicles; or
3. He could have the use of a company car as well as a car allowance (in respect of a further car).

Each of these gives rise to its own unique issues.

Second Company Cars

Should an employer grant an employee the use of two or more company cars, the tax on the second and subsequent cars will depend on whether the Commissioner of Inland Revenue can be convinced that these additional cars are also being used primarily for business purposes. If this is the case then subparagraph (6) of paragraph 7 of the Seventh Schedule will apply. This provides that no taxable value will be applied to all of the company vehicles.
other than the most expensive one (or any other one than that which the Commissioner may choose for this purpose). The remaining primary vehicle will be taxed at the rate of 1.8% in the same manner as it would if it were a sole company car. These conditions may apply, for example, in an instance where the employee is required to operate offices in both Johannesburg and in Cape Town and where for reasons that he splits his time between these locations, his employer provides him a company car in both venues.

If however the Commissioner cannot be convinced of this, the second and subsequent cars will be taxed on the exorbitant valuation of 4% per month (as opposed to the usual 1.8% levied on the first, primary vehicle). Examples of this situation are corporate executives who are given the use of both a 4x4 and a sports car; of executives who are given the use of a second car for the benefit of their spouse; and of entrepreneurs who could elect to have their company own a fleet of vehicles for the use of their family.

Prior to July 1997 second company cars were valued at 20% per month which made the use of second cars an attractive means of structuring an executive package. It will however be shown below that subsequent to the increase, the current 4% valuation has effectively rendered the practice of second company cars as obsolete.

The 4% valuation has obviously been decided based on the assumption that all of the vehicle’s use is private. To test whether this valuation is fair and reasonable, one can therefore compare this 4% with the valuations that result by using the (generous) AA Rates. The result is shown in Figure 24. This indicates that the 4% is more than the AA Rates in instances of higher-value cars doing low mileages, and less in other instances. The range of difference (or “inaccuracy” in the 4% valuation, when compared to the AA Rates) is anything from 101% under the AA Rates valuation (with a R30,000 car doing 30,000 km a year) to 21% over the AA Rate (with a R280,000 car doing 10,000 km p.a.). When considering that the AA Rate valuations are (by design) high by comparison to the costs that one’s likely to incur in most real-life situations, one can reasonably interpret this to mean that unless the company car is of very low value and one’s mileage is very high (an unlikely scenario for a second company car), one should not opt for a second company car. One should rather take the income by another means (for example, as a salary) and fund the car personally. This is made all the more poignant when considering that the employee will not ultimately have the personal benefit of a paid-off asset if he were to elect to have structured it as a second company car.

In the event of two or more company vehicles, the 1.8% valuation is applied to the most expensive one and 4% to the others.

**Figure 24. Showing the extent to which the 4% valuation is greater than the costs that one might expect to run a car (according to the AA rates).**

### 302 Second Car Allowance

This instance caters for one allowance being used to fund more than one concurrent vehicle, or more than one concurrent allowance intended for more than one concurrent vehicle.

If instead a taxpayer were to receive more than one type of allowance but they were all intended to fund the same vehicle (for example, a fixed monthly allowance in combination with a rate per kilometre for all business use), one should rather refer to the section describing reimbursive allowances on page 81.
Similarly, if a taxpayer were to receive more than one allowance in the course of a year, but these were not to overlap, or if he were to change vehicles in the course of a tax year, one should treat these as described as Mid-Year Changes on page 79.

As from 1 March 1999, if a taxpayer uses two or more vehicles interchangeably, each vehicle will be deemed to have done the split between business and private use as if it were the only vehicle, unless the taxpayer has a logbook to prove otherwise. All of the vehicles will therefore be considered to have been used for private purposes for their first 14,000 km p.a. of their mileage, and so on. This severely penalises the use of two concurrent vehicles in the event that a logbook is not being kept.

**Example**

Mr Van Wyk, an executive, gets a car allowance of R15,000 per month which he uses to fund two vehicles (a 2800 cc sedan that cost R210,000, in which he does 18,000 km a year, and a 3000 cc 4X4 that cost R280,000 in which he does 16,000 km a year), both of which he uses interchangeably for some business use. He doesn’t keep a logbook of his trips and neither of his expenses.

In the 2003 tax year, he would be treated as follows as regards being taxed on this allowance.

**Deemed expenses of the sedan:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Cost (R62,677 + 6 x R3874)</td>
<td>R85,921</td>
</tr>
<tr>
<td>Fixed Cost per kilometre (R85,921 / 18,000 km)</td>
<td>477.3c</td>
</tr>
<tr>
<td>Fuel Cost</td>
<td>29.4c</td>
</tr>
<tr>
<td>Maintenance Cost</td>
<td>26.9c</td>
</tr>
<tr>
<td><strong>Total Deemed Cost / km</strong></td>
<td>533.6c</td>
</tr>
</tbody>
</table>

The deemed cost of the business use is therefore 4000 km (18,000 - 14,000 deemed private) x 533.6c, that is, R21,344.

**Deemed expenses of the 4x4:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Cost (R62,677 + 13 x R3874)</td>
<td>R113,039</td>
</tr>
<tr>
<td>Fixed Cost per kilometre (R113,039 / 16,000 km)</td>
<td>706.4c</td>
</tr>
<tr>
<td>Fuel Cost</td>
<td>29.4c</td>
</tr>
<tr>
<td>Maintenance Cost</td>
<td>26.9c</td>
</tr>
<tr>
<td><strong>Total Deemed Cost / km</strong></td>
<td>762.7c</td>
</tr>
</tbody>
</table>

The deemed cost of the business use is therefore 2000 km (16,000 - 14,000 deemed private) x 762.7c, that is, R15,254.

The net taxable portion of his allowance will therefore be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross allowance (R15,000 x 12)</td>
<td>180,000</td>
</tr>
<tr>
<td>Less: Expense of business use of the sedan</td>
<td>(21,344)</td>
</tr>
<tr>
<td>Less: Expense of business use of the 4x4</td>
<td>(15,254)</td>
</tr>
<tr>
<td>Net taxable allowance</td>
<td>143,402</td>
</tr>
</tbody>
</table>

By comparison, if Mr Van Wyk were to only have the sedan and if he were to do all his mileage in this vehicle, the net taxable portion of the allowance would instead be the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross allowance (R15,000 x 12)</td>
<td>180,000</td>
</tr>
<tr>
<td>Less: Expense of business use of the sedan</td>
<td>(34,000 - 18000 km @ 533.6c)</td>
</tr>
<tr>
<td>Net taxable allowance</td>
<td>83,952</td>
</tr>
</tbody>
</table>

**303A COMPANY CAR AND CAR ALLOWANCE, COMBINED**

There can be an instance where a taxpayer is granted the use of a company car and at the same time is given an allowance to fund the use of another private vehicle. In this instance, the use of the company car will be valued at 4% per month and not 1.8%, assuming that the car allowance is not a "reimbursive allowance" based on the actual business mileage of the private car.

---

58 See page 81
Where the taxpayer is self-employed or is employed as a commission-only agent or representative or is, by some other means, entitled to claim the expense of their vehicle as an expense incurred in the production of their income (although they are obviously not in receipt of a separate travel allowance), the tax treatment of their motoring expenses is similar to the situation of a travel allowance. This chapter will highlight the differences from that of a travel allowance and the reader is otherwise referred to Chapter 2 for an explanation of the tax on travel allowances.

**401 Capital or Income Related Trips**

When the taxpayer is self-employed, one has to be careful to differentiate between business trips that are being undertaken in the "production of income" and those that relate to "capital" projects. If, for instance, a taxpayer were to travel to a supplier who is supplying him new manufacturing equipment or he is travelling to a new branch that he is setting up, these trips could be construed as relating to capital projects and the costs thereof would therefore not be deductible.  

**402 The Expense of the Vehicle**

Unlike the situation of a car allowance, self-employed taxpayers must either provide proof of their expenses and of their mileage logbook (as described as Method 1 on page 65) or they can determine the value of the private use of their vehicle on the same basis as they would a company car. Taxpayers under these circumstances are not allowed to claim the expense of their vehicle on the basis of the tables of deemed expenses described on page 42.

**Example>>>

Mr Walker owns a Ford Ikon that originally cost him R100,000, including VAT. He is a commission-only salesman who is obliged to use his own car for his business use although he doesn’t get paid any additional allowance or compensation for the use of the vehicle. He travels 48,000 km per annum (of which 30,000 will be shown to be business use) and expects to incur expenses in the order of R70,000 for the tax year ending in February 2003. If he were to claim on the basis of his actual expenses, he can expect to be entitled to a deduction of R43,750 (= R70,000 x 30,000 / 48,000 km).

On the other hand, if he were to use the s 8(1)(b)(iv) basis of valuation, he would be entitled to a deduction of R51,053 (= R70,000 – 1.8% p.m. x 12 months x R100,000 / 1.14).

Please remember that it was shown on page 30 that the 1.8% valuation is typically fair and reasonable for those doing 10,000 km of private mileage per annum and that it could be considered low (and hence more attractive) for those who make more private use of their cars. Please refer to Figure 7 on page 31 to identify the circumstances where taxpayers are likely to be better off using the 1.8% valuation or where, instead, they would be better off keeping a logbook of their business use.

**403 Recoupment and Scrapping Allowances**

If the vehicle in question (one that has not been funded by a car allowance but rather one that has been claimed as a business-related expense) is one that belongs to the taxpayer and it is ultimately sold, the taxpayer has to account for the difference between the eventually realised resale price and the depreciated "tax value". If the vehicle has been "written down" to an amount that is less than that which is ultimately realised, the taxpayer will have to declare a "recoupment" of the excessive depreciation already

---

59 See ITC 600 (1943) 14 SATC 1270 (1973) 36 SATC 99.
60 See Practice Note No 24, dated 8 August 1994.
61 As per paragraph 7(4) of the Seventh Schedule
62 In terms of Section 8(1)
63 See page 45
Claimed 64. If, on the other hand, the vehicle is sold for an amount that is less than its prevailing tax value, the taxpayer can claim additional depreciation as a so-called “scrapping allowance” 65.

The term “scrapping allowance” is, in this instance, a misnomer: it doesn’t suggest that the vehicle has to have literally been scrapped. It could rather be described (together with the “recoupment allowance” collectively) as a “balancing allowance.”

Section 23(g) ensures that the taxpayer must apply the same apportionment to the recoupment and scrapping allowances to split these and keep separate the deductible business expense from the private expense 66.

**Example>>></**

Mr West purchases a new Volvo costing R200,000 (including VAT) on 1 March 2000. Exactly six months later, he decides to trade it in for R150,000 on another model. During the six months, he travelled 12,000 km and kept record that he did 5,000 km as his business trips. He did however keep record that he had spent R13,500 on interest (on an instalment sale purchase agreement), R5,000 on petrol, R4,500 on insurance premiums, R700 on a security tracking contract, and R300 for licensing. Mr West is self-employed and is considered to be in need of a vehicle for the production of his income.

The total expense of this car for the six months is therefore as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>R13,500</td>
</tr>
<tr>
<td>Wear and tear (R200,000 – R150,000)</td>
<td>50,000</td>
</tr>
<tr>
<td>Petrol</td>
<td>5,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>4,500</td>
</tr>
<tr>
<td>Security</td>
<td>700</td>
</tr>
<tr>
<td>Licensing</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total expense</strong></td>
<td><strong>R74,000</strong></td>
</tr>
</tbody>
</table>

The deductible business expense is therefore R74,000 x 5,000 km / 12,000 km = R30,833.

64 In terms of s 8(4)(a)
65 In terms of s 11(o)
66 This can only of course apply to those who’ve kept logbooks

**Example>>>**

Mr West purchases a new car costing R200,000 (including VAT) on 1 March 2000. Eighteen months later, he sold it for R100,000. During this period, he travelled 36,000 km and kept record that he had done 15,000 km on business.


Wear and tear (20% p.a.) R40,000

Business portion of wear and tear (=R40,000 x 15,000/36,000) R16,667


Wear and tear allowance (20% p.a.) R20,000

Business portion of wear and tear R8,333

Tax value of asset as at 31/8/2001 (=R200,000 – R40,000 – R20,000) R140,000

Scrapping allowance (= R140,000 – R100,000) R40,000

Business portion of scrapping allowance R16,667

In the 2001/2002 tax year, the taxpayer is entitled to the R8,333 wear and tear allowance as well as R16,667 as the scrapping allowance.

**404 RECOUPMENT OF RENTALS**

Similarly, an exposure can arise when a self-employed taxpayer leases a business vehicle. If the taxpayer has claimed the costs of the lease payments...
against his taxable income, and then he then (effectively) takes ownership of the vehicle at the termination of the lease, he becomes liable\(^67\) for a deemed recoupment of the rentals (or lease payments) that he will have made historically on the vehicle. This negates a benefit that would otherwise arise where he could lease a vehicle over a short period\(^{68}\), claim the tax deduction, and then enjoy the capital gain by selling the vehicle that has been paid off.

If the taxpayer acquires the vehicle from the bank (the lessor), he becomes liable\(^69\) for a recoupment that is of the value that is the difference between the price that he paid and the vehicle's prevailing market value. This amount of recoupment is limited to the total lease payments that he will have already paid to the bank.

If, on the other hand, the taxpayer merely continues to have the right to use a motor vehicle after the lease has terminated, even though the vehicle may remain the property of the bank, he could be deemed\(^70\) to have acquired the beneficial ownership of the vehicle. This shall apply in instances where he is making no further payments for the vehicle or else he is making payments that are considered nominal in relation to a deemed fair market value of the vehicle. He will then be taxed as if he had received such deemed fair market value as income.

The fair market value of a vehicle is deemed to be the original cost or cash value to the bank (the lessor) less depreciation calculated at a rate of 20% per annum on a reducing balance method.

A "nominal" payment is regarded as being anything less than 10% per annum of the vehicle’s prevailing deemed fair market value.

**Example>>>

**The Bank leases a Volvo that cost R200,000 to Jim Jones for 36 months for R7000 per month starting 1 September 1999. On the 31 August 2002, the lease comes to its end, and considering that the car is worth R120,000, Jim Jones is weighing up his following options:**

- The Bank lets him acquire the car for no consideration;
- The Bank requires that they are paid R5000 for a transfer of ownership of the vehicle;
- The Bank is willing to let Jim Jones continue to use the vehicle as if it were his own, for no consideration;
- The Bank requires that Jones pay R10,000 p.a. for the continued use of the vehicle; or
- The Bank requires that Jones pay R1000 p.m. for the continued use of the vehicle.

In the tax year ending 28 February 2003, Jim Jones would be taxed as follows (assuming for simplicity sake that 100% of the vehicle’s use is of a business nature):

- A) He would get a deduction for R42,000 (i.e. R7000 x 6 months) but would be taxed on a deemed income of R120,000;
- B) Ditto, except that he would be taxed on an income of R115,000;
- C) He would again get a deduction of R42,000 but would be taxed on the deemed fair market value of R102,400;
- D) His deduction would be R47,000 (i.e. R42,000 plus 1/2 x R10,000) and he would be deemed to have the income of R102,400; or
- E) His deduction would be R48,000 (i.e. R42,000 plus R1000 x 6 months) and his deemed income would be nil.

**Example>>>

Mary Moore is a self-employed professional interested in buying a sports car that costs R300,000 on 1st April 2001. She is a motoring enthusiast who will wish to replace the car after 12 months. She is interested in exploring the following alternatives:
<THE SA GUIDE TO TAX-EFFICIENT CARS>

a) paying cash, and selling the car for R250,000 12 months later;

b) leasing the car over 36 months (with no residual), but replacing it after 12 months by
taking it over from the bank for R215,000 and then selling it for R250,000;

c) leasing the car over 12 months (with no residual) and then taking it over from the bank
for no consideration and selling it for R250,000; or

d) using an instalment sale purchase over 12 months, with a R50,000 deposit.

She will be doing a mileage of 25,000 km over the 12 months and her logbook is expected to
show that 14,000 km of this will be business related.

Option a – Paying Cash

Her actual tax-deductible expenses are likely to be as follows:

<table>
<thead>
<tr>
<th>Year ended 28/2/02:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wear and tear (20% x R300,000 x 334/365)</td>
<td>R54 904</td>
</tr>
<tr>
<td>Petrol (25,000 km x 334/365 x 12 litres / 100 km x R3.77)</td>
<td>10 349</td>
</tr>
<tr>
<td>Servicing</td>
<td>2 200</td>
</tr>
<tr>
<td>Insurance</td>
<td>16 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>2 200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>2 200</td>
</tr>
<tr>
<td>Licensing</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>R88 653</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 28/2/03:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wear and tear (20% x R300,000 x 31/365)</td>
<td>R5 096</td>
</tr>
<tr>
<td>Recoupment of wear and tear (R250,000 – (R300,000 less 20%))</td>
<td>(10 000)</td>
</tr>
<tr>
<td>Petrol (25,000 km x 31/365 x 12 litres / 100 km x R3.77)</td>
<td>961</td>
</tr>
<tr>
<td>Insurance</td>
<td>15 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>(R1 943)</td>
</tr>
</tbody>
</table>

Option b – 36 m Lease

Her actual tax-deductible expenses are likely to be as follows:

<table>
<thead>
<tr>
<th>Year ended 28/2/02:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>R113 589</td>
</tr>
<tr>
<td>Petrol (25,000 km x 334/365 x 12 litres / 100 km x R3.77)</td>
<td>10 349</td>
</tr>
<tr>
<td>Servicing</td>
<td>2 200</td>
</tr>
<tr>
<td>Insurance</td>
<td>16 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>2 200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>2 200</td>
</tr>
<tr>
<td>Licensing</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>R147 338</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 28/2/03:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>R10 326</td>
</tr>
<tr>
<td>Recoupment of rentals (R250,000 – R215,000)</td>
<td>(35 000)</td>
</tr>
<tr>
<td>Petrol</td>
<td>961</td>
</tr>
<tr>
<td>Insurance</td>
<td>1 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>(R21 713)</td>
</tr>
</tbody>
</table>

Option c – 12 m Lease

Her actual tax-deductible expenses are likely to be as follows:

<table>
<thead>
<tr>
<th>Year ended 28/2/02:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>R297 074</td>
</tr>
<tr>
<td>Petrol</td>
<td>10 349</td>
</tr>
<tr>
<td>Servicing</td>
<td>2 200</td>
</tr>
<tr>
<td>Insurance</td>
<td>16 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>2 200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>2 200</td>
</tr>
<tr>
<td>Licensing</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>R330 823</td>
</tr>
</tbody>
</table>
### Year ended 28/2/03:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>R27 007</td>
</tr>
<tr>
<td>Recoupment of rentals (R250 000 - nil)</td>
<td>(250 000)</td>
</tr>
<tr>
<td>Petrol</td>
<td>961</td>
</tr>
<tr>
<td>Insurance</td>
<td>1 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(R220 032)</strong></td>
</tr>
</tbody>
</table>

### Option d — 12 m Instalment Sale

Her actual tax-deductible expenses are likely to be as follows:

<table>
<thead>
<tr>
<th>Year ended 28/2/02:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wear and tear (20% x R300,000 x 334/365)</td>
<td>R54 904</td>
</tr>
<tr>
<td>Interest</td>
<td>23 759</td>
</tr>
<tr>
<td>Petrol</td>
<td>10 349</td>
</tr>
<tr>
<td>Servicing</td>
<td>2 200</td>
</tr>
<tr>
<td>Insurance</td>
<td>16 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>2 200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>2 200</td>
</tr>
<tr>
<td>Licensing</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>R112 412</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 28/2/03:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wear and tear (20% x R300,000 x 31/365)</td>
<td>R5 096</td>
</tr>
<tr>
<td>Recoupment of wear and tear (R250 000 - (R300 000 less 20%))</td>
<td>(10 000)</td>
</tr>
<tr>
<td>Interest</td>
<td>332</td>
</tr>
<tr>
<td>Petrol</td>
<td>961</td>
</tr>
<tr>
<td>Insurance</td>
<td>1 500</td>
</tr>
<tr>
<td>Security tracking</td>
<td>200</td>
</tr>
<tr>
<td>Cleaning</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(R1 611)</strong></td>
</tr>
</tbody>
</table>

If one ignores the added complexity of what the taxpayer might otherwise do with her cash (let alone how she might be taxed on any such investment income), if Ms Moore were to lease the vehicle over 36 months (as per Option b above), she will create the following saving in her income tax (relative to if she were to pay cash):

| Expenses as per option b above (R147,338 - R21,713) | R125 625 |
| Expenses as per option a above (R88,653 - R1943)   | 86 710   |
| **Net difference**                                  | 38 915   |

This is broken down in a Net Difference of R58,685 (= R147,338 - R88,653) in the 2002 tax year and -R19,770 (= R21,713 - R1943) in the 2003 tax year.

To convert this "net difference" in tax deductions to the equivalent amount of tax that could be saved, one needs to determine whether Ms Moore would be better off laying claim to her logbook or not. If she uses her logbook, the net tax saving would be 40% x R58,685 x 14,000/25,000 km = R13,145 in 2002 but she would pay additional tax of 40% x R19,770 x 14,000/25,000 km = R4428 in 2003. If she is instead better off laying claim to the 1.8% valuation, the net tax saving in 2002 would be 40% x R58,685 = R23,474 and she would have to pay additional tax of 40% x R19,770 = R7908 in 2003.

Upon analysis, it becomes apparent that in 2002, Mary Moore would be better off discarding her logbook. The 1.8% valuation of her private use equates to R52,105 (= 1.8% x 11 months x R300,000 / 1.14) whereas her logbook would value this usage at R64,829 (= R147,338 x 11,000/25,000km). In 2003, however, she would be better off with keeping a logbook (and she's entitled to switch to using one) because the logbook will effectively reduce the impact of the recoupment of rentals. If she keeps a logbook, the taxable income accountable to the car reduces to R8,698 (= R19,770 x 11,000/25,000km) whereas if she didn't keep a logbook her taxable income would be R24,507 (= R19,770 + 1.8% x R300,000/1.14).

Interestingly, Ms Moore's effective net costs of the car over 12 months will be as follows:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments, petrol, servicing, insurance, security, cleaning and licensing</td>
<td>R160,625</td>
</tr>
<tr>
<td><strong>Cost to purchase car from the bank</strong></td>
<td>215 000</td>
</tr>
<tr>
<td><strong>Less: Saving in income tax (40% x (R125,625 - R52,105 + R8698))</strong></td>
<td>32 887</td>
</tr>
<tr>
<td><strong>Less: Resale of car</strong></td>
<td>(250 000)</td>
</tr>
<tr>
<td><strong>Net after-tax cost of car</strong></td>
<td><strong>R92 738</strong></td>
</tr>
</tbody>
</table>
A tax planning opportunity exists by way of a lessee not taking transfer of their leased vehicle into their own name. They could instead transfer their car directly from the bank (i.e. the lessor) to their spouse or to another taxpayer whose tax exposure is less than their own. Section 8(5)(a) allows for a person other than the former lessee if they were to inherit this right from the lessee, to also have transferred to them the exposure to the taxable income that the lessee would himself otherwise have been subject to.

Example >>>

Eddie Edwards is self-employed and has leased a Jaguar for the past 36 months that originally cost his bank R400,000. It is now worth R250,000 and has been fully paid off. He has been claiming 60% of the use of his car as being business related. If he were to transfer the vehicle into his own name, he would be having to pay R60,000 in tax (i.e. 40% x 60% x R250,000). If instead he were to take advantage of the fact that his wife has no taxable income and he were to transfer the vehicle into her name, she would have to pay only R35,340 in tax (i.e. R26,200 + 35% x (60% x R250,000 - R110,000) less a primary rebate of R4860). Better still, he could transfer the vehicle into a company that has a tax loss.

405 Switching between Actual and Deemed Valuations

There is another very interesting tax planning opportunity that arises from the right that a self-employed taxpayer has to choose whether or not he wishes to value the private use of his vehicle using the 1.8% deemed valuation or whether to use his logbook as the basis by which to apportion his actual expenses. He enjoys the right to switch back and forth between the two methods every tax year. An indirect implication of this is that this effects the recoupments of wear and tear and of rentals.

If a taxpayer uses his logbook to apportion his costs to satisfy section 23(h) (which stipulates that he cannot claim his private expenses as a tax deduction) his expense in that tax year in respect of, say, his lease payments has effectively been split between a business-related deductible portion and a private-related non-deductible portion. If instead, he fails to keep a logbook (or if he elects to discard it) this specific expense will not have been split and will, in its entirety, be treated as a deduction. In this instance, this deduction is counter-balanced by a deemed valuation in respect of the private use of the vehicle, but the deduction in respect of the lease payments, for example, will not itself have been adjusted or reduced. This obviously then has an implication as regards the recoupment of these expenses.

Example >>>

Richard Clever paid cash for a Mazda Etude costing R100,000 (including VAT) that he had for 3 years. He’s self-employed and 60% of the use of his vehicle was business-related. He’s considering the implications of selling the car if it was (a) worth R80,000 or (b) worth just R20,000. He’s now debating whether to use his logbook or not for his tax return.

a) (i) If the vehicle could be sold for R80,000 and if he hasn’t kept a logbook, Richard Clever will be liable for a recoupment of wear and tear of R40,000. His vehicle will have been depreciated from R100,000 to R80,000 to R60,000 to R40,000, 3 years later. The difference between the selling price of R80,000 and the depreciated tax value of R40,000 is therefore R40,000 which has got to be recouped. Interestingly, if Richard has not kept a logbook (but has instead been declaring his private costs as being worth 1.8% p.m.), it will not be possible to apportion the recoupment of R40,000 because there’s no knowledge of the basis by which to create a split between the business: private actual usage. It is however believed that SARS will be sympathetic in practice to some basis of apportionment.

(i) If Richard instead kept a logbook throughout the life of the vehicle, his recoupment of wear and tear is only R24,000 (i.e. the lesser of 60% (i.e. the business portion) of the R40,000 differential between the selling price and the depreciated tax value, and R36,000 (i.e. 3 years of wear and tear @ 60% x R20,000 each)). Notice that he cannot be accountable for a recoupment of more than the total wear and tear that he has previously claimed, i.e. R36,000 in this instance.

b) (i) If the vehicle is instead sold for just R20,000 and if he hasn’t kept a logbook, Richard could claim a scrapping allowance of R20,000 (i.e. the differential between the selling price of R20,000 and the depreciated tax value of R40,000). Notice that he can claim all of the scrapping allowance, because again, without having kept a logbook, it can be argued that there’s no underlying basis by which to apportion the split between private and business use.
If Richard instead kept a logbook (throughout the life of the vehicle), his claim for a scrapping allowance would be limited to R12,000 (i.e. 60% of the R20,000 differential between the selling price and the depreciated tax value).

Notice that Richard could choose to switch from having kept a logbook, to not keeping one in the final year. By doing so it could boost his ability by which to claim a scrapping allowance, or be a means to reduce his exposure to a recoupment.

406 S 23H LIMITATION OF DEDUCTIONS

A new section 23H was introduced to take effect as from 23 February 2000. This new section limits the freedom of a self-employed taxpayer from getting the tax advantage of making “balloon payments” at the beginning or during his lease.

If a taxpayer were to be claiming the costs of his car against a travel allowance, he has the means of making erratic and sizable lease payments so as to inflate his tax deduction. Typically, he could use some surplus cashflow to make a lump-sum payment in February, before the tax-year end, and claim the full business-related portion of this as a deduction. This was also a possibility for self-employed taxpayers until the introduction of s 23H.

With this new limitation, if a self-employed taxpayer were to make a once-off lump sum lease payment of more than R50,000 – or were to make more than one irregular payment which in total amount to more than R50,000 – during any single tax year, and if their lease were not to expire within 6 months of the beginning of the following tax year, these lump sums will not qualify for a simple deduction. Instead, the deduction in respect of these lump sums will have to be spread over the remaining length of the lease.

This legislation suggests that self-employed taxpayers should limit any deposit that they make on a lease to being less than R50,000. If their deposit is for more than R50,000, it will give cause for the corresponding deduction to have to be spread over the full length of the lease.

There are unfortunately no easy answers when seeking tax-efficiency with motor cars. The incentives, however, for getting it right are too great to be put off from this endeavour.

One needs to be careful though. Some banks, for instance, offer advice and seem to believe, as an example, that if one is going to pay less tax in the first month having chosen a company car then this will be preferable to a car allowance! This sort of advice is of course highly simplistic and is unprofessional and misleading.

It is believed that this (premature / half-baked) nature of service has arisen precisely because there is so much to be gained in the motor industry by whomever emerges as a champion in this area. Motor cars represent a considerable expense for many employees (as well as the self-employed) and yet it is also one of the last remaining areas in which much can be accomplished by way of tax planning. This suggests that motor manufacturers, car dealers and the asset-financing banks (amongst others) should surely position themselves to offer sound specialist advice and should seek to deliver tax-efficient cars and services. Personal financial advisers can also, surely, not continue for ever to ignore what is often people's largest monthly expense.

Much of the tax knowledge needed in this specialist area is not unique to motor cars. Anybody who is looking to research this field will normally have had to wade through hundreds to thousands of pages of professional tax books to extract what they need to. Furthermore, most books written on the subject of income tax are written in the manner that they would state factually, for example, that the right to use a motor vehicle is valued at 1.8% per month of the vehicle's determined value. Whilst this information is certainly very useful – vital in fact – for the purposes of compliance with the
law, it doesn't help as much as it might with tax planning. Inevitably, no analysis is made to assist the reader with understanding whether the 1.8% valuation is excessively high or low, and whether or not this represents an opportunity to be sought after, or a threat to be avoided. Also there is seldom any comparison made with the legal alternatives that are available to the taxpayer.

This book has sought an alternative approach: to bring together, in a manageable – often quantitative – format, using as many examples as possible, much of what's needed as a guide. A particular challenge has been the one of having to address a wide audience: everyone from individuals who are confused with how to proceed with their next car purchase, to car sales people, to highly-experienced tax consultants. Hopefully this book has managed to offer something to everyone of these readers: not least of which is that it is not simple but well-worthwhile to spend some time ensuring that one makes the right decision.

**Appendices**

**Appendix A. Latest Income Tax Tables**

Rates of normal tax payable by persons other than companies in respect of the years of assessment ending 28 February 2003 and 30 June 2003.

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Rate of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
</tr>
<tr>
<td>0 - 40 000</td>
<td>18% of each</td>
</tr>
<tr>
<td>40 000 - 80 000</td>
<td>7 200</td>
</tr>
<tr>
<td>80 001 - 110 000</td>
<td>17 200</td>
</tr>
<tr>
<td>110 001 - 170 000</td>
<td>26 200</td>
</tr>
<tr>
<td>170 001 - 240 000</td>
<td>47 200</td>
</tr>
<tr>
<td>240 001 and above</td>
<td>73 800</td>
</tr>
</tbody>
</table>
APPENDIX B. LATEST TRAVEL ALLOWANCE TABLES
Applicable for years of assessment commencing on or after 1 March 2000.

Value of the vehicle (including VAT)  |  Fixed Cost  |  Fuel Cost  |  Maintenance Cost
R                      |  R          |  c       |  c
---                     | ---         | ---     | ---
under 30 000           | 16 916      | 23.1    | 17.1
30 001 - 35 000        | 18 984      | 23.5    | 17.3
35 001 - 40 000        | 21 051      | 23.8    | 17.8
40 001 - 45 000        | 23 116      | 24.3    | 18.5
45 001 - 50 000        | 25 197      | 24.8    | 19.2
50 001 - 55 000        | 27 670      | 25.3    | 19.9
55 001 - 60 000        | 29 778      | 25.5    | 20.6
60 001 - 65 000        | 33 837      | 25.9    | 21.3
70 001 - 80 000        | 38 102      | 26.1    | 22.2
80 001 - 90 000        | 40 538      | 26.3    | 22.7
90 001 - 100 000       | 44 535      | 26.5    | 23.4
100 001 - 110 000      | 48 533      | 26.8    | 24.1
110 001 - 120 000      | 51 110      | 27.5    | 24.8
120 001 - 130 000      | 54 990      | 28.1    | 25.5
130 001 - 140 000      | 58 803      | 28.9    | 26.2
140 001 - 150 000      | 62 677      | 29.4    | 26.9

Where the value of the vehicle exceeds R150,000:

- the fixed cost shall be the sum of R62,677 plus an amount of R3874 for every R10,000 or part thereof by which the value of the vehicle exceeds R150,000;
- the fuel cost is 29.4 cents per kilometre; and
- the maintenance cost is 26.9 cents per kilometre.

APPENDIX C. HISTORIC FUEL PRICES

<table>
<thead>
<tr>
<th>PUMP PRICES</th>
<th>SA CENTS/LITRE</th>
<th>ULP*</th>
<th>ULP*</th>
<th>DIESEL</th>
<th>DIESEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>DATE</td>
<td>COAST #7</td>
<td>COAST #8</td>
<td>REEF #8</td>
<td>COAST #9</td>
<td>REEF #9</td>
</tr>
<tr>
<td>4-Sep-90</td>
<td>125</td>
<td>119</td>
<td>126</td>
<td>114</td>
<td>121</td>
</tr>
<tr>
<td>30-Oct-90</td>
<td>155</td>
<td>151</td>
<td>165</td>
<td>147</td>
<td>148</td>
</tr>
<tr>
<td>13-Nov-90</td>
<td>140</td>
<td>136</td>
<td>145</td>
<td>132</td>
<td>139</td>
</tr>
<tr>
<td>21-Dec-90</td>
<td>130</td>
<td>128</td>
<td>135</td>
<td>130</td>
<td>135</td>
</tr>
<tr>
<td>25-Feb-91</td>
<td>125</td>
<td>121</td>
<td>130</td>
<td>123</td>
<td>131</td>
</tr>
<tr>
<td>23-Aug-91</td>
<td>155</td>
<td>151</td>
<td>160</td>
<td>147</td>
<td>151</td>
</tr>
<tr>
<td>21-Mar-92</td>
<td>145</td>
<td>142</td>
<td>152</td>
<td>137</td>
<td>146</td>
</tr>
<tr>
<td>10-Oct-92</td>
<td>155</td>
<td>149</td>
<td>159</td>
<td>137</td>
<td>145</td>
</tr>
<tr>
<td>4-Apr-93</td>
<td>155</td>
<td>151</td>
<td>160</td>
<td>152</td>
<td>152</td>
</tr>
<tr>
<td>16-Sep-93</td>
<td>155</td>
<td>151</td>
<td>160</td>
<td>152</td>
<td>152</td>
</tr>
<tr>
<td>2-Nov-93</td>
<td>175</td>
<td>171</td>
<td>182</td>
<td>171</td>
<td>182</td>
</tr>
<tr>
<td>17-Dec-93</td>
<td>171</td>
<td>167</td>
<td>177</td>
<td>164</td>
<td>176</td>
</tr>
<tr>
<td>17-Feb-94</td>
<td>168</td>
<td>164</td>
<td>175</td>
<td>155</td>
<td>165</td>
</tr>
<tr>
<td>19-Mar-94</td>
<td>177</td>
<td>173</td>
<td>183</td>
<td>165</td>
<td>176</td>
</tr>
<tr>
<td>5-Oct-94</td>
<td>171</td>
<td>167</td>
<td>177</td>
<td>164</td>
<td>176</td>
</tr>
<tr>
<td>2-Nov-94</td>
<td>170</td>
<td>166</td>
<td>175</td>
<td>153</td>
<td>163</td>
</tr>
<tr>
<td>7-Dec-94</td>
<td>171</td>
<td>167</td>
<td>177</td>
<td>155</td>
<td>165</td>
</tr>
<tr>
<td>4-Jan-95</td>
<td>169</td>
<td>165</td>
<td>175</td>
<td>157</td>
<td>167</td>
</tr>
<tr>
<td>1-Feb-95</td>
<td>173</td>
<td>169</td>
<td>179</td>
<td>156</td>
<td>166</td>
</tr>
<tr>
<td>5-Oct-95</td>
<td>172</td>
<td>168</td>
<td>179</td>
<td>156</td>
<td>166</td>
</tr>
<tr>
<td>2-Nov-95</td>
<td>178</td>
<td>174</td>
<td>184</td>
<td>157</td>
<td>167</td>
</tr>
<tr>
<td>7-Dec-95</td>
<td>181</td>
<td>177</td>
<td>187</td>
<td>162</td>
<td>172</td>
</tr>
<tr>
<td>5-Jan-96</td>
<td>182</td>
<td>178</td>
<td>189</td>
<td>165</td>
<td>175</td>
</tr>
<tr>
<td>2-Feb-96</td>
<td>183</td>
<td>178</td>
<td>189</td>
<td>162</td>
<td>172</td>
</tr>
<tr>
<td>6-Mar-96</td>
<td>183</td>
<td>178</td>
<td>189</td>
<td>160</td>
<td>168</td>
</tr>
<tr>
<td>1-Mar-96</td>
<td>181</td>
<td>177</td>
<td>187</td>
<td>157</td>
<td>167</td>
</tr>
<tr>
<td>1-Apr-96</td>
<td>180</td>
<td>176</td>
<td>186</td>
<td>158</td>
<td>168</td>
</tr>
<tr>
<td>3-May-96</td>
<td>178</td>
<td>175</td>
<td>185</td>
<td>160</td>
<td>170</td>
</tr>
<tr>
<td>7-Jun-96</td>
<td>178</td>
<td>176</td>
<td>186</td>
<td>153</td>
<td>164</td>
</tr>
<tr>
<td>5-Mar-96</td>
<td>178</td>
<td>174</td>
<td>174</td>
<td>157</td>
<td>167</td>
</tr>
<tr>
<td>1-Apr-96</td>
<td>180</td>
<td>172</td>
<td>182</td>
<td>158</td>
<td>168</td>
</tr>
<tr>
<td>1-May-96</td>
<td>200</td>
<td>186</td>
<td>208</td>
<td>190</td>
<td>202</td>
</tr>
<tr>
<td>5-Jun-96</td>
<td>213</td>
<td>203</td>
<td>210</td>
<td>190</td>
<td>202</td>
</tr>
<tr>
<td>1-Jun-96</td>
<td>255</td>
<td>238</td>
<td>258</td>
<td>214</td>
<td>232</td>
</tr>
<tr>
<td>1-Aug-96</td>
<td>236</td>
<td>226</td>
<td>234</td>
<td>200</td>
<td>220</td>
</tr>
<tr>
<td>4-Sep-96</td>
<td>204</td>
<td>199</td>
<td>213</td>
<td>188</td>
<td>208</td>
</tr>
<tr>
<td>2-Oct-96</td>
<td>217</td>
<td>213</td>
<td>224</td>
<td>192</td>
<td>214</td>
</tr>
<tr>
<td>4-Nov-96</td>
<td>218</td>
<td>212</td>
<td>221</td>
<td>188</td>
<td>211</td>
</tr>
<tr>
<td>1-Jan-97</td>
<td>217</td>
<td>212</td>
<td>222</td>
<td>192</td>
<td>212</td>
</tr>
<tr>
<td>5-Feb-97</td>
<td>217</td>
<td>213</td>
<td>223</td>
<td>192</td>
<td>213</td>
</tr>
<tr>
<td>2-Mar-97</td>
<td>215</td>
<td>215</td>
<td>226</td>
<td>194</td>
<td>216</td>
</tr>
<tr>
<td>7-Apr-97</td>
<td>215</td>
<td>211</td>
<td>221</td>
<td>194</td>
<td>216</td>
</tr>
<tr>
<td>2-Jun-97</td>
<td>216</td>
<td>212</td>
<td>222</td>
<td>192</td>
<td>216</td>
</tr>
<tr>
<td>2-Jul-97</td>
<td>210</td>
<td>206</td>
<td>216</td>
<td>192</td>
<td>207</td>
</tr>
</tbody>
</table>

* ULP = Unleaded Petrol
# Diesel pump prices are not controlled and these are therefore only estimates
### APPENDICES

#### D. Average historic fuel prices

This table presents the average fuel prices in each year of the past decade (1 March to end-February).

<table>
<thead>
<tr>
<th>YEAR</th>
<th>COAST 97</th>
<th>COAST 93</th>
<th>REEF 93</th>
<th>COAST 95</th>
<th>REEF 91</th>
<th>COAST</th>
<th>REEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>132.10</td>
<td>128.10</td>
<td>137.10</td>
<td>135.37</td>
<td>135.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>147.48</td>
<td>143.48</td>
<td>153.37</td>
<td>145.37</td>
<td>145.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>168.25</td>
<td>164.25</td>
<td>175.15</td>
<td>167.15</td>
<td>167.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>170.88</td>
<td>166.88</td>
<td>177.16</td>
<td>169.16</td>
<td>169.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>179.94</td>
<td>175.94</td>
<td>185.94</td>
<td>178.94</td>
<td>178.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>203.54</td>
<td>199.54</td>
<td>205.01</td>
<td>202.01</td>
<td>202.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>212.78</td>
<td>208.78</td>
<td>215.80</td>
<td>212.80</td>
<td>212.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>225.19</td>
<td>221.19</td>
<td>228.19</td>
<td>225.19</td>
<td>225.19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>264.17</td>
<td>260.17</td>
<td>267.17</td>
<td>264.17</td>
<td>264.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>338.70</td>
<td>334.70</td>
<td>344.70</td>
<td>338.70</td>
<td>338.70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>368.25</td>
<td>364.25</td>
<td>374.25</td>
<td>368.25</td>
<td>368.25</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Unleaded Petrol

Diesel pump prices are not controlled and these are therefore only estimates.

---

**APPENDIX D. AVERAGE HISTORIC FUEL PRICES**

This table presents the average fuel prices in each year of the past decade (1 March to end-February).

<table>
<thead>
<tr>
<th>DATE</th>
<th>COAST 97</th>
<th>COAST 93</th>
<th>REEF 93</th>
<th>COAST 95</th>
<th>REEF 91</th>
<th>COAST</th>
<th>REEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-May-97</td>
<td>380</td>
<td>376</td>
<td>387</td>
<td>376</td>
<td>387</td>
<td>330</td>
<td>341</td>
</tr>
<tr>
<td>6-Jun-97</td>
<td>394</td>
<td>390</td>
<td>401</td>
<td>390</td>
<td>401</td>
<td>331</td>
<td>342</td>
</tr>
<tr>
<td>4-Jul-97</td>
<td>389</td>
<td>385</td>
<td>396</td>
<td>385</td>
<td>396</td>
<td>335</td>
<td>346</td>
</tr>
<tr>
<td>1-Aug-97</td>
<td>363</td>
<td>359</td>
<td>370</td>
<td>359</td>
<td>370</td>
<td>323</td>
<td>334</td>
</tr>
<tr>
<td>5-Sep-97</td>
<td>396</td>
<td>392</td>
<td>403</td>
<td>392</td>
<td>403</td>
<td>350</td>
<td>361</td>
</tr>
<tr>
<td>3-Oct-97</td>
<td>368</td>
<td>364</td>
<td>375</td>
<td>364</td>
<td>375</td>
<td>328</td>
<td>337</td>
</tr>
<tr>
<td>7-Nov-97</td>
<td>372</td>
<td>368</td>
<td>379</td>
<td>368</td>
<td>379</td>
<td>333</td>
<td>344</td>
</tr>
<tr>
<td>5-Dec-97</td>
<td>351</td>
<td>347</td>
<td>358</td>
<td>347</td>
<td>358</td>
<td>329</td>
<td>340</td>
</tr>
<tr>
<td>7-Jan-98</td>
<td>359</td>
<td>355</td>
<td>365</td>
<td>355</td>
<td>365</td>
<td>331</td>
<td>342</td>
</tr>
<tr>
<td>6-Feb-98</td>
<td>365</td>
<td>361</td>
<td>372</td>
<td>361</td>
<td>372</td>
<td>336</td>
<td>347</td>
</tr>
<tr>
<td>2-Mar-98</td>
<td>371</td>
<td>367</td>
<td>378</td>
<td>367</td>
<td>378</td>
<td>345</td>
<td>356</td>
</tr>
<tr>
<td>3-Apr-98</td>
<td>396</td>
<td>392</td>
<td>403</td>
<td>392</td>
<td>403</td>
<td>350</td>
<td>361</td>
</tr>
<tr>
<td>5-May-98</td>
<td>425</td>
<td>421</td>
<td>432</td>
<td>421</td>
<td>432</td>
<td>376</td>
<td>387</td>
</tr>
<tr>
<td>6-Jun-98</td>
<td>412</td>
<td>408</td>
<td>419</td>
<td>408</td>
<td>419</td>
<td>371</td>
<td>382</td>
</tr>
<tr>
<td>7-Jul-98</td>
<td>393</td>
<td>389</td>
<td>400</td>
<td>389</td>
<td>400</td>
<td>358</td>
<td>370</td>
</tr>
</tbody>
</table>

---

**PUMP PRICES**

**SA CENTLITRE**

<table>
<thead>
<tr>
<th>DATE</th>
<th>COAST 97</th>
<th>COAST 93</th>
<th>REEF 93</th>
<th>COAST 95</th>
<th>REEF 91</th>
<th>COAST</th>
<th>REEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-May-97</td>
<td>380</td>
<td>376</td>
<td>387</td>
<td>376</td>
<td>387</td>
<td>330</td>
<td>341</td>
</tr>
<tr>
<td>6-Jun-97</td>
<td>394</td>
<td>390</td>
<td>401</td>
<td>390</td>
<td>401</td>
<td>331</td>
<td>342</td>
</tr>
<tr>
<td>4-Jul-97</td>
<td>389</td>
<td>385</td>
<td>396</td>
<td>385</td>
<td>396</td>
<td>335</td>
<td>346</td>
</tr>
<tr>
<td>1-Aug-97</td>
<td>363</td>
<td>359</td>
<td>370</td>
<td>359</td>
<td>370</td>
<td>323</td>
<td>334</td>
</tr>
<tr>
<td>5-Sep-97</td>
<td>396</td>
<td>392</td>
<td>403</td>
<td>392</td>
<td>403</td>
<td>350</td>
<td>361</td>
</tr>
<tr>
<td>3-Oct-97</td>
<td>368</td>
<td>364</td>
<td>375</td>
<td>364</td>
<td>375</td>
<td>328</td>
<td>337</td>
</tr>
<tr>
<td>7-Nov-97</td>
<td>372</td>
<td>368</td>
<td>379</td>
<td>368</td>
<td>379</td>
<td>333</td>
<td>344</td>
</tr>
<tr>
<td>5-Dec-97</td>
<td>351</td>
<td>347</td>
<td>358</td>
<td>347</td>
<td>358</td>
<td>329</td>
<td>340</td>
</tr>
<tr>
<td>7-Jan-98</td>
<td>359</td>
<td>355</td>
<td>365</td>
<td>355</td>
<td>365</td>
<td>331</td>
<td>342</td>
</tr>
<tr>
<td>6-Feb-98</td>
<td>365</td>
<td>361</td>
<td>372</td>
<td>361</td>
<td>372</td>
<td>336</td>
<td>347</td>
</tr>
<tr>
<td>2-Mar-98</td>
<td>371</td>
<td>367</td>
<td>378</td>
<td>367</td>
<td>378</td>
<td>345</td>
<td>356</td>
</tr>
<tr>
<td>3-Apr-98</td>
<td>396</td>
<td>392</td>
<td>403</td>
<td>392</td>
<td>403</td>
<td>350</td>
<td>361</td>
</tr>
<tr>
<td>5-May-98</td>
<td>425</td>
<td>421</td>
<td>432</td>
<td>421</td>
<td>432</td>
<td>376</td>
<td>387</td>
</tr>
<tr>
<td>6-Jun-98</td>
<td>412</td>
<td>408</td>
<td>419</td>
<td>408</td>
<td>419</td>
<td>371</td>
<td>382</td>
</tr>
<tr>
<td>7-Jul-98</td>
<td>393</td>
<td>389</td>
<td>400</td>
<td>389</td>
<td>400</td>
<td>358</td>
<td>370</td>
</tr>
</tbody>
</table>

---

*Unleaded Petrol

Diesel pump prices are not controlled and these are therefore only estimates.
INDEX

AA Rates
of vehicle operating costs 50-51
accessories
taxable value of 11
accident repairs
claiming for 43
accidents
claiming for 44
accounting
fuel costs 13
actual expenses 42-43
actual valuations
self-employed taxpayer 102
adjustments
fuel 29
maintenance 29
allowance
inadequate 84
optimising 84
reimbursive 81
second car 89
anti-avoidance measures 63
associated institution
definition of 4-5
balancing allowance
self-employed taxpayer 94
balloon payments
legal 58-62
self-employed taxpayer 104
business trips
classification of 38-40
business use
definition of 38
determination of cost 37, 38
low 82
car allowance
see travel allowance
capital gain 84
self-employed taxpayer 95, 96
chauffeur-driven cars 64-66
company car 2-36, 69-76
as fringe benefit 2, 24
benefits of 12
cost of running 42
deductions against 63
definition of 2, 37
escalation of tax on 76-79
for business use 38
for minimal personal use 21-22
for self-employed taxpayer 92
fringe benefits of 27
interchangeable 90
market value of 9-11
or car allowance 78-77
perks tax on 29
plus car allowance 91
preference to car allowances 79
purchase price structuring 9-11
reasons for choosing 76
second cars 87-89
tax implications of 79
taxable value of 87
value applied to 70
conditions of assessment 4
determined value 4
contributions
by employees 11, 18-19
to cost of fuel 12-18
declining balance
method of depreciation 47
deductions
achieving full benefit of 84
deemed expenses 42
and hybrid schemes 81
fixed costs 50-51
fuel costs 51-54
gazetted 50-51
maintenance costs 56
determined valuation
for self-employed taxpayer 103
derecapitation 45
choosing method 48
straight-line 45
time-spans 50
declining balance 47
diminishing balance 47
reducing balance 47
determined value of company cars 2, 3-8
and accessories 11
assessment of 3-4
reduction of 12
diminishing balance
method of depreciation 47
drivers
cost of 64-66
employee contributions 11-19
to maintenance 18-19
to fuel 12-18
employer contributions
see travel allowance
excessive depreciation
self-employed taxpayer and 93
expense claims
kinds of 19
expenses
deemed 44
effect of taxable value 12
employee claims for 19
proven 42-44
overcompensation for 15-16
fines, traffic
claiming for 44
fiscal drag 23-29
fixed costs
deemed 50
fringe benefits
taxable value of 2, 11
valuation of 3
fringe benefits tax
exposure to with new cars 20
history of 22
reduction of 10-11, 21
fuel
adjustments 29
business trips 12-13
calculating refunds 13-14
for private use 12
payment of by employee 12-18
taxable 13
fuel consumption
determining 53-54
fuel costs
accounting 13
deemed 51-54
limits on 17
of tax on company cars 22-32
of fuel and maintenance
adjustments 29-32
of tax on travel allowances 76-79
income-related trips
self-employed taxpayer 92
invoice price structuring 9-11, 56-62
lease agreements
self-employed taxpayer 104
lease payments
self-employed taxpayer 95, 96
limitations on deductions
self-employed taxpayer 104
logbook
for self-employed taxpayer 92-93
importance of 70, 73, 90
self-employed taxpayer 102
tax saving with 41-42
maintenance costs
adjustments 29
as fringe benefit 10
as part of determined value 10
deemed 54-56
full cost of 19
rules for claiming 18
market value
of company car 9-11
mid-year changes 79
mileage
private 31, 40
minimal personal use
of company cars 21
motor dealers
input tax 33
relief for 33
office-bound taxpayer 30
partial months 8-9
absence of policies covering 8-9
specific instructions 8
partial-year calculations 79-80
PAYE 66-67
monthly contribution of 12
on reimbursable allowances 83
petrol, see fuel
pool cars 20-21
price structuring
of company cars 9-11
primary vehicle
tax rate of 88
private car
taxable value of 70, 77 (table)
private mileage 31
private use
classification of 39
definition of 38
deemed 40-42
of chauffeur-driven cars 64
purchase price
exclusions 9
recouping allowances for self-employed taxpayer 93, 94
recouping of expenses by self-employed taxpayer 103
recouping of rentals by self-employed taxpayer 95
recouping of wear and tear by self-employed taxpayer 93-95
reducing balance method of depreciation 47
refunds by employer 13-14
reasonable 37
reimbursive allowances 81
PAYE 83
rentals recouping of for self-employed taxpayers 95-96
rotating cars tax benefit of 7
running costs of company car 16
salary sacrifice as travel allowance 61
scraping allowance 48
for self-employed taxpayer 93, 94
second car allowance 89-90
second company cars valuation of 88
self-employed taxpayer actual valuations (or actual expenses) 102
balancing allowance 94
capital gain 96
capital-related trips 92
car allowances 92
deemed valuation 103
excessive depreciation 93
income-related trips 92
lease agreements 104
lease payments 96
limitations on deductions 104
logbook 92, 93, 102
recouping allowances 93, 94
recouping of expenses 103
recouping of rentals 95-96
scraping allowance 93, 94
self-employed taxpayer
straight-line depreciation 45-49
requirements for 49
taking transfer of a company car 20
tax structuring of car allowance purchases 56-52
of company car purchases 9-11
taxable income recent changes to definition of 26
taxable value of accessions 11
timing of purchases 62
traffic fines claiming for 43
taxable income overcompensation 37
definition of 37
for chauffeur-driven cars 64
history 76-79
inadequate 84
used cars maintenance costs of 54
VAT exempt transactions 34
VAT implications for the employer 32-34
vehicle timing of purchase 62
value of 42
wear and tear 45-50

Not with the famous blue oval. No loopholes, no scams. Just some of the most cost-effective vehicles on the market. And because they're so light on petrol, they save you tax at the fuel pump too. Which is simply another benefit of thinking beyond the boundaries.
This guide “...will help readers to make sense of the complex tax rules that apply to motor car fringe benefits.”

Prof Maeve Kolitz, Wits University

“A subject of considerable complexity, which this book reduces to understandable dimensions. This book should be essential reading for HR executives, and beneficiaries of car schemes and travel allowances.”

Tony Twine, Econometrix

“Fleet planners, operators and vehicle policy decision makers do well to heed the advice.”

Roland Reid, Fleet Operations Manager, Ford Motor Company of Southern Africa

“Practical knowledge that you can’t be without... A must-read for anyone financing a vehicle...”

Martin Sweet, BA LLB HDipTax, marketing consultant to several leading SA corporations

“At long last someone has conducted a comprehensive study regarding the tax implications relating to the purchasing and running of cars in South Africa. David Cattell’s book is concise and easy to understand...”

Toby Venter, Managing Director, Porsche Centre South Africa

This book “...is an invaluable aid to anyone concerned with financial decisions about owning and using motor vehicles.”

Martin Westcott, MD of P-E Corporate Services SA, leading remuneration consultants