



TECHNICAL ADVISORY

Re: The Treatment of Certain Allowances effective August 1, 2009

The purpose of this advisory is to guide persons on the treatment of certain allowances for Income Tax purposes effective August 1, 2009.

UNIFORM AND LAUNDRY ALLOWANCES

Prior to August 1, 2009

The uniform allowance of \$5,739.00 per annum and a Laundry Allowance of \$3,395.00 per annum were paid to some categories of employees without the deduction of income tax. The list in Appendix B to Regulation 11A of the Income Tax Act gives the categories of employees who are exempt and therefore eligible to receive the uniform and laundry allowances without the deduction of income tax.

Where a cash allowance was given to employees other than those listed in Appendix B the total allowance was subject to income tax.

Where uniform was supplied by employers, one of the following was applicable:

(1) Where an employee falls in the exempt category, deduct tax at 25% on 33 1/3% of the cost to the employer, in excess of \$5739.00 e.g.

Cost to Employer \$10,000
Exempt amount \$ 5,739
Excess \$ 4,261 x 33 1/3 x 25%

(2) Where an employee does not fall in the exempt category, deduct tax at 25% on 33 1/3% of the cost of the uniform e.g. \$10,000 x 33 1/3% x 25%.

The Laundry Allowance of \$3,395.00; if paid to employees in the categories listed in Appendix B to Regulation 11A of the Income Tax was not taxable. However tax at 25% would have been deducted from any amounts in excess of the \$3,395.00.

A Laundry Allowance of any amount paid to employees not listed in Appendix B to Regulation 11A is subject to income tax at 25%.

Effective August 1, 2009 the following will be applicable;

Where a cash allowance is given to employees other than those listed in Appendix B the total allowance is taxable.

(1) Where an employee falls in the exempt category, deduct tax at 25% on any amounts in excess of \$5,739.00 e.g.

Cost to Employer \$10,000
Exempt amount \$ 5,739
Excess \$ 4,261 x 25%

(2) Where an employee does not fall in the exempt category, deduct tax at 25% of the uniform e.g. \$10,000 x 25%.

The Laundry Allowance of \$3,395.00 if paid to employees of the categories listed in Appendix B to Regulation 12 of the Income Tax is not taxable. However tax at 25% should be deducted from any amounts in excess of the \$3,395.00.

A Laundry Allowance of any amount paid to employees not listed in Appendix B to Regulation 11A is subject to income tax at 25%.

ACCOMMODATION

Prior to August 1, 2009

Where a cash allowance was paid in lieu of housing, the total amount received was added to all other emoluments and taxed.

Where an employer provided an employee with living accommodation, the annual value of the accommodation should be determined by the Commissioner. The annual value to be taxed should not exceed 15% of the employee's total emoluments - (excluding the value of the accommodation) - and should be taxed. Since January 1996, where the annual value of the accommodation is greater than the emoluments, the taxable amount was 15% of the average of the annual value of the accommodation plus other emoluments paid by "connected persons"

Where the emoluments of an employee included the provision of living accommodation and the employer provided this consequent to a Tenancy Agreement between himself and the employee, any amount payable under the agreement should be taxed at the rate of 25%. A portion of the tax deducted relates to the value of the accommodation as tax on emoluments; that is the tax that would have been applicable if the 15% of gross emoluments method had been applied. The balance would be regarded as a prepayment of tax on rental income and depending on the outcome; tax may be retained or refunded. Any loss incurred from that rental income would only be allowable against that specific income in subsequent years.

Where an employee occupied a house owned by his employer he would be taxed on the value of the benefit which is dependent on the annual value of the accommodation: (The annual value of the accommodation is determined by the Commissioner of TAAD).

A. Where the annual value of the accommodation is less than the gross emoluments the taxable benefit was 15% of the gross emoluments.

B. Where the annual value of the accommodation is more than the gross emoluments, the taxable amount would have been fifteen percent (15%) of the average of: (the annual value of the accommodation paid) plus (the other emoluments including emoluments paid by "connected persons").

Effective August 1, 2009 the following will be applicable;

Where cash payments are made whether to a third party - Landlord or to the employee the total amount paid for the allowance is subject to income tax at 25%.

Where the employer is the landlord for the accommodation the value of the accommodation shall be deemed to be the market value of the said accommodation.

Where the employee is provided with accommodation on the same premises where the employment is exercised or resides elsewhere and it can be established that it is necessary for the employee to have that accommodation for the exercise of his employment; the employee shall be taxed on an amount not exceeding thirty percent (30%) of his gross emoluments excluding the cost/value of the accommodation.

Where the employee occupies premises owned or operated by any exempt body as defined in Section 12(h) of the Income Tax Act; the income tax is computed on thirty percent (30%) of the gross emoluments excluding the cost/value of the accommodation.

Example:

Salary	\$100,000.00
Rent Benefit	\$ 40,000.00

Taxable Benefit $\$100,000.00 \times 30\% = \$30,000.00$

N.B. The additional amounts are emoluments and therefore subject to PAYE and all other statutory deductions.