

Tax News - Company cars, tax and take home pay

The future of the company car is looking bleak it would seem.

Currently, company cars are taxed at a rate of 2.5% of the "determined value" of the vehicle. (The determined value would generally be the original cost of the vehicle to the purchaser and excludes any finance charges, interest, VAT etc.)

The provision of a company car has a fringe benefit tax attached to it, and one way of reducing the tax on a company car has been to reduce its determined value.

For example, when an employee does not receive a travel allowance and bears the full cost of maintaining the company vehicle, the value of the private use of the company car (i.e. the fringe benefit) must be determined by deducting 0.18% from 2.5% so that the fringe benefit is calculated at a rate of 2.32% of the determined value of the vehicle on a monthly basis.

In situations where a maintenance contract is included in the purchase price, the determined value can also be reduced by the cost of the maintenance contract. This is currently accepted by SARS, who allows the maintenance cost to be offset against the determined value. In addition, currently the determined value of the car excludes VAT. However, the proposed amendments to the legislation affecting company cars in the Taxation Laws Amendment Bill will have a considerable effect if accepted.

Included in the changes is the fact that company cars will be taxed at a rate of 4% of the determined value of the car on a monthly basis - a 1,5% increase from the current rate. Additionally, the determined value of the company car will now include the costs of a maintenance plan and VAT. Also employers will be required to withhold employees' tax at a rate of 80% on the fringe benefit, whereas currently, employers withhold employees' tax on 100% of the fringe benefit.

As can be seen, the changes are significant - not only the rate at which company cars will be taxed on a monthly basis, but also the inclusion of VAT, which increases the determined value by 14%. Should the proposed changes be enacted, employees who are provided with company cars will be taking home less on a monthly basis, whereas currently, recipients of company cars could be seeing a greater monthly take home pay.

Take this example: Andrew has a company car valued at R300 000 (excl VAT). Currently his fringe benefit is R7 500 on a monthly basis ($R250\,000 \times 2,5\%$). The changes effected by the proposed amendments will mean that Andrew's new fringe benefit will be R13 680, ($R300\,000 + 14\% \text{ VAT} \times 4\%$) which will then be subject to 80% employees' tax, bringing it down to R10 944. Applying a conservative rate of 40%, Andrew could be taking home approximately R1 377 less per month!

Fortunately, employees are able to claim some of the tax back, provided they maintain a logbook. On submission of the individual's tax return, they could claim the proportion of business kilometres traveled over the total mileage against the fringe benefit calculated, to potentially qualify for a tax refund.