

Fact sheet: Reimbursing allowances paid to employees

A reimbursing allowance paid by an employer to an employee is tax free if it compensates the employee for work-related expenses.

If the allowance is not so much reimbursing an employee for work-related costs, but more of a monetary benefit — such as a general clothing allowance or an allowance for working in dangerous or dirty conditions — then the allowance is taxable. Inland Revenue regards it as monetary remuneration and subject to PAYE.

If you pay your employee more than the amount they incurred as a work cost, then that excess is treated as monetary remuneration subject to PAYE.

Private vehicles used for work-related purposes

Inland Revenue allows an employer to reimburse employees - including shareholder-employees - for using their private vehicles for work-related purposes.

The employer can choose to:

- reimburse actual costs incurred by the employee, or
- use the Inland Revenue kilometre rate, or
- use other published mileage rates if they represent a reasonable estimate. For example, the AA makes mileage rates available free to members and at a cost to non-members. To obtain AA rates call 0800 500 333
- reimburse costs based on a reasonable estimate of the costs likely to be incurred by the employee or a group of employees

Kilometre rate

Inland Revenue will accept the standard kilometre rate as being a reasonable estimate of the costs likely to be incurred by an employee. An employer may choose to use the applicable vehicle type rate per kilometre:

2022–23 Kilometre Rates		
Vehicle type	Tier One rate: First 14,000 kms	Tier Two rate: After 14,000 kms
Petrol or Diesel	95 cents/km	34 cents/km
Petrol Hybrid		20 cents/km
Electric		11 cents/km

Where an employee has kept a logbook or other evidence for work-related use, the 95 cents/km rate can be applied to the first 14,000km. If the employee has not kept evidence, the rate of 95 cents/km will be limited to the first 3,500km (25% of 14,000).

The kilometre rates apply irrespective of engine size. They do not apply to motorcycles.

Additional transport costs

To be tax-free, a reimbursing allowance for travel must be for travel costs on top of the usual cost of travel between home and work and the travel must be work-related. Usually this excludes travel between work and home, but Inland Revenue recognises there are exceptions where an employee bears additional costs for travel under [certain circumstances](#):

- the time of day or days of the week the employee is required to work, create additional transport costs
 - For example:** A commercial cleaner travels by bus to start work at 8 pm and finishes at midnight, when there is no bus available to travel home. The employee travels home by taxi
- the employee is required to carry work-related equipment or goods, which requires different

transport

For example: The company van/truck is double booked, and the employee uses their own van/truck to complete business deliveries.

- the employer requires a temporary change to the employee's normal work site

For example: An employee is assigned to work at another branch across town for eight months. He or she incurs the cost of additional bus trips for that period.

- there is no adequate public transport.

The amount of the reimbursement that is [tax-free](#) is the actual cost of travelling between home and work, minus the employee's usual travel costs. This applies to all circumstances except the lack of adequate public transport. If you pay a travel allowance because there is not adequate public transport, the first \$5 of the daily allowance is taxable. Any additional amount is tax-free.

Note there is a 70 kilometre per day limit in calculating additional transport costs except in "special circumstances". Accordingly, any distance over 70 kilometres in one day is not allowed to be taken into account where special circumstances do not exist. "Special circumstances" are those that are exceptional, abnormal, or unusual and are not limited to extraordinary or unique cases. For example, a national park employee who cannot live near their work (the national park) as there is no town or accommodation less than 70km away from their work.

Travel from home to a remote workplace

Reimbursements for travel from home to a distant workplace take other factors into account as well. They are tax-free if:

- the travel is one-off or very occasional (for example, attendance at a two-day course in another town)
- the travel is for a temporary posting (up to two years). If the posting becomes longer term, the travel will be taxable from the date the expectation around the posting changed from temporary to long term. The reverse applies, so that if an assignment that was expected to be long term (with a taxable travel allowance) changes to one expected to be for two years or less, the travel can be treated as non-taxable from when the expectation changed
- there are multiple workplaces and the employee works at a hometown workplace (as well as needing to travel to the remote workplace)
- the employee works from home on specified days (home being their place of work on those days) and the travel relates to one of those days.

Be very clear about arrangements for travel from home to a distant workplace where the employee works from home all or some of the time. In Inland Revenue's view, an employee does not have multiple workplaces just because they can choose to work at home sometimes:

- reimbursements for travel to a distant workplace will be tax-free on any of the days the employer and employee agree are specific working from home days
- outside those specified days, reimbursements for travel from home to a distant workplace will generally be taxed.

Relocations

If you reimburse an employee's relocation costs, the payment may be tax-free if they are relocating to start employment with you or relocating to a new location, whether in their current role or starting a new role.

Relocation expenses will generally only be tax-free if the employee's home is a substantial distance from the new workplace and the payment must reflect the actual cost. Use [Inland Revenue's list](#) to identify relocation expenses that can be reimbursed tax-free.

Under special circumstances Inland Revenue may designate some accommodation expenses tax exempt. For instance, employee reimbursements for accommodation when working on rebuilding and recovery projects in areas affected by the 2023 North Island flooding events may be considered exempt income for

income tax purposes. The projects must be of limited duration and the employee must have started the work before 1 April 2024 for this particular event.

Personal telecommunication tools and usage plans

Where employees use their own mobile phones, laptops or devices for both work and private use, employers may reimburse them or provide reimbursing allowances for the business use portion of the devices and/or usage plans. Reimbursing allowances should represent a reasonable estimate of the employee's likely expenditure. Where the employee uses the device:

- principally for work, employers can treat 75% of the amount paid (total bill amount) as exempt income of the employee, either by reimbursement or a reimbursing allowance for usage plans. The extent to which the payment is taxable is 25%. If the employer reimburses 75% of the total bill, then the whole amount paid is exempt
- for work sometimes, but principally for private use, employers can treat 25% of the amount paid as exempt income of the employee. The extent to which the payment is taxable is 75%. If the employer reimburses 25% of the total bill, the whole amount paid is exempt, and
- mainly for their own use with some minimal use for work, the employer can treat payment up to \$7 per week, amounting to no more than \$364 per year, per employee, as exempt income of the employee.

Reimbursement may also allow for depreciation loss, calculated using the Commissioner's rates for the items.

For employees who work from home, further tax-exempt reimbursement may be allowable as well as tax exempt allowances for furniture and other equipment used for work. Please refer to the fact sheet, Working from home expenses and reimbursements ([1325-020](#)).

Other allowances

Instead of reimbursing actual expenditure incurred by an employee for any other work-related purposes, an employer may pay an allowance to the employee based on a fair and reasonable estimate of the likely work-related cost.

Methods to show that the payment is fair and reasonable include:

- carrying out a survey of expenditure incurred by employees
- adopting an industry average agreed upon by Inland Revenue and representatives of that industry; or
- following a public statement issued by Inland Revenue on that class of allowance

Our recommendation

Check reimbursement allowances to ensure they are genuine reimbursements for work-related costs and not allowances deemed to benefit the employee. Keep good records to support your reasoning. If you need to check whether an allowance (or portion of an allowance) is tax-free for the employee or subject to PAYE, please contact us.

Last reviewed on 14 June 2023

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