

Fact sheet: Travel allowances

Generally, expenses for travel between home and work are not allowable as deductions or for tax-free reimbursements to employees. Inland Revenue views travel between home and work as a private expense, not a business expense.

Inland Revenue recognises [some circumstances](#) where you may pay cash allowances to reimburse an employee for travel between home and work. For a travel allowance to be tax-free, the travel must be 'on work' rather than just 'getting to work'. For instance, the employee may incur travel costs on top of their normal travel between home and work, if the employee:

- is working outside the normal hours of work, as in overtime, shift, or weekend work
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.
- needs to carry work-related tools and equipment which they don't normally need to carry
For example: The company van/truck is double booked, and the employee uses their own van/truck to complete business deliveries.
- is travelling to do something you need done for your business
For example: You need the employee to carry out periodic safety inspections of equipment installed for several clients at their plants and factories.
- has a temporary change in workplace
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.
- is travelling to a worksite and there is no adequate public transport.

Calculating the tax-free amount

For all these special circumstances, except lack of adequate public transport, the tax-free amount is the actual cost of travelling between home and work, less the employee's usual transport costs. The amount equating to the employee's usual travel costs is taxable.

If you pay a travelling allowance because there's a lack of adequate public transport, the first \$5 of the daily travelling allowance is taxable with any additional amount being tax-free.

Where the employee is using their own vehicle, you can use [Inland Revenue's rates](#) if the actual cost per kilometre is not available.

What do I have to do?

- Add the amount of the allowance to your employee's net salary or wages (i.e. after PAYE) when you pay them.
- Do not show the tax-free amount when [filing employment information](#).
- Show the total amount of the tax-free allowance paid in your wage book.

What about where the employee works from home?

The decision that a travel allowance you pay an employee is tax-free relies on the travel being 'on work' rather than just 'getting to work'. A travel allowance or reimbursement would be tax-free when:

- the employee's home is their base of operations (or one of them) and their work takes them all over the place
- the employee is on call at home and must travel to emergency callouts

- the travel is 'on work' between two workplaces, one of which is also the employee's home

What about travel to a distant location?

The tax treatment for travel from home to a distant workplace takes other factors into account as well.

Allowances for travel from home to a distant workplace are not subject to PAYE if:

- the travel is one-off or very occasional (for example, attendance at a two-day course in another town)
- the travel relates to 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 his or her place of work on those days) and the travel relates to one of those days.

Be very particular about clarifying 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 he or she can choose to work at home sometimes:

- 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, travel from home to a distant workplace will generally be taxed.

Keep in mind

The travel allowance is tax-free if it pays an employee back for travel that is somehow additional to what they would normally undertake to go to and from work. Where paying allowances for travel, make a note of the special circumstances which justify the allowance being tax-free.

If you'd like to talk more about travel allowances or about record-keeping for payroll, please contact us.

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