



Australian Government
Australian Taxation Office

Employee reimbursements and GST

Employers are entitled to GST credits for employee reimbursements.

! When we say:

- 'GST credits' we are referring to the GST term 'input tax credits'
- 'purchases' we are referring to the GST term 'acquisitions'
- 'sales' we are referring to the GST term 'supplies'

If you are an employer who is registered for goods and services tax (GST), you may be entitled to GST credits for payments that you make to reimburse your employees (and their associates) for their expenses.

You can claim GST credits if you have relevant documents, such as receipts or tax invoices that were issued to your employee, and if the payments meet the requirements of the GST legislation. Your employee should provide these documents to you to substantiate their claims for reimbursement.

HOW EMPLOYERS BECOME ENTITLED TO GST CREDITS FOR EMPLOYEE REIMBURSEMENTS

If you are registered for GST, you are entitled to a GST credit for an employee-reimbursed expense if:

- your employee's expense is directly related to their activities as your employee **or** the reimbursement is an expense payment benefit

! You can receive an expense payment benefit when:

- you make a payment to another person, in whole or in part, of an amount of money spent by your employee as part of their employment with you, or
 - you reimburse another person, in whole or in part, an amount of money spent by your employee as part of their employment with you.
- the sale of the item purchased by your employee was taxable, and
 - your employee is not entitled to a GST credit for the expense.

If you are entitled to a GST credit, you can claim it in your activity statement once your employee gives you a tax invoice or receipt for the expense.

! You need to have a tax invoice if the expense is more than \$55 (including GST).

You are **not** entitled to a GST credit where:

- you reimburse non-deductible expenses, such as the portion of expenses relating to entertaining clients (non-deductible expenses are expenses that you incur as part of running your business that cannot be deducted from your income to calculate your taxable income)
- you reimburse expenses that relate to input taxed sales that you make in the running of your business (and you exceed the financial purchases threshold – if you exceed this threshold you may only be entitled to a reduced GST credit on certain **specific** purchases), or
- you pay your employee an allowance (see Allowances).

THE FINANCIAL PURCHASES THRESHOLD

There are separate rules for exceeding the financial purchases threshold on current purchases and future purchases.

If it is assumed that all your financial purchases made during the previous 12 months were made solely for a creditable purpose, you will exceed the financial purchases threshold for current purchases if:

- the amount of all the GST credits for those purchases exceeds \$50,000, or
- the amount of the GST credits referred to above is more than 10% of the total amount of the GST credits you would have been entitled to for all your purchases and importations during that 12 months (including the financial purchases).

There are further rules for members of GST groups. To view more information on the financial purchases threshold see Division 189 of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act).

MAKING REIMBURSEMENTS

You make a reimbursement where you pay your employee for the price, or part of the price, of a particular purchase they make. For example, if your employee incurs an expense of \$220 for a purchase, you may pay them \$220 (the whole price) or you may decide to pay them a lesser amount, say \$110 (half the price). Either payment will be a reimbursement.

You also make a reimbursement where:

- you pay your employee for a particular expense they haven't paid, providing they have become liable for the expense
- you pay your employee an advance for an expense they have not yet incurred, providing they have to repay any unspent amount of the advance to you, or
- you pay an expense on behalf of the employee, for example, to the business who has made a sale to the employee (the GST Act treats this type of payment as a reimbursement).

EXAMPLE 1

Alexandra employs Petra in her advertising agency. Petra purchases taxable craft materials for a client presentation for which she is responsible. The materials cost Petra \$60. The expense is for Petra's work in the agency and Alexandra's policy is to reimburse such expenses if tax invoices are presented. Petra makes a claim for her expense with the receipts attached and Alexandra pays her \$60.

Alexandra is entitled to a GST credit on the reimbursement she pays Petra for her purchase. Alexandra can claim the GST credit as Petra has given her a tax invoice for the purchase.

EXAMPLE 2

Colin's children attend a non-government school. Colin pays their yearly school fees in advance. He also pays for school uniforms. Colin's employer agrees to reimburse him these expenses after he gives the employer all of the relevant receipts and invoices. The employer makes separate payments for each of the supplies of education (GST-free) and uniforms (taxable). Both payments to Colin are expense payment benefits.

Colin's employer is entitled to a GST credit on the reimbursement for Colin's purchase of taxable school uniforms. The employer can claim the GST credit as Colin has provided the relevant documentation for the supply. The employer also reimbursed the school fees, but as the supply of education is GST-free, the employer cannot claim a GST credit.

Colin's employer may have a fringe benefits tax (FBT) liability for the reimbursed expenses.

➤ These publications contain more information about expense payment benefits:

- Goods and Services Tax Ruling GSTR 2001/3 (Addendum exists) – *Goods and Services Tax: GST and how it applies to supplies of fringe benefits.*
- Taxation Ruling 2001/2 (two partially withdrawns exist, two addendums exist) – *Fringe Benefits Tax: the operation of the new fringe benefits tax gross-up formula to apply from 1 April 2000.*

ALLOWANCES

If you pay your employee for an estimated expense, and they do not have to repay any amount not spent, you are paying an allowance. You are not entitled to any GST credits on these payments as the payment of an allowance is not a reimbursement.

EXAMPLE 3

Helena employs Leigh in her Melbourne software firm. She asks Leigh to attend a conference in Sydney. Helena pays Leigh a travel allowance of \$450. Leigh will not need to repay any of the allowance that he does not spend, but he will not be entitled to an additional payment if he exceeds his allowance.

Helena has paid Leigh an allowance. She is not entitled to any GST credits for Leigh's expenses, regardless of how much Leigh spends.

Helena may have pay as you go (PAYG) withholding obligations when she pays an allowance.

➤ *PAYG withholding bulletin no.1 – taxing of allowances for the 2000/01 and future income years* (NAT 5448) explains the correct tax treatment for allowances.

PAYMENTS FOR NOTIONAL EXPENSES

If you make a payment to an employee based on a notional (rather than an actual) expense, you are not making a reimbursement. For example, if you make a cents-per-kilometre payment to cover work-related use of an employee's private car, you are paying an allowance and not making a reimbursement. You are not entitled to a GST credit.

EXAMPLE 4

Syd uses his car regularly for work purposes. His employer, Jan, requires Syd to keep records, and pays him a monthly amount based on the engine size of Syd's car and the number of kilometres he travels for work purposes.

Jan is not making a reimbursement and is not entitled to a GST credit.

➤ MORE INFORMATION

- *GST for small business* (NAT 3014)
- *Input tax credits for business* (NAT 3019)

If you need more information, you can:

- visit our website at **www.ato.gov.au**
- phone **13 28 66**
- obtain a fax by phoning **13 28 60**, or
- write to us at PO Box 9935 in your capital city.

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

OUR COMMITMENT TO YOU

The information in this publication is current at August 2004.

In the taxpayers' charter we commit to giving you information and advice you can rely on.

If you try to follow the information contained in our written general advice and publications, and in doing so you make an honest mistake, you won't be subject to a penalty. However, as well as the underpaid tax, we may ask you to pay a general interest charge.

We make every effort to ensure that this information and advice is accurate. If you follow our advice, which subsequently turns out to be incorrect, or our advice is misleading and you make a mistake as a result, you won't be subject to a penalty or a general interest charge although you'll be required to pay any underpaid tax.

You are protected under GST law if you have acted on any GST information in this publication. If you have relied on GST advice in this Tax Office publication and that advice has later changed, you will not have to pay any extra GST for the period up to the date of the change. Similarly, you will not have to pay any penalties or interest.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **www.ato.gov.au**

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