



MINISTRY OF REVENUE & CUSTOMS: INCOME TAX Public Ruling04/2020

Income Tax: Employment Benefits – Vehicles

BINDING SECTION:	
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Protection Label

! This Ruling provides you with the following level of protection:

This publication (excluding any appendices) is a public ruling for the purposes of section 50 of the *Revenue Services Administration Act 2002* (RSAA).

A public ruling is an expression of the Minister's opinion about how the revenue law applies, or would apply, to persons generally or to a class of persons in relation to a particular arrangement or transaction or a class of arrangements or transactions.

If you rely on this ruling, we must apply the law to you in the way set out in the ruling (or in a way that

is more favourable for you if we are satisfied that the ruling is incorrect and disadvantages you, and we are not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any under-paid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the revenue law applies to you.

Introduction

1. This ruling is with reference to the First Schedule of the same Act.
2. The First Schedule prescribes the computation method of the monetary value of benefits in kind.

What this Ruling is about?

Class of person/Arrangement or transaction

3. This Ruling applies to resident persons earning employment income.

The Law

4. The First Schedule is as follows –

VALUATION OF EMPLOYMENT BENEFITS

1. *In this Schedule —*

“benchmark rate” means the National Reserve Bank of Tonga weighted average lending rate at the commencement of the fiscal year;

“cost” means –

(a) the actual cost to the employer in acquiring the motor vehicle in the first year;

(b) the depreciated cost in the 2nd to 4th years of ownership of the motor vehicle; and

(c) the fair market value of the vehicle in subsequent years; and “services” includes the making available of any facility.

2. *The value of any benefit-in-kind included in the employment income of an employee under section 13(1)(b) shall be determined in accordance with this Schedule.*
3. *This Schedule shall not apply to any allowance or reimbursement referred to in section 13(1)(c) or (d).*

4. If, in a fiscal year, a motor vehicle is provided by an employer to an employee wholly for the private use of the employee, the value of the benefit for the year shall be the amount computed in accordance with the following formula —

$(20\% \text{ of } A) - B$, where —

A is the cost to the employer of acquiring the motor vehicle or, if the vehicle is leased by the employer, the fair market value of the vehicle at the commencement of the lease; and

B is any payment made by the employee for the use of the motor vehicle or for its running costs.

5. If, in a fiscal year, a motor vehicle is provided to an employee partly for private use and partly for use in employment, the value of the benefit for the year shall be the amount computed in accordance with the formula in paragraph (4) reduced by the proportion of that amount representing use in employment.

6. If a motor vehicle referred to in paragraph 4 or 5 is not provided for the whole of the year, the value of the benefit computed under those paragraphs, as the case may be, shall be based on the proportion of the year that the vehicle was provided.

Ruling

5. The value of the benefit of vehicle provided by the employer to the employee for the employee's personal use, is calculated using the formula $(20\% \times A) - B$.
6. For the purposes of apportionment between work and private use in paragraph 5 of the schedule, the ratio shall be 90% - 10%, work and private use, respectively. Where an employee uses the vehicle for both private and work purposes, the value of the benefit is reduced by 90%.

Example: If employer buys the vehicle for employee for \$80,000, and employee pays for the quarterly service of \$300 per service, the value of the benefit will be —

Step 1: $(20\% \times \$80,000) - \$1,200 = \underline{\$14,800}$

Step 2: $\$14,800 - (\$14,800 \times 90\%)$, where 90% is the percentage of the usage of vehicle for work purposes

Value of the benefit then is \$1,480

7. A person who claims a lower percentage of private use than 10% must provide proof of usage such as a log book.

8. If the employee was given the vehicle to use for only 6 months, the above amount will further be reduced by the portion of the year the employee did not use the vehicle.

$$\$1,480 - (\$1,480 \times 50\%) = \underline{\$740}$$

- The 50% is the portion of the year (6 months) that the employee did not use the vehicle.

Date of effect

9. This Ruling applies to years of income commencing July 2017 and years following.
10. This Ruling does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of this Ruling.

Minister of Revenue & Customs