

Tax & Legislative Information Series...

...Leased Employer Vehicles



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About – Tax on Leased Vehicles

- **Tax on Leased Vehicles**

- Many Employers lease vehicles to provide Employees with a vehicle for business travel purposes.
- These leased vehicles often come with additional items such as an E-tag, GPS and Fuel charges.
- Employers need to determine which of these costs should be:
 - included in the use of a motor vehicle acquired by the Employer via an Operating Lease, and
 - which of these should be included as a normal Fringe Benefit.
- To determine this, Employers need to look at the following legislation:
 - **Section 8(1)(b) of the Income Tax Act.**
 - **Interpretation Note 14 (Issue 5).**



About – Tax on Leased Vehicles

- **Section 8(1)(b) of the Income Tax Act says:**
 - **Private Travel Not Deductible:** Any portion of a travel allowance or advance used for private travel (including home-to-work trips) is not considered business travel and cannot be deducted from taxable income.
 - **Default Method – Deemed Business Kilometers:** If the Employee doesn't submit actual business travel records, the business portion of the allowance is calculated using:
 - A prescribed rate per kilometer (published in the Government Gazette).
 - Applied to the business kilometer travelled during the year.
 - Note: Business travel is only recognised in the year the allowance is paid, per section 7B rules.

About – Tax on Leased Vehicles

- **Section 8(1)(b) of the Income Tax Act says:**
 - **Actual Travel Method – Proven Business kilometer:** If the Employee proves actual business kilometer, the value is calculated as:
 - Actual kilometer travelled × prescribed rate/km.
 - Again, only travel during the year of payment is considered.
 - **Claim Based on Actual Costs (with Proof):** If the Employee chooses to claim actual costs using accurate data:
 - **If the vehicle is leased:** Lease payments may not exceed the fixed cost limit set by the Minister for that vehicle category.
 - **If the vehicle is owned:**
 - Wear and tear must be calculated over 7 years.
 - Vehicle cost is capped at R 800 000.00 (or new limit published by the Minister).
 - Finance charges are limited to interest on a notional R 800 000.00 loan.
 - The R 800 000.00 limit must not be confused with the travel table published annually.

About – Tax on Leased Vehicles

- **Section 8(1)(b) of the Income Tax Act says:**
 - **Vehicle Let to Employers by Employees:**
 - If a vehicle is **owned or leased by an Employee** (including their spouse or child (directly or indirectly)), and is **rented to the Employer** or a related entity:
 - The following are treated as a **taxable travel allowance to the Employee**:
 - **Rental** paid by the Employer, and
 - Any **vehicle expenses** covered by the Employer.
 - **Important tax points:**
 - The rental is not taxed as rental income.
 - The Employee is not seen as receiving a company car Fringe Benefit.
 - This is due to the Travel Allowance the Employee would receive from the Employer.

About – Tax on Leased Vehicles

- **Interpretation Note 14 (Issue 5) says:**
 - **Actual Cost Method Overview:** Employees can claim a deduction based on actual travel costs if:
 - They perform a proper calculation using accurate records.
 - The calculation includes:
 - Total kilometer travelled (business + private).
 - Total actual vehicle expenses.
 - The cost per kilometer is then applied to the business kilometer only.
 - **Proof is Essential:** Employees must keep supporting documents to back up:
 - kilometer travelled.
 - all actual expenses used in the calculation.



About – Tax on Leased Vehicles

- **Interpretation Note 14 (Issue 5) says:**
 - **Travel Must Have Caused the Cost:**

“Examples of the type of expenditure which may be included are **wear-and-tear or lease payments, fuel, oil, repairs and maintenance, car license, insurance and finance charges**”

 - **Example:** A lease termination fee isn't allowed because it's not a cost from travelling.
 - **Typical Allowable Expenses:**
 - Fuel and oil.
 - Repairs and maintenance.
 - Car license fees.
 - Insurance.
 - Wear-and-tear or lease payments.
 - Finance charges (interest on vehicle loan).



About – Tax on Leased Vehicles

- **Interpretation Note 14 (Issue 5) says:**
 - **Limits on Certain Costs (per Section 8(1)(b)(iiiA)):**
 - **Leased vehicle:**
 - Claim for lease payments may not exceed the fixed cost amount published by the Minister for that vehicle type.
 - **Owned vehicle:**
 - Wear-and-tear must be based on a 7-year period from the original purchase date.
 - Vehicle cost for wear-and-tear and finance charges is capped at R 800 000.00 (or updated limit in the Gazette).
 - Finance charges are limited to what would have been paid on a loan of R 800 000.00 even if the vehicle costs more.
 - Again, this R 800 000.00 limit must not be confused with the values of the Travel Table published annually.

About – Tax on Leased Vehicles

- **Lease cost breakdown**

- An Employer receives the bill for the leased vehicle given to the Employee. The bill contains the following and needs to be split as follows with regards to IRP5 codes:

Item	Cost P/M	FB IRP5 code	Comment
Lease costs	R 12 500.00	3816	Spec. allowed as deductible exp. under IN14
Fuel	R 5 400.00	3816	Spec. allowed as deductible exp. under IN14
Interest	R 350.00	3816	Spec. allowed as deductible exp. under IN14
E-tag	R 250.00	3801	Disallowed under IN14, taxed as a Gen. FB
Tracker	R 99.00	3801	Disallowed under IN14, taxed as a Gen. FB
Insurance	R 950.00	3816	Spec. allowed as deductible exp. under IN14
Total	R 19 5495		

About – Tax on Leased Vehicles

- **Lease cost breakdown – Important to note**
 - If a cost is incurred by the Employer regardless of whether a specific vehicle is in use, that cost does not constitute a Fringe Benefit to the Employee.
- **Example:**
 - An Employer subscribes to a vehicle tracking service at a fixed cost of R500 per month, which allows up to 10 vehicles to be tracked.
 - Currently, only 2 vehicles are registered on the system.
 - If the Employer adds a third vehicle, there is no additional cost, and therefore, no Fringe Benefit arises for the Employee using that vehicle.
 - However, if the Employer were to take out a **separate subscription** or **incur additional costs specifically for the new vehicle**, this would constitute a Fringe Benefit to the Employee.

About – Tax on Leased Vehicles

- **Notes / Comments**

- **Limit on Leased Vehicle Cost:** Employers need to remember that there is a limit on the value of the Fringe Benefit - Claim for lease payments may not exceed the fixed cost amount published by the Minister for that vehicle type.
- **Vehicle Cost:**
 - Employers should apply reasonable limits and sound judgment when allocating leased vehicles to employees.
 - The value and type of the vehicle should align with the employee's job grade, position, or role.
 - It is important to ensure that vehicle assignments are appropriate and justifiable based on business needs.



- **Notes / Comments**

- **Branded vehicles:**

- The cost of branding a leased vehicle may not be included in the vehicle's value to calculate the Fringe Benefit. This cost is for the Employer's account, as SARS may classify it as an advertising expense.
 - If an Employee receives an allowance for vehicle branding, SARS will treat this as remuneration, as the Employee is effectively being compensated for advertising the company brand.
 - However, if no such allowance is paid, there are no Fringe Benefit implications for the Employee.

- **Sometimes used as a pool vehicle:** Where leased vehicles are used as pool vehicles, Employers still need to determine the cost of the leased vehicle and then apply the rules of pool vehicles to the employees using the vehicles.



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