

How to tax cellphones in the workplace

By [Rob Cooper](#)

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South African businesses depend on mobile phones, computers and telecom services to keep their businesses running smoothly. Depending on whether the devices are employer- or employee-owned (as well as who pays for airtime and internet access), this reality brings with it a range of implications for payroll calculations as well as the employee's take-home pay.



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In many cases, employers have adopted bring-your-own-device (BYOD) strategies to allow employees flexibility in choosing the devices and contracts that meet their personal and business needs. In this case, they might give employees a regular allowance for their costs or ask employees to claim their business expenses each month.

In other cases – though increasingly rare – employers take out the mobile or broadband contract in the business's name and give employees access to a company-owned device. The payroll department needs to look carefully at each of these scenarios to ensure that the business complies with tax regulations with the least effort, cost and risk.

The basic principle is simple: the use of the employer's mobile device, or the provision of a communication service such as the internet or a telephone service, is tax-free if used for business purposes, but the personal use is taxable. The difficult (and sometimes admin-intensive) part is separating personal from business usage, so that personal use can be taxed as a fringe benefit. Let's look at how this works in practice...

Employer-owned devices

When the employer provides the employee with a device that is leased, rented or fully owned, personal use by the employee should be treated as a fringe benefit. The value of the fringe benefit is calculated as follows:

- If the mobile device is leased or hired by the employer, it is valued as the amount of the lease or rental payments.
- If the device is owned by the employer, 15% per annum of the lesser between the cost of the asset and the market value at the start of the period of use.
- If the employee is granted the sole right of the use of the device over its useful lifetime (or over a major portion

thereof), the cost of the mobile device on the date on which the employee was first granted the right of use.

Employers may deduct any amount spent by the employee on the maintenance or repair of the asset as well as their work usage from the fringe benefit valuation. The good news is that if the employee uses the device mainly (more than 50%) for business purposes, there is no fringe benefit to declare.

Employer-provided communication services

When an employee has personal use of a communication service (home broadband, mobile internet, internet connectivity, voice lines etc.) provided by his or her employer, this should be treated as a fringe benefit. The initial value is the cost to the employer of providing the service.

Again, the fringe benefit has no value if the service is used mainly (more than 50%) for business purposes. This also applies to personal use of a telecommunications service made available at work, for example personal calls made from the office using the employer's fixed line service.

Employee-owned device and communication services

Employers generally compensate employees for business-related device expenditure by way of reimbursements (or advances) and allowances.

- **Reimbursement**

- Reimbursements of business-related expenditure are not taxable if the expenses are incurred on the instruction of the employer, and the employee provides the employer with proof of the expense. In the case of mobile devices, the proof would be in the form of an itemised billing statement.
- The difficulty with the calculation of the reimbursement value of the business use of the mobile device is items such as free minutes and the fixed contract amount. Here's an example of a calculation that SARS will accept:
 - Subscription: R600 per month (includes the mobile device and 500 free minutes per month)
 - Total bill: R600
 - February use: 150 minutes for business use, and 300 minutes for private use
 - February business use value: $R600 \times 150 / (150 + 300) = R200$
- Thus, the employee may be reimbursed up to R200 tax free. If more than R200 is reimbursed, the excess amount above R200 is taxable and must be reported on the tax certificate against code 3713 (taxable allowance). A valid reimbursement for business-related mobile expenses is not remuneration and is therefore not used for the calculation of SDL or UIF.

- **Allowance**

- If the employer is satisfied that the employee will incur business-related mobile expenses an allowance can be paid to compensate the employee for incurring the employer's expense. The value of the allowance must be in line with the expected business use value. The allowance is remuneration and the full value is subject to PAYE, SDL and UIF.
- Furthermore, no deduction may be claimed against this allowance on assessment, even if the employee is paid mainly (more than 50%) by way of commission. If the employer reimburses the employee for business calls above the allowance value, then this portion of the compensation is treated as a reimbursement.

Closing words

Companies spend a lot of time considering the technical and accounting aspects of the ownership and payment models they follow for communication devices and services. However, the implications for the payroll should not be neglected if a company is looking at implementing a BYOD strategy or reverting to an employer-owned approach.

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