



A Guide to Non Cash Benefits

If you supply non cash benefits to your employees, the employee must pay tax on the value

What is a non cash benefit?

A non cash benefit is any benefit that an employer pays for an employee that is of a private nature. For example as part of an employee's contract they may be provided with a rent free house and a vehicle for private use. These are non cash benefits.

Other non cash benefits may include, but are not limited to:

- Free power, water and gas
- Telephone for private use
- Domestic help – cleaners, gardeners, guards
- School fees
- Below market rate loans

How are these treated for tax purposes?

Non cash benefits are taxable to the employee.

Different non cash benefits are taxed in different ways.

1. Housing and Vehicles

If you provide an employee with a rent free house or vehicle for private use then they must pay tax on the value of the benefit. IRD has prepared housing and vehicle schedules to determine the value to the employee of different types and sizes of houses.

A copy of the schedule (called an IR5) can be obtained from IRD or downloaded from our website.

The appropriate amount set out in the schedule should be added to an employee's salary and tax calculated on it. If a housing or vehicle allowance is paid to an employee, the allowance is fully taxable.

2. Other Non Cash Benefits

All other non cash benefits are taxed on the full value of the benefit to the employee.

When an employee receives a benefit from an employer, the benefit received in the hands of the employee should always be treated as net of tax (an after tax payment). What we take home whether it be salary in cash or benefits is always after tax. This means that we need to work out the value of the benefit to the employee grossed up to include tax.

How do you gross up a Non Cash Benefit?

To gross up a non cash benefit you need to know two pieces of information:

1. The value of the benefit in the hands of the employee
2. The marginal tax rate that the employee should be taxed at

The marginal tax rate is the rate of tax that the next dollar bracket an employee receives will be taxed at.

For example if an employee receives a salary of \$80,000, and non cash benefit of \$5,000 the new income will fall in the tax bracket of income over \$60,000 and should be taxed at the marginal rate of 40%.

Once these 2 amounts are determined then the formulas below can be used to work out the tax payable on the grossed up non cash benefit.

If you simply want to know the grossed up value of a non cash benefit to add to an employee salary then the following formula can be used. This is useful if the benefit is paid and taxed in the employee's regular pay periods

Formula 1: Value of grossed up benefit

$$\frac{\text{Value of non cash benefit}}{(100 - \text{marginal tax rate})} \times 100 = \text{grossed up non cash benefit}$$

The 2nd formula allows you to work out the tax on the non cash benefit separate from other income. This is useful if the non cash benefit is paid irregularly, or annually such as school fees.

Formula 2: Tax Payable on Non Cash Benefit

$$\frac{\text{Value of non cash benefit}}{(100 - \text{marginal tax rate})} \times \text{marginal tax rate} = \text{tax payable on non cash benefit}$$

An example using Formula 1 & 2

Mary receives a salary of \$52,000/year or \$2,000/fortnight. She also has school fees paid for her children of \$5,000. We know the value of the benefit is \$5,000 and that the marginal tax rate for Mary is 35%

$$\frac{5000}{(100 - 35)} \times 100 = \$7692$$

The grossed up value of this non cash benefit is \$7,692.00.

Using Formula 2 can go straight to the tax payable figure. Tax payable on the non cash benefit is \$2,692

$$\frac{5000}{(100 - 35)} \times 35 = \$2,692$$

When do I tax Non Cash Benefits?

Tax should be calculated at the time the non cash benefit is received. In the case of an ongoing benefit such as housing this should be in each pay period.

Irregular benefits such as school fees should be taxed when the employer makes the payment, however to spread the tax burden you can spread the benefit over the pay periods it relates.

For any further information on non cash benefits please contact IRD