

So you have recently landed a new job and have been granted some allowances to carry out your responsibilities. The first question you should ask is what is an Allowance? And secondly, what are the applicable taxes on these allowances?

Continue reading this week's #TaxationSimplified, as we explain how these and other allowances are treated under the Income Tax Act.

An allowance is a fixed amount of money or a benefit –in-kind, given to an employee periodically, in addition to salary, for the purpose of meeting some specific requirements connected with the service rendered by the employee or to compensate the employee for some unusual conditions of employment.

WHAT ARE THE TYPES OF ALLOWANCES THAT ARE TAXABLE?

Section 5 of the Income Tax, specifically highlights several allowances which are taxable:

Income earned or accumulated from or received in Guyana, as it relates to gains or profits from any office or employment, including compensation for the termination of any contract, service or service of employment.

Any allowance granted in respect of employment, whether in money or otherwise.

Therefore, compensation for the termination of any contract of employment (except severance or medical discharge), housing allowance (excluding rent), medical and dental expenses, vacation allowance of directors other than whole time directors and any other allowance paid to an employee is subject to Income Tax, except where explicitly exempt by the Income Tax Act.

HOW DO I QUALIFY FOR NON-TAXABLE ALLOWANCES?

According to Section 5 (b) (ii) of the Income Tax Act, Chapter 81:01, "no income tax shall be payable...in respect of a subsistence, travelling, entertainment or expense allowance, if it is proved to the satisfaction of the Commissioner-General that the allowance has been expended for the purposes in respect to which the allowance has been given." As such, only leave passage (if used to travel overseas), travelling, entertainment or expense, station and subsistence allowances, medical discharge, medical and dental expenses are exempt from Income Tax.

RECENTLY, I WAS GRANTED A MEAL ALLOWANCE BY MY EMPLOYER IN THE COURSE OF CARRYING OUT MY DUTIES. WHY WAS I TAXED ON THIS ALLOWANCE?

Meal allowances granted to employees for the purchase of meals during the normal working hours are taxable. However, consideration may be given to treat meal allowances paid to an employee as 'non-taxable' only if it can be proven to the satisfaction of the Commissioner – General that the allowance was used for such purposes.

[See Tax Operations Policy #6 – Meal Allowance-
http://www.gra.gov.gy/images/GRA_Docs/Tax_Policies/tax_operation_policies/TaxOpPol6.pdf

IF NO PROOF CAN BE PROVIDED REGARDING THE USE OF NON-TAXABLE ALLOWANCES FOR THE PURPOSE IN WHICH IT WAS PAID, HOW SHOULD THIS ALLOWANCE BE TREATED?

If an Employer cannot provide proof that the non-taxable allowances paid was utilised in the purpose for which it was issued, to the satisfaction of the Commissioner –General, by way of receipts, then the employer must deduct the applicable Income Tax and remit same to the Guyana Revenue Authority (GRA).

REMINDER!

Employers are reminded that clearly documented allowance policies should be implemented to avoid any misunderstandings between business and employees. These policies, and supporting documents, justifying the use of non-taxable allowances paid, must be retained and provided to the GRA upon request.

Need more information on Taxable and Non-Taxable Allowances?

You can refer to Tax Operations Policy# 13

http://www.gra.gov.gy/images/GRA_Docs/Tax_Policies/tax_operation_policies/TaxOpPol13.pdf
Or

The Income Tax Act, Chapter 81:01:

http://www.gra.gov.gy/images/GRA_Docs/Taxes/income/ia_tax2012.pdf

FOR MORE INFORMATION AND ASSISTANCE

