

By **Mike Rudd**, Director, Staples Rodway, Auckland

Accommodation changes

Inland Revenue has had its eye on employer paid-for accommodation for employees, leading to some confusion. Now the situation has been clarified with new rules that can be backdated, coming into force next year.

THE NEED TO ACCOMMODATE WORKERS on specific projects is common and may arise when some workers need to be relocated or specialised skills are required.

With temporary relocations, employers usually provide workers with accommodation as part of their package.

Workers may also need accommodation to attend conferences or other events.

Scrutiny on accommodation

The tax effect of accommodation provided to employees used to be fairly well understood.

Recently, however, it has been under scrutiny with overseas and non-local builders coming to work on the Christchurch rebuild and concerns that private benefits may be provided to employees without being subject to tax or family assistance adjustments.

The view is that accommodation, meals and clothing are primarily private matters but that it is appropriate, in some circumstances, for employers to pay for these without a tax cost to the employer.

Changes in line with other countries

Inland Revenue has made several statements clearly intended to tighten the rules

and result in more employers paying tax on accommodation being provided.

These culminated in a statement in December 2012 that, when accommodation is provided for more than a year on a project, the benefit of that accommodation would be taxable.

Now, Inland Revenue has backed away from this and is introducing changes that will provide a more sensible solution - one that should be easier for payroll staff to implement.

The new rules have been drafted to more closely mirror those in other countries, so if you trying to attract overseas workers, they will be familiar with the treatment applying to their accommodation, and the New Zealand tax position will be clearer.

Can be retrospective

The proposed application date for the new rules for accommodation and other allowances is 1 April 2015, but there will be the choice, in some cases, of applying the new rules retrospectively to arrangements put in place on or after 1 January 2011.

In the case of Canterbury earthquake recovery projects, the proposed application

date is 4 September 2010, the date of the first earthquake.

Long-term projects exempt for 2, 3 or 5 years

The proposed changes apply whether an employer pays for the accommodation directly or provides an employee with an accommodation allowance and varies depending on circumstances:

- When there is a reasonable expectation that an employee will work away from their normal workplace for up to 2 years, employer-provided accommodation will be tax exempt.
- The exemption period will extend up to 3 years for employees working on large capital projects.
- The exemption period is further extended for up to 5 years for Canterbury earthquake recovery projects.
- There will no longer be a requirement to determine whether or not the employee has a home available at their usual location. The new tests are based solely on time spent at a new work location.
- The exemption will not apply if accommodation is provided as part of a specific salary trade-off arrangement or if there

are arrangements to restart the various exemption periods.

- When an accommodation benefit is taxable, it will generally be valued at its market rental value, less an adjustment for any work use of the property.

Short business trips or mobile workforce

If an employer has a project manager responsible for a number of sites who has to travel often and stay overnight, accommodation provided near the temporary worksites will be tax exempt without an upper time limit.

Accommodation provided or paid for at a work-related training course or conference will continue to be tax exempt.

Permanent relocations are different

These rules do not apply when an employee permanently relocates to a new workplace or to a new employer. Separate concessionary tax rules can apply in that case, but

these are different to the rules regarding temporary workplace changes.

Meals exempt for 3 months

Meal payments linked to work-related travel will be exempt for up to 3 months at any new work location, including for long-term secondments. After 3 months, any payments for meals will be taxable, and PAYE should be paid on the grossed up amount.

Meal payments outside of work-related travel will also be tax-exempt in some cases.

Clothing and clothes allowances will be exempt where employees are paid to acquire distinctive work clothing not normally worn for private purposes. Where protective clothing is provided or paid, it remains non-taxable.


Time for employers to review


Accommodation, whether a cash allowance or provided, continues to be subject to PAYE and not FBT. The treatment of

other allowances depends on the form of the benefit.

If an employee is provided with an allowance in cash form, if taxable, this will be subject to PAYE and may require grossing up or, if in non-cash form such as clothes that do not meet the exempt definition, will be subject to FBT.

Because Inland Revenue has been reviewing these allowances in stages over the last 2 years, various announcements were made about the treatment of accommodation and other allowances that are now out of date because of the new draft legislation.

Employers who changed the treatment of accommodation and meal allowances because of those earlier announcements should review their treatment to determine whether the new taxation rules apply and when they can apply from. 

For more  This is intended as general advice only. Contact your advisor or Staples Rodway if you have any specific questions about these topics.