WEEKLY LABOUR BULLETIN

Commercial Farmers Union Bulletin #23
Part 2

14th September 2026

TABLE OF CONTENTS

PAYE ON FARMS
PART 2 - ALLOWANCES AND REIMBURSEMENTS: WHAT MUST THE FARMER TAX?

PAYE ON FARMS
PART 2 - ALLOWANCES AND REIMBURSEMENTS: WHAT MUST THE FARMER TAX?

INTRODUCTION

Part 1 established that allowances form part of remuneration for purposes of PAYE. Part 2 deals with an important practical question: *"When is a payment to an employee an allowance, and when is it a reimbursement of an employment expense?"* This distinction is important because an allowance is generally included in remuneration, while the Income Tax Act specifically excludes a genuine reimbursement of expenditure actually incurred by an employee in the course of employment.

WHAT DOES THE LAW SAY ABOUT ALLOWANCES?

Paragraph 1(1), Thirteenth Schedule to the Income Tax Act [Chapter 23:06], includes an ***"allowance"*** in the definition of remuneration. Therefore, where a farmer pays an employee an allowance, the allowance must generally be taken into account when determining PAYE, unless the Income Tax Act specifically excludes or exempts that payment.

The important point is that calling a payment an allowance does not make it tax-free. Whether it is called a housing allowance, transport allowance, meal allowance, telephone allowance, responsibility allowance or any other allowance does not, by itself, change its PAYE treatment.

WHAT IS THE DIFFERENCE BETWEEN AN ALLOWANCE AND A REIMBURSEMENT?

Paragraph 1(1)(f) of the Thirteenth Schedule to the Income Tax Act [Chapter 23:06] excludes from remuneration *"any amount paid or payable to an employee wholly in reimbursement of expenditure actually incurred by such employee in the course of his employment."* In simple terms, allowance = money given to the employee, whereas reimbursement = money paid back to the employee.

An allowance is an amount given to an employee to meet an expense. A reimbursement is money paid back to the employee after the employee has already spent his or her own money on an expense incurred for the employer's business.

HOW DOES THIS WORK IN PRACTICE?

Suppose a farmer pays an employee a US$100 transport allowance every month. The employee receives the US$100 regardless of how much is actually spent on transport. This is an allowance and forms part of remuneration for PAYE purposes.

Now suppose the farmer sends the employee to purchase farm supplies. The employee spends US$40 of his own money on the farmer's business, produces the relevant receipt, and the farmer pays the employee back the US$40. This is a genuine reimbursement of expenditure actually incurred in the course of employment and is excluded from remuneration under paragraph 1(1)(f).

WHAT IF THE FARMER CALLS A PAYMENT A "REIMBURSEMENT"?

The name given to a payment does not determine its tax treatment. What matters is what the payment is actually for, and what the Income Tax Act says about it. If a farmer pays an employee *"travel reimbursement – US$100 per month"*, but the employee receives the US$100 regardless of what was actually spent, the payment does not become a reimbursement simply because it is called one. For paragraph 1(1)(f) to apply, the payment must be wholly in reimbursement of expenditure actually incurred by the employee in the course of employment.

The practical question is therefore, *"did the employee actually spend the money on the employer's business, and is the farmer paying that money back?"* If not, the payment should not be treated as a reimbursement merely because of its description on the payslip.

WHAT IF THE EMPLOYEE SPENDS LESS THAN THE ALLOWANCE?

If an employee receives a US$100 transport allowance but spends only US$60 on transport, the payment remains a US$100 allowance. The fact that the employee used some of the money for work-related transport does not turn the allowance into a reimbursement. A reimbursement is based on an actual expense incurred and paid back by the employer.

ARE THERE EXCEPTIONS TO THE GENERAL RULE?

The general rule is that an allowance is included in remuneration for PAYE purposes. However, the Income Tax Act provides for certain payments that are excluded from remuneration or exempt from income tax. Where a specific exemption applies, the payment may therefore not be subject to PAYE. Where an exemption is relevant to an agricultural payment or benefit, the applicable provision and its requirements will be identified and explained in the relevant part of this series.

Farmers should therefore not assume that an allowance is taxable or tax-free simply because of its name or purpose. The treatment must be determined from the provisions of the Income Tax Act applicable to that particular payment.

WHAT SHOULD A FARMER DO?

When making a payment to an employee, the farmer should ask three simple questions:

1. **Is this an allowance?** - If it is, it is generally part of remuneration and must be considered when determining PAYE.
2. **Is this a reimbursement?** - If so, was the employee actually reimbursed for expenditure incurred in the course of employment?
3. **Is there a specific exemption in the Income Tax Act?** - If an exemption applies, its conditions must be satisfied.

Farmers should also retain appropriate supporting documents, particularly for reimbursements. Proper records may be required during tax compliance reviews or inspections, as articulated in our bulletin on labour inspections and compliance.

COMMON MISTAKES

1. **"It is an allowance, so PAYE does not apply."** – Incorrect. An allowance is expressly included in remuneration by paragraph 1(1) of the Thirteenth Schedule.
2. **"It is for transport, so it is tax-free."** – Incorrect. The purpose of an allowance does not, by itself, make it tax-free.
3. **"We call it a reimbursement, so PAYE does not apply."** – Incorrect. The payment must actually reimburse expenditure incurred by the employee in the course of employment.
4. **"The employee used the allowance for work, so it is a reimbursement."** – Incorrect. Using an allowance for a work expense does not change it into a reimbursement.

CONCLUSION

The distinction is simple: ***an allowance is money given to the employee, whereas reimbursement is money paid back for an actual work expense.*** An allowance is generally included in remuneration, while a genuine reimbursement of expenditure actually incurred in the course of employment is excluded under paragraph 1(1)(f) of the Thirteenth Schedule. That distinction can determine whether the amount enters the PAYE calculation.

Part 3 will address whether an employee who is provided with a house, cottage, room or other accommodation by the employer, instead of receiving a housing allowance, is required to pay PAYE on the value of that accommodation. This will examine the relevant provisions of section 8 of the Income Tax Act, the treatment of employment benefits, and how the value of employer-provided accommodation is determined.

Disclaimer: This article is issued to serve as a general guide to farmers and does not substitute legal advice that may be required to address a particular situation with peculiar circumstances.

CIIck here: to see the Archive for all downloadable S.I's on our website - www.cfuzim.org

Click Here: to find previously published Labour Bulletins