WEEKLY LABOUR BULLETIN

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PAYE ON FARMS
PART 3 - ACCOMMODATION: WHEN DOES IT ATTRACT PAYE?

INTRODUCTION

In Part 1, we established that remuneration for PAYE purposes is not limited to basic salary and includes amounts such as allowances, bonuses and other employment payments. In Part 2, we distinguished between an allowance and a genuine reimbursement of an employment expense. Part 3 deals with another common situation on farms: accommodation provided to employees. The question is whether an employee who receives accommodation instead of, or in addition to, a cash payment has received something that must be taken into account for PAYE purposes.

WHAT DOES THE LAW SAY?

Paragraph 1(1) of the Thirteenth Schedule to the Income Tax Act [Chapter 23:06] defines remuneration broadly and includes specified payments and benefits "whether in cash or otherwise." This is important because an employee does not have to receive money for an employment benefit to have PAYE consequences. Accommodation provided by an employer is an example of a benefit provided otherwise than in cash.

Section 8(1)(f) of the Income Tax Act includes in gross income the value of an advantage or benefit in respect of employment and specifically includes the occupation of quarters or a residence. The value of the occupation of quarters or residence is determined by reference to its value to the employee. In simple terms, this means considering the value of the accommodation as a benefit received by the employee, rather than simply the cost to the farmer of providing it. The value of the accommodation for PAYE purposes is therefore not simply the amount the farmer spent providing the accommodation.

WHAT DOES THIS MEAN FOR ACCOMMODATION ON A FARM?

Where a farmer provides an employee with a house, cottage or other accommodation, the employee is receiving an employment benefit even though the farmer has not paid the employee cash for the accommodation. The value of that benefit must therefore be considered when calculating PAYE, unless a specific statutory exemption applies.

In practical terms, ZIMRA's PAYE guidance uses the open-market rental value (**the rental amount that the accommodation could reasonably be expected to obtain if it were offered for rent in the open market to an unrelated tenant, taking into account the nature, location, size, condition and facilities of the accommodation**) of the accommodation in the circumstances it addresses. Where the value of farm accommodation cannot readily be established, the employer should engage ZIMRA regarding the appropriate valuation before determining the benefit.[1]

For example, a farm employs a general worker who is provided with a three-room house on the farm as part of the employment arrangement. The employee does not pay rent and does not receive a housing allowance. The employee therefore occupies the house free of charge. Assume that, after considering comparable accommodation in the relevant area, the reasonable open-market rental value of a similar three-room house is US$150 per month. Because the employee pays nothing towards the accommodation, the US$150 is the value of the accommodation benefit for PAYE purposes, which forms part of remuneration.

WHAT IF THE FARMER PAYS AN ACCOMMODATION ALLOWANCE?

A cash accommodation or housing allowance is different from accommodation provided by the farmer. As explained in Part 2 of this series, an allowance is money given to the employee and is generally included in remuneration for PAYE purposes. For example, if a farmer pays an employee a US$200 monthly housing allowance, that allowance is generally taken into account when determining remuneration for PAYE.

If, instead, the farmer provides the employee with a house, the issue is the value of the accommodation benefit.

WHAT IF THE EMPLOYEE PAYS RENT?

If the employee contributes towards the cost of accommodation provided by the farmer, that contribution is taken into account when determining the value of the benefit.

For example:

- Value of accommodation: US$400 per month
- Rent paid by employee: US$150 per month
- Balance: US$250 per month

The employee's contribution therefore reduces the value of the accommodation benefit. The applicable valuation must, however, be determined in accordance with the relevant tax rules.

DOES IT MATTER THAT THE EMPLOYEE IS REQUIRED TO LIVE ON THE FARM?

This is particularly important in agriculture. A farmer may require a farm manager, supervisor, security employee, or another employee to live on the farm because of the nature of the work. The fact that the employee is required to live on the farm does not, by itself, make the accommodation exempt from PAYE.

The Income Tax Act specifically includes occupation of quarters or residence as an employment benefit. A different treatment would therefore require a specific provision of the law to apply

WHEN DOES THE GENERAL RULE NOT APPLY?

The general rule is that employer-provided accommodation can constitute a taxable employment benefit. However, the Income Tax Act provides specific exemptions in particular circumstances. For example, the Third Schedule of the Income Tax Act provides an exemption in relation to accommodation and transport allowances, or quarters or a residence, provided to qualifying staff of a mission hospital or rural clinic.

This is a useful illustration of the distinction between the general rule and a specific statutory exemption. The accommodation is treated differently because the law specifically provides for the exemption. The exemption applicable to qualifying staff of a mission hospital or rural clinic should not, however, be treated as a general exemption for agricultural employers.

WHAT SHOULD A FARMER DO?

Where accommodation is provided to an employee, the farmer should:

1. Identify whether accommodation or a cash accommodation allowance is being provided.
2. If accommodation is provided, establish whether the employee contributes towards it.
3. Determine the applicable value of the accommodation benefit.
4. Include the benefit in the PAYE calculation where required, unless a specific statutory exemption applies.

COMMON MISTAKES

1. "**There is no PAYE because I did not pay the employee cash**." - Employment benefits can have PAYE consequences even where they are provided other than in cash.
2. "**It is a farmhouse, so it is not taxable**." - The fact that accommodation is situated on a farm does not create a general tax exemption.
3. "**The employee has to live on the farm, so the accommodation is automatically tax-free**." - The requirement to live on the farm does not, by itself, remove the accommodation benefit from PAYE.
4. **Treating a housing allowance and employer-provided accommodation as the same thing**. - A cash allowance and accommodation provided as an employment benefit are different arrangements and must be treated accordingly.

CONCLUSION

Accommodation is an important example of why remuneration for PAYE purposes is not limited to cash. Where a farmer provides accommodation to an employee, the occupation of that accommodation can constitute an employment benefit whose value must be considered for PAYE purposes.

*Coming next – **Part 4, PAYE ON FARMS – BENEFITS IN KIND**: Part 4 will consider other benefits that farmers may provide to employees, including motor vehicles, meals, school fees, airtime/data and employee loans, and explain their PAYE treatment.*

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.

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