

## Employee mileage reimbursement practices: All you need to know

Author: Nyasha Mukechi . September 2020

It is common for employees to use their personal vehicles on company business from time to time. However, such journeys may incur costs, and employees would require that the company reimburse them for the expenses incurred on behalf of the business. In some places, this may be required by law. Having a mileage reimbursement policy in place will help alleviate the employees of expenses incurred while travelling.

What is mileage reimbursement?

Mileage reimbursement is the reimbursing/compensating of employees for costs incurred using their personal vehicles on official company business. Examples of company business are

- meeting with clients
- attending professional events,
- making deliveries,
- running errands, as well as,
- fulfilling other duties.

The typical costs that a company reimburses its employees using a mileage rate for are:

- Fuel
- Oil changes
- Maintenance
- Insurance

Tolls and parking are not accounted for by the mileage reimbursement rate, thus must be reimbursed using their actual cost.

Mileage reimbursement advantages

Mileage reimbursements are advantageous to both employees and employers, as shown below:

### Employer advantages:

- **Improved employee satisfaction and employee engagement.**

Mileage reimbursements may prevent disgruntled employees, improve employee satisfaction, and can

positively affect employee engagement. This is important as a study of more than 600 companies by Smarp revealed that “71% of the executives say that employee engagement is critical to their company’s success”. Furthermore, the article goes on to share that 85% of all employees are not engaged in the workplace

- **Employers can receive a business mileage deduction for reimbursing employees.**

The Balance defines business mileage deduction as a tax break small business owners can claim for business miles driven. Mileage deduction rates apply to those who are self-employed.

- **Employees are more likely to run business-related errands.**

If employees feel burdened by the need to spend their money on company business, they may be reluctant to run business-related errands.

## **Employee advantages:**

- Compensation for mileage and using a personal car for business purposes
- Less worry about mileage costs

### Calculating business mileage

When it comes to calculating mileage for taxes, there are two methods, i.e. the actual expense method and the standard mileage rate.

#### Actual expense method

Under the actual expense method, employees are required to capture all costs incurred by operating the vehicle. As not all the travel was strictly business-related, expenses will be trimmed to reflect the actual expense incurred on business use. Every recorded expense must have a description and date.

For the actual expense method, the expenses that need to be tracked are:

- Fuel
- Gas
- Oil
- Repairs
- Tires
- Insurance
- Registration fees
- Licenses
- Depreciation
- Lease payments

## Standard mileage rate

The standard mileage rate is a method where a company reimburses its employees at a standard/fixed rate for each unit of distance driven (i.e. mile or kilometre).

The standard mileage rate is simpler than the actual expense method. Instead of determining the exact costs incurred, a standard rate is used (IRS mileage rate, HMRC mileage allowance, and AA mileage rate) to compensate employees.

## Mileage reimbursement forms

Employees must catalogue the mileage covered on work purposes to receive a mileage reimbursement.

Employees may use pen and paper to log business miles they travel during the day. Many companies provide mileage reimbursement forms for employees to fill out any time they complete any work-related errand.

Mileage reimbursement forms require information about the journey. Typically, the form includes the date, nature/purpose of the business, origin, destination, and distance travelled.

In the technological age that we are living, some companies may move away from the paper forms and migrate to digital versions. Along with being environmentally responsible, making use of digital forms are convenient and also reduce the risk of misplacing or forgetting paper forms. Digital mileage reimbursement forms require similar information as the paper forms. They can be in the form of an application or an online spreadsheet.

## Mileage reimbursement rate

### US

The Internal Revenue Service (IRS) sets a standard mileage reimbursement rate. For 2020, the federal mileage rate is 57.50 cents per mile. This rate is merely a recommendation and companies are at liberty to pay less or more. When a company uses a mileage reimbursement rate equal to or lower than this to reimburse employees, the cost is not taxable to employees and is deductible for the company. However, when the reimbursement exceeds the IRS mileage reimbursement rate, the additional amount reimbursed is regarded as the employee's wages and will be taxed as gross income for both the employee and the employer.

### UK

In the UK, HM Revenue & Customs (HMRC) sets an approved mileage rate. In 2020, the mileage allowance rate is 45p per mile for the first 10,000 miles per year for cars and vans. Above 10,000 miles per year, the rate is 25p per mile.

For motorcycles, the rate is 24p per mile regardless of the yearly distance travelled.

Similarly, the mileage allowance rate for bikes is 20p regardless of the yearly distance travelled.

There is an additional 5p per mile that companies can reimburse employees with for carrying a passenger for work purposes. The passenger must also be an employee of the company.

#### Australia

In Australia, the Australian Taxation Office (ATO) sets the standard reimbursement rate. In 2020, the mileage reimbursement rate is 72 cents per kilometre. However, the most that can be claimed is 5,000 kilometres on business work. Employees may need to provide “written evidence to show how you worked out your business kilometres (for example, by producing diary records of work-related trips).” – ATO (2020)

#### South Africa

In South Africa, the South African Revenue Service (SARS) sets the standard reimbursement rate. In 2020, the mileage reimbursement rate is R3.98 per kilometre. Again, where an employee is reimbursed at a rate higher than the SARS prescribed rate, the difference between the SARS prescribed rate and the rate used by the employer will be subject to employee tax (PAYE), irrespective of the number of the distance travelled for work reasons.

#### Mileage reimbursement calculator

A mileage rates calculator is used to calculate how much an employee that would have used their vehicle for company business should be reimbursed based on several criteria. According to the Automobile Association of Zimbabwe (AA Zim), the criteria assessed can be the capacity of the engine, license, insurance, depreciation value, and fuel.

*Nyasha Mukechi is a Business Analytics Consultant at Industrial Psychology Consultants (Pvt.) Ltd; a management and human resources consulting firm.*

*Phone +263 4 481946-48/481950 or*

*email: [nyasham@ipcconsultants.com](mailto:nyasham@ipcconsultants.com) or*

*visit our website at [www.ipcconsultants.com](http://www.ipcconsultants.com)*

<https://thehumancapitalhub.com/articles/Employee-Mileage-Reimbursement-Practices-All-You-Need-To-Know>