Inland Revenue
Te Tari Taake

TECHNICAL DECISION SUMMARY > PRIVATE RULING

WHAKARĀPOPOTO WHAKATAU HANGARAU > WHAKATAUNGA TŪMATAITI

Employee allowances – tax exemption and PAYE treatment

Decision date | Rā o te Whakatau: 19 February 2026

Issue date | Rā Tuku: 17 July 2026

TDS 26/07

Subjects | Kaupapa

This item summarises a private ruling about the income tax and PAYE treatment of various employee allowances paid under employment agreements, including whether those allowances are exempt income to employees and whether the payer has PAYE withholding obligations.

Taxation laws | Ture tāke

All legislative references are to the Income Tax Act 2007, unless otherwise stated.

Summary of facts | Whakarāpopoto o Meka

1. The Taxpayer was a New Zealand resident employer paying a range of allowances to employees under collective and individual employment agreements (CEAs).
2. The allowances considered included:
    - meal allowances;
    - tool allowances;
    - transport allowances;
    - laundry allowances for distinctive work clothing; and
    - telephone allowances.
3. The employer sought a private ruling about whether these allowances are exempt income to employees or taxable employment income subject to PAYE withholding.

Issues | Take

4. The main issues considered in this ruling were whether:
    - meal allowances qualify as exempt income under s CW 17C;
    - tool allowances qualify as exempt income under s CW 17;
    - transport-related allowances qualify as exempt income under s CW 18;
    - laundry allowances qualify as exempt income under s CW 17CC; and
    - non-exempt allowances are PAYE income payments under ss RD 3 and RA 5.

Decisions | Whakatau

5. The Tax Counsel Office decided the following:

   - Meal allowances are exempt income only where the statutory overtime requirements in s CW 17C are met; otherwise, they are taxable.
   - Tool allowances are exempt only to the extent they reimburse employees for depreciation and maintenance of work-related use of tools owned by employees; capital and private elements are taxable.
   - Transport-related allowances are exempt only to the extent they reimburse additional transport costs arising from the absence of public transport or arising from shift timing and the absence of adequate public transport.
   - Laundry allowances paid for the maintenance of distinctive work clothing are exempt income.
   - To the extent allowances are not exempt income, they are PAYE income payments and subject to withholding obligations.

Reasons for decisions | Pūnga o ngā whakatau

Issue 1 | Take tuatahi: Meal allowances

6. Meal allowances are exempt income under s CW 17C only if the employee has worked at least two hours' overtime on the day of the meal and there is either a contractual entitlement to overtime pay or an established employer practice of paying for overtime meals. The amount paid must reimburse actual meal costs or be a reasonable estimate of those costs.

7. Where meal allowances are payable under a CEA after less than two hours' overtime, the statutory requirements are not satisfied.

8. Where a meal allowance is paid regularly on top of a salary and is not contractually linked to working overtime, the allowance is not paid for a meal when the employee is working overtime, so is taxable income under s CE 1.

Issue 2 | Take tuarua: Tool allowances

9. An allowance is exempt income under s CW 17(2) only to the extent it reimburses an employee for expenditure incurred in connection with their employment that would be

 See page 1 for details.

deductible if the employment limitation did not exist. The other general limitations, including the private and capital limitations, continue to apply.

10. Tool allowances may reimburse employees for depreciation, insurance and maintenance of tools required for employment. However, to the extent an allowance relates to the purchase of new tools (capital expenditure) or to the private use of tools, the respective capital and private limitations may apply.

11. Accordingly, tool allowances are exempt only to the extent they reimburse deductible expenditure and business-related use, with any excess being taxable employment income under s CE 1.

Issue 3 | Take tuatoru: Transport-related allowances

12. An allowance paid to reimburse additional transport costs is exempt income under s CW 18 only to the extent the additional costs are incurred in connection with employment and for the employer's benefit and the costs arise from specified factors, including the timing of work and the absence of adequate public transport. The amount paid must reimburse actual additional transport costs or be a reasonable estimate of those costs.

13. Ordinary home-to-work travel costs are private in nature and are not exempt. Whether public transport is adequate depends on factors such as distance from public transport to the workplace, timetables and practical accessibility, particularly for night and early-morning shifts.

14. Only the portion of an allowance that reimburses additional transport costs is exempt. Allowances paid outside those circumstances are taxable employment income under s CE 1.

Issue 4 | Take tuawhā: Laundry allowances

15. Amounts paid for distinctive work clothing are exempt income under s CW 17CC. Distinctive work clothing is clothing worn as part of a uniform that is identifiable with the employer and that would not normally be worn for private use.

16. The exemption extends to amounts paid for maintaining such clothing, including laundering. There is no requirement to apportion the allowance once it is properly characterised as being paid for distinctive work clothing.

Issue 5 | Take tuarima: PAYE income payments

17. Salary, wages and allowances paid in connection with employment are PAYE income payments under s RD 3 unless specifically exempt.

18. Where allowances are wholly taxable or exempt only in part, PAYE must be withheld on the taxable amounts under s RA 5.