



The persistent per diem

Many senior members of our industry will remember the glory days of the Per Diem. Peter Granger writes that to many, they seemed to go the way of black and white television, typewriters and vinyl records.

Peter Granger is the CEO of Inlogik Pty Ltd, a leading provider of Spend Management solutions locally and internationally. Inlogik's ProMaster expense management solution and Xenocube spend analytics solution provide government and commercial enterprises with technology that brings immediacy, transparency, opportunity and compliance to the spend management domain.



THE MODERN MARKETING of financial services has sought to convince us that best practice and per diems (a.k.a. allowances) are mutually exclusive. However, when we step away from the theory and have a look at the practice in some of our clients, we find that per diems are alive and well, perhaps living under assumed names.

The literal translation of the Latin phrase "per diem" means daily or through-the-day, although it has come to be accepted as meaning per day. Regardless, per diems form a part of the broader family of allowances.

Among Inlogik's clients in Australia and overseas, we find a range of applications of allowances which are handled on our expense management solution, including:

- > Full per diem payments intended to cover the entirety of travel costs including accommodation;
- > Partial allowances intended to cover just incidentals where major expenses such as accommodation and airfares are intended to be settled by credit card or on account;

- > Part-day allowances for meals and incidentals where the day does not include an overnight stay;
- > Own-vehicle use allowances paid by the kilometre;
- > Overtime meal allowances.

A further variation on the processing requirements of these occurs when the allowance may be paid in part or in full as an advance.

We find that daily allowances continue to prosper in many government and higher education institutions in Australia. Most rates are set at the level that the taxation commissioner publishes as "reasonable" for purposes of assessing tax liabilities. At the other extreme, our bank clients have almost completely driven out the concept of daily allowances and function entirely on an actual-cost incurred basis.

Among our European clients, daily allowances are often entrenched in the fabric of employee relationships and are often closely regulated and highly complex. Germany is a stand-out example in this regard, with government-specified rates, optional additional company rates



and multiple variables such as multi-trip allowances, percentage and flat amount reductions and carry-over rules (across midnight). The automation of the allowance calculations by an expense management solution has delivered a significant boost in terms of efficiency, productivity and compliance for our customers and their employees.

We have at least one customer in Europe who does not use corporate credit cards at all and uses our ProMaster expense management solution just to calculate complicated daily allowances and other reimbursements. Of course, they access all the normal benefits of an expense management system with centralised control, low administration costs and a high degree of financial transparency.

Whether the allowances are established to function as full per diems or as cover for incidentals, they have a number of advantages and disadvantages which each organisation will weigh up in their own context.

The advantages of allowances include:

> The financial exposure of the employer

for the allowance component of a trip can be accurately pre-determined for budgeting and approval processes;

- > Employees are granted much greater flexibility about how they apply an agreed fund as advanced by the employer;
- > Paperwork is reduced significantly for incidental items;
- > (Although it is not the intention – see comments on taxation treatment), the profit margin an employee can make on an allowance through a programme of shrewd expenditure can be seen as “compensation” for the inconvenience of the travel.

The disadvantages of allowance-based re-imbursalment policies include:

- > Inability to claim input tax credits on travel expenditure;
- > Limited ability to negotiate preferred supplier arrangements, to monitor compliance to policy and manage contract leakage;
- > Personal security issues if employees are carrying allowances as cash advances;
- > An adverse impact on cash flow compared to a corporate credit card if allow-

ances are being paid in advance;

- > The risk of artificial travel motivation if allowances are “profitable”;
- > The complexity of formulas for calculation of entitlements;
- > Ambiguous entitlements/boundaries for incidentals (eg. Land-based travel) – the policing of a consistent application of what an allowance covers and what can be claimed as an additional expense can be time consuming and distracting.

The other significant disadvantage of paying allowances is the complexity of the tax law and the potential for an employee traveller to be in breach of their obligations under the law. It is not the intention of this article to provide tax advice and everyone must seek advice as to their individual circumstances – the following are general observations only.

In Australia, it is widely believed that, provided an employee receives allowances that fall within “reasonable” limits (and the tax commissioner helps here by publishing these each year), allowances need not be included on individual tax returns

as assessable income and the associated expenses cannot be claimed as deductions.

This is true in many cases, but not universally so. According to TR2004/6, three criteria must be satisfied:

1. the allowance received must be a bona fide travel allowance (which by definition means the traveller must have slept away from home overnight);
2. the allowance received does not exceed the reasonable amount; and
3. the allowance has been fully expended on deductible expenses.

Not many of us have been fortunate enough to work for a company that pays per diems above the taxation commissioner's declared rate. However, let's say I work for a company that pays per diems at the commissioner's published reasonable rate and when I travel to Brisbane each month for a week, I stay with a family member. If I pocket \$216 per night allowance for five nights, the \$1,080 should appear on my tax return as assessable income along with the \$137 per day food and incidentals allowance.

This scenario immediately creates obvious complications for both the employee and employer with regard to their obligations under the Income Tax Assessment Act 1997. The employee does not have to provide written evidence for the purposes of making a claim if the amounts claimed are under the reasonable limits. However, the employee/taxpayer may be required to show the basis for determining the amount of their claim and that an expense was actually incurred for work-related purposes. In the situation of the family-provided accommodation above, the difference between the allowance and the expense could attract a tax liability.

Not many employees would share the knowledge of their domestic accommodation arrangements with the employer so

the employer can be unwittingly failing to make required PAYG deductions from an allowance.

Consequently, travel allowances or per diems may not really be as beneficial to the employee as superficially appears and they certainly increase the complexity and record-keeping requirements for both employee and employer.

Even the simplest case, the payment of a daily incidentals allowance so that the employee and employer do not have to handle volumes of small items, becomes complicated for a one-day trip. If the trip does not involve an overnight stay, the incidentals allowance is not a bona fide travel allowance and must appear on the traveller's tax return.

As with our European customer mentioned earlier on, the administration can be simplified with the use of an expense management system. This is achieved by the automation of the calculations according to administrator controlled parameter settings. However, a bigger opportunity than administration improvement remains.

Beyond the taxation implications, the payment of allowances may become entrenched as a "right" of the employee and the employer is denied the use of modern purchasing techniques to drive down their travel costs, particularly in the area of accommodation. With GST reclaim and the capacity to negotiate corporate discounts, employers would otherwise stand to reduce costs such as accommodation costs by up to 40%. The combination of an actuals-based policy, corporate cards, supplier contracts and an expense management solution that provides genuine transparency contains the key to achieving this cost reduction.

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