



UNIVERSITY OF WESTERN CAPE (UWC)

CELLPHONE POLICY

DATE OF LAST APPROVAL: C2004/2

Amended by Executive Management Committee on 13 September 2004



UNIVERSITY *of the*
WESTERN CAPE

CELLPHONE POLICY

A. CELLPHONE ALLOWANCE

Employee owns his/her own phone and receives a cell phone / telephone allowance

When may a cell phone or telephone allowance be given to an employee?

Cell phone/telephone allowances should only be granted to employees who are required in the course of the performance of their duties to make business calls from a private cell phone or telephone. This requirement must be recorded in the employee's contract of employment. An example of a circumstance in which this may arise is where an employee is required to be on stand-by or where an employee needs to be contactable when away from the employer's offices/premises.

How can an employee incorporate a cell phone or telephone allowance into his/her remuneration package?

An employee may allocate an amount from his/her pensionable earnings to a cell phone/telephone allowance. An employee cannot sacrifice part of his/her pensionable earnings ("old notch salary") to a cell phone/telephone allowance. Refer the practical illustration below.

Practical illustration:				
A) Correct treatment			B) Incorrect treatment	
	Pensionable earnings	RS 000	Pensionable earnings	RS 000
<i>less</i>	Allocation to allowance	<u>R 200</u>	Sacrifice from salary	<u>R 200</u>
	Basic salary	R4 800	New notch salary	R4 800
<i>Add</i>	Cell phone allowance	<u>R 200</u>		
	TAXABLE EARNINGS	R5 000	TAXABLE EARNINGS	R4 800

How much can an employee allocate as a cell phone/telephone allowance and what is the tax treatment?

There is no limit on the amount which an employee can allocate towards a cell phone/telephone allowance. The full amount of a cell phone/telephone allowance is subject to employees tax.

With effect from 1 March 2002 employees (other than employees who mainly earn commission in relation to their sales or turnover) are no longer entitled to claim a deduction of cell phone costs against their cell phone/telephone allowance.

Cell phone/telephone allowances are disclosed on IRP5 certificates under code 3712.

B. CELLPHONE RE-IMBURSEMENTS

Employee owns his/her own phone and can claim the re-imbursalment of business calls made

When can an employee be re-imbursed for business call made?

The business call costs incurred by an employee can only be re-imbursed where the employee is required to/ instructed to make such calls in the course of the performance of their duties. This requirement must be recorded in the employee's contract of employment. An example of a circumstance in which this may arise is where an employee is required to be on stand-by or where an employee needs to be contactable when away from the employer's offices/premises.

How much is re-imbursed?

The university will re-imburse upon presentation of a claim form those business call costs that have been marked out by the employee on his/her itemised billing.

Alternatively, where the employee regularly makes such business calls the university may in an effort to reduce the administration of marking out business call costs on the itemised billing each month undertaken to reimburse the employee a set amount upon presentation of his/her invoice.

This set amount is reflective of the business use, determined by the university in relation to the number of business calls that the employee is expected to make for business purposes. In the case of this reimbursement the following conditions will apply:

- a) The amount will be paid monthly in arrears on presentation of an invoice in order to reimburse the employee for the cost of the business calls.
- b) The employee is responsible for the cost of repairs and comprehensive insurance of the cellphone.
- c) No reimbursements will be made for private calls.

The amount determined as a cell phone reimbursement by the university may be revised annually upon request by the employee at the time of his/her next increase.

The university will cover costs of cell phone invoices to these set limits, but the university still reserves its right to request that the employees mark those calls which are for business purposes during an audit to determine the continued reasonableness of the set amount for that employee. Calls above the set limits will be assumed to be private and will need to be paid by the employee.

Where the employee exceeds the set amount they may scrutinise their invoices and may substantiate business calls' costs greater than the set amount. In such circumstances only those calls' expenses which the employee cannot justify as business will need to be paid by the employee.

The reimbursement made by the university is subject to a maximum of R100.00 per employee but, on application, can be revised upward at the discretion of the Executives.

Are re-imbursments subject to taxation?

While cellphone allowances are fully taxed, reimbursements for business calls are not remuneration and so will not be taxable in the hands of the employees.

C. USE OF A UNIVERSITY CELL PHONE

Employee has the use of a UWC cell phone

Which employees may be given the use of a university cell phone?

Employees who are required to use a cell phone in the course of the performance of their duties may be granted the use of a university cell phone. This requirement must be recorded in the employee's contract of employment. An example of a circumstance in which this may arise is where an employee is required to be on stand-by or where an employee needs to be contactable when away from the employer's offices/premises.

Procedures

Where the use of a university cellphone is not already written into an employee's contract or an annexure to the employment contract has not been signed, an employee who receives the use of a university cell phone is required to sign a letter acknowledging that the cell phone is to be used for business purposes, that any private use of the cell phone will be incidental. A letter should also be obtained from a relevant manager /department head stating that the employee requires the cellphone for business purposes.

In order to eliminate the taxable fringe benefit associated with any private call cost expenses, employees are required to filter through the itemised billing received with the invoice to the University and mark out any private calls made. These private calls will be recovered from the employee via a deduction from salary.

To reduce the administrative burden of marking out the private calls each month the university may determine a set average monthly amount, reflective of the business use, and is calculated in relation to the number of business calls that the employee is expected to make for business purposes.

This set monthly average amount is subject to a maximum as follows:

- For the executive - R1,000.00
- For middle managers - R 750.00
- The other staff - R 300.00

The university cell phone is made available to the employee for business use only, and any private use (if any) should be merely incidental. In the case of the use of the university cellphone the following conditions will apply:

- 1) PAYE will be deducted for amounts paid by the University for non-incidental and private calls, which have not been reimbursed by the employee.
- 2) PAYE will not be deducted, where the employee is able to substantiate the amount up to the business use limit and the excess as business use.
- 3) Provided that the cellphone handset is used exclusively for business purposes no PAYE will be deducted.

The amount determined as the reasonable business cost may be revised annually upon request by the employee at the time of his/her next increase.

For information only:

What is the tax treatment of the use of UWC cell phones?

Use of the cell phone (i.e. the handset)

In practice SARS accepts that where the private use of an employer registered cellular phone is incidental to the business use it does not give rise to a taxable fringe benefit in the employee's hands.

If a situation ever arose where an employee's private use was not incidental it would give rise to a taxable fringe benefit'.

Free or cheap service

There is no provision in the Income Tax Act that excludes private calls even incidental private calls received or made from a university cell phone from fringe benefits taxation. Any private calls are a taxable fringe benefit.

This taxable fringe benefit is disclosed on the IRPS certificate under code 3806.

Paragraph 6(4) of Seventh Schedule

Approved by C 2004/2

Amendment approved by Executive Management Committee on 13 September 2004

13. CELLULAR PHONE POLICY

Council **approved** the policy.