

NEWS LETTER

EMPLOYEE TAX

TAXABILITY OF ALLOWANCES AND OTHER EARNINGS IN NAMIBIA

It is a common misconception that when a payslip or internal record shows an amount as “non-taxable,” it means the income is tax-free. In reality, “non-taxable” on a payroll or payslip does not necessarily mean “tax-exempt” in terms of the Income Tax Act.

Whether you use a payroll system or process payments manually, the same rule applies: unless the law specifically provides an exemption, any amount paid by an employer to an employee in respect of employment is taxable income. Labelling an amount as “non-taxable” does not override this principle.

To clarify, “non-taxable” often refers to how an amount is handled in payroll or bookkeeping, but it is not the same as being legally exempt from tax.

Tax-exempt income is specifically allowed by the Income Tax Act to be free from tax, while non-taxable labels may simply indicate that the amount is recorded differently in internal systems. In other words, just because an allowance appears as “non-taxable” on your payslip does not mean it won’t be included in taxable income when reported to NamRA.

The General Rule

Under Namibian Income Tax law, virtually all payments made by an employer to an employee in respect of employment are taxable. This includes, but is not limited to:

- Standby allowances
- Travel and Subsistence (S&T) allowances
- Car or Vehicle allowances
- Entertainment allowances
- Relocation allowances
- Medical Aid allowances
- Cellphone allowances
- Wellness or fitness allowances
- Other employment-related payments

Even if such amounts are coded as “non-taxable” on the payroll or noted separately when payments are made manually, the full amount must still be declared to the Namibia Revenue Agency (NamRA) by the employer.

Valid Exceptions

• Housing Allowance

Employees receiving a registered housing allowance may benefit from partial tax relief. If the allowance meets NamRA’s approved housing scheme requirements, up to one-third ($\frac{1}{3}$) is non-taxable, with the remaining two-thirds ($\frac{2}{3}$) considered taxable income.

This non-taxable portion does not appear on the employee’s PAYE5 certificate but must still be reported via ITAS under the employer’s registration code.

• Refunds / Reimbursements

When an employee uses their own after-tax funds to pay for a legitimate business expense (e.g., fuel or meals during a business trip) and submits valid proof for reimbursement, that repayment is not taxable.

The key distinction is simple:

Allowance: Employer gives you money in advance or as a fixed amount without requiring proof → taxable

Reimbursement: You spend your own money → submit proof → employer repays you → not taxable

Key Takeaways for Employers

- Report all employment-related payments to NamRA, regardless of how they are classified in payroll or bookkeeping
- Only properly documented housing allowances and reimbursements qualify for non-taxable treatment
- Train your payroll and finance teams to distinguish between reimbursements (proof-based) and allowances (typically taxable)
- Communicate clearly with employees to prevent misunderstandings that could lead to under-declarations and tax risk

Key Takeaways for Employees

- “Non-taxable” on your payslip or payment slip does not mean “tax-free”
- Keep receipts and records for all work-related expenses connected to any allowance you receive. Proper documentation is essential if you plan to make claims or use non-taxable portions of allowances
- If you claim deductions or offsets, NamRA may request proof — make sure you can substantiate your claims

Why This Matters

At tax year ends, employers and employees are often surprised by unexpected tax bills or compliance issues that could have been avoided with proper understanding and documentation. The most frequent cause: allowances coded or treated as “non-taxable” without valid justification or supporting documentation.

Proper reporting and record-keeping help avoid:

- Unexpected tax liabilities
- Penalties and interest for under-declarations
- Administrative delays or frustration during filing season

In Summary

- Most allowances and employment-connected payments are taxable in the hands of the employee
- Employers must declare all such payments to NamRA, regardless of internal coding or processing methods
- Only one-third of a qualifying housing allowance may be tax-exempt under specific conditions
- Genuine reimbursements of proven business expenses are non-taxable — fixed allowances are not
- Employees must maintain accurate records and understand the tax treatment of all earnings

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**NEED
HELP?**

If you would like CRVW to review your payroll structure, assist with staff communication, or conduct a compliance check regarding allowance classification and reporting, please contact our Payroll or Tax Departments.

We are here to help you stay compliant and prevent surprises at year-end.