Staff Loans – What You Should Know

Everyone needs access to emergency funds at times and your employees are no exception. As a caring employer it seems only right that you'd want to help out by lending them money.

But there are a few things you should know before you lend money to your staff.

Impact of the National Credit Act (NCA)

If you are charging interest on your staff loans, the NCA applies to you. This means you need to comply with the following requirements (to name just a few):

1) You need to register with the NCR and pay an annual fee as well as submit periodic returns to them for statistical purposes.

2) You need to conduct an affordability assessment for each loan application – this includes doing a credit check (obtaining a credit report from a credit bureau) and asking the employee for a list of all his/her expenses so that you can calculate how much he/she has left to repay the loan each month.

3) You need to provide the employee with proper loan documentation, which conforms to NCA requirements. This includes a pre-agreement quotation detailing the costs, your terms and conditions etc.

4) All charges need to conform to the limits imposed by the NCA

5) Should the employee resign/leave, you need to comply with the debt recovery procedures as outlined in the NCA

What about zero interest loans?

You may be thinking it's probably just easiest to skip the interest so that you don't have to comply with the NCA. In this case you don't need to worry about the NCA, however <u>you do need to worry about the Income Tax Act</u>, specifically the provisions surrounding fringe benefits.

The Income Tax Act requires that all taxable benefits you give your employees be disclosed on an IRP5. Low or no-interest loans are specifically included in the Act as a taxable benefit.

Thus, the employer needs to calculate the value of the fringe benefit enjoyed by the employee and include that on his/her IRP5 as income. The value of the benefit is the difference between the interest charged vs the calculated interest at the official rate <u>The employee will also need to pay tax on this fringe benefit</u>.

The "official rate" as defined in section 1(1) of the Income Tax Act is linked to the repo rate plus one percent. The official rate is adjusted at the beginning of the month following the month during which the Reserve Bank changes the repo rate.

The only exceptions to the above is for casual loans (short-term loans made at irregular intervals) which do not exceed R3,000 and study loans.

Cashflow impact

Every Rand you lend to your staff is a Rand less in cashflow which you should invest in your business to buy stock, spend on advertising and other necessary expenses. And until your employee pays back the loan, in full (which could take many months or even years), you don't have those funds available to further develop the business. And it is at risk of unexpected default. If your employee needs a R15,000 loan and their salary is maybe only 10,000, the employer carries the risk if the employee resigns/absconds.

Why would any business reduce their cashflow and increase their risk, when there are companies that specialise in credit as an employee benefit. And this benefit comes at no cost and zero risk to you, the employer?

Impact of NOT granting a loan

Once you give a loan to one employee, it's difficult to say no to other employees. If you do say no, you risk disgruntled employees and disgruntled employees tend to have a very negative effect on overall staff morale.

It just a fact. Life can be challenging, and things go wrong for employees unexpectedly. Some can wait a week to apply at a bank and may have the required collateral. But many employees do not have either, time to wait nor collateral. And when employees suddenly find themselves in crisis, they often run straight to loan-sharks or mashonisas as there is no time to wait for banks applications and odds are they might not qualify anyway. So foolishly they are suckered into the dark world of unregulated credit providers, whose goal is to keep them captive and bleed their families dry.

SOLUTION !

Outsource this activity to a reputable credit provider such as Vecto Finance.
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Benefits: There is NO Risk and NO Cost at all to you, the Employer. Save your Cash Flow. Partnering with us means you don't have to worry about the regulatory and compliance issues explained above. Truly care for your staff, show your support knowing things do go wrong and your excellent leadership helped prepare for when that happens to your staff. You maximise staff attendance, maximise staff loyalty, and you can capture and keep more of the best employees with an innovative "Access to Responsible Credit" policy.

HR, pre-register with VECTO today. Easy, Fast, No cost. *Just a simple form to complete on our website.*

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Innovating HR with Unsecured Credit as a No Cost No Risk Valuable Employee Benefit