

### **3.75% Interest on Employee Loans: PAYE**

Due to financial hardships some employees may seek loans from their employers to cover personal expenses like home purchases or medical emergencies. Conversely, employers may voluntarily extend favourable loan facilities to their employees to build morale, loyalty and at times as a way to alleviate stress for employees. Such facilities usually do not carry an interest charge, which triggers PAYE in the employees' hands.

Basically, employees who enjoy interest-free loans from their employers are liable to tax for not paying any interest on such loans. The advantage of not paying interest fits in the wide ambit of taxable benefits enjoyed by employees. Specifically, the Income Tax Act states that employees are taxed on the positive difference between the prevailing commercial rate of interest and the interest charged by the employer. In essence, interest free loans bear a 0% interest. Therefore, the taxable benefit accruing to the employee is technically the value of the prevailing interest rate of the loan amount.

Accordingly, employers who do not wish that their employees be taxed on the deemed benefit should charge 3.75% interest on the loans. This interest rate is the Bank of Botswana rate as at 1 July 2021. If employers do not charge the interest as stated above, they personally become liable for the PAYE arising from such benefit. BURS usually then charges a 200% penalty for non-compliance, which makes the tax bills onerous. It is therefore always best to avoid the taxman's wrath.

However, a taxable benefit does not arise where the loan is provided by a financial institution under an arrangement facilitated by the employer. This is because the employer would not be the loan provider but simply a conduit pipe to access a loan. Loans bearing interest of at least 3.75% are not subject to PAYE. Be PAYE compliant and avoid penalties!

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