



# LAGOS STATE GOVERNMENT

## PUBLIC NOTICE



### TAXATION OF EMPLOYEE LOAN

The Lagos State Internal Revenue Service (LIRS) is issuing this Public Notice to all employers, company owners or their representatives, employees, high net worth individuals and other members of the public.

#### Definition

Employee loans are loans given by an employer to an employee for specific reasons with the expectation that such loan will be repaid in full to the employer through a pre-agreed deduction from the employee's net salary, with or without any interest.

#### Legal basis

Section 3 (1)(b) of the PITA imposes tax on any salary, wage, fee, allowance or other gain or profit from employment including compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to any temporary or permanent employee. More often than not, an employer may offer loans to its employees at an interest rate lower than the market interest rate or zero percent interest rate. This arrangement gives rise to a benefit which is taxable in the hands of the employees.

#### Compliance Requirements

1. Deduction of PAYE: The employer is required to compute tax on the difference between the rate on such employee loan and the adjusted Monetary Policy Rate (MPR) and remit to the relevant authority. The adjusted MPR is MPR minus 3%. The obligation to deduct tax on the difference depends on payment terms:
  - Where the payment is on a monthly basis, the tax (the difference between the rate on the loan and the adjusted MPR) should be assessed by the employer on a monthly basis;
  - Where the payment is on an annual basis, the benefit should be assessed by the employer on an annual basis.
2. Reporting Obligation: Every employer is required to file, alongside their annual returns, a schedule showing the information on its employee loan and the payment terms.
3. Other Issues:
  - a) Applicability: This provision will apply to directors and employees of a company and will continue to apply to even after the relationship with the company has been terminated as long as the loan remains unpaid. The principle will also be applied to significant shareholders.
  - b) Any employee loan with interest above the adjusted MPR or at commercial rates will not be assessed to any additional benefits for the employees receiving such a loan.

For further enquiries, please call **0700-CALLIRS (0700 2255 5477)** or visit [www.lirs.gov.ng](http://www.lirs.gov.ng)

Thank You

Signed  
**Ayodele Subair**  
**Executive Chairman**  
Lagos Internal Revenue Service

#### Lagos State Internal Revenue Service

The Good Shepherd Building, Block H, Plot H1, Central Business District, Alausa, Ikeja, Lagos State.

E: [info@lirs.gov.ng](mailto:info@lirs.gov.ng) Tel: 0700-CALLIRS (0700 2255 5477)

[www.lirs.gov.ng](http://www.lirs.gov.ng) [@lirsgovng](https://twitter.com/lirsgovng) [lirsgovng](https://www.facebook.com/lirsgovng) [lirsgovng](https://www.instagram.com/lirsgovng) [YouTube lirsgovng](https://www.youtube.com/lirsgovng)