South African Payroll Association
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Consultation paper on payroll deductions: South African Payroll Association opts for limited voluntary deductions

In reviewing the South African Reserve Bank's (SARB) and the National Treasury's joint consultation paper for regulatory proposals on payroll deductions, Arlene Leggat, an executive of the South African Payroll Association (SAPA) has suggested that limiting voluntary deductions would be the preferred route to follow.

The recently released document also posits two other mutually exclusive options for dealing with SARB's concerns about the increase in the number of entities offering voluntary payroll deduction services. These include disallowing voluntary deductions completely or allowing unrestricted voluntary deductions with non-preferential treatment of creditors.

Regardless of the option adopted, certain basic requirements will apply. These include an authenticated mandate from the employee; no more than 25% of an employee's salary being committed to deductions of any kind; statutory and legal deductions taking priority over voluntary deductions; and employers not being obliged to provide payroll deduction services for voluntary deductions.

However, Leggat affirms that the payroll function should be dedicated to the payment of employee salaries and earnings, and little else. "Although payroll is obliged to make statutory deductions required by law, it shouldn't be reduced to a debt collection service," she says.

What are voluntary payroll deductions?

Employers may be enticed by a financial services provider to offer products, like funeral plans, at a discounted rate to staff, or to collect amounts such as loan repayments, on its behalf. However, these voluntary deductions are made by the payroll department before a worker is paid and therefore fall outside the regulated financial system that comes into effect after income has been deposited into employees' bank accounts. This is permitted by law provided an employee agrees to the deduction.

SARB worries that this lack of regulation exposes over-indebted workers to higher financial risk, creates the opportunity for financial crime, and gives preference to one vendor over another, fostering anti-competitiveness. Even creditors who have obtained a court order for recovery of debt are given lower priority than those enjoying payroll deductions.

SAPA's stance

In her response, Leggat says that "since medical aid and pension are essentially voluntary, the first option would rob workers of typically accepted benefits."

She also rejects the third option outright. "It's completely unacceptable from a payroll perspective. With the sheer number of providers and services available, each with its own instructions, payroll would sink into administrative chaos." For example, if an employer fails to deduct the correct amount for a life insurance policy and the employee subsequently dies, who will be held liable if the service provider refuses to pay out? "Now multiply this by a hundred and imagine the sheer pressure payroll will face getting each deduction just right."

Ultimately, Leggat admonishes organisations to protect the integrity of the payroll function. “Payroll is meant for payroll,” she says. “Don’t overload it with alternative duties at the cost of good service.” Finally, Leggat warns that any option adopted by SARB will have a massive impact on how payroll departments are run, what resources are required, and the benefits employers decide to offer.

SARB has invited the public to submit their comments on the proposed remedies by 30 April 2018.

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