

# What you should know about the proposed Employment Tax Incentive amendments

On Tuesday 26 November 2019, a number of tax-related bills were passed by the National Assembly and are currently being deliberated by the National Council of Provinces. Of significance to employers are the amendments, in the Draft Taxation Laws Amendment Bill, that relate to the Employment Tax Incentive (ETI).



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**At the moment, the ETI is granted to employers for each ‘qualifying employee’ who:**

- Is paid a minimum wage, or
- Earns between R2,000 and R6,000 per month provided that they work for the employer for at least 160 hours.

"The amendments have aligned the ETI with the National Minimum Wage Act (NMWA) in order to enforce compliance," says Menet Hamel, HR Consultant and ODETDP practitioner at Global Business Solutions. "In addition, the salary cap for employees who earn more than the National Minimum Wage (NMW) has increased from R6,000 to R6,500."

Another important change in the amendments is the narrowing of the definition of a ‘qualifying employee’. Where previously this term referred to all employees who either earned a minimum wage or between R2,000 and R6,000, now ‘qualifying employees’ are only those who are employed by qualifying companies which are defined under Section 12R of the Income Tax Act.

**The Income Tax Act defines qualifying companies as those entities who:**

- Carry on business from a fixed place of business within a Special Economic Zone (SEZ) or, alternatively, are incorporated or effectively managed in South Africa;
- Carry on business in a SEZ which is chosen by the Minister of Trade and Industry, as well as approved by the Minister of Finance after consultation with the Minister of Trade and Industry;
- Derive at least 90% of the income of that company from the carrying on of business or the provision of services within

that SEZ; and

- Have less than 20% of their transactions with connected persons that are South African residents. Transactions with non-residents must be attributed to a permanent establishment in South Africa.

"The proposed amendments will go a long way towards ensuring that those employees who were previously disempowered now have the opportunity to earn better wages," concludes Hamel.

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