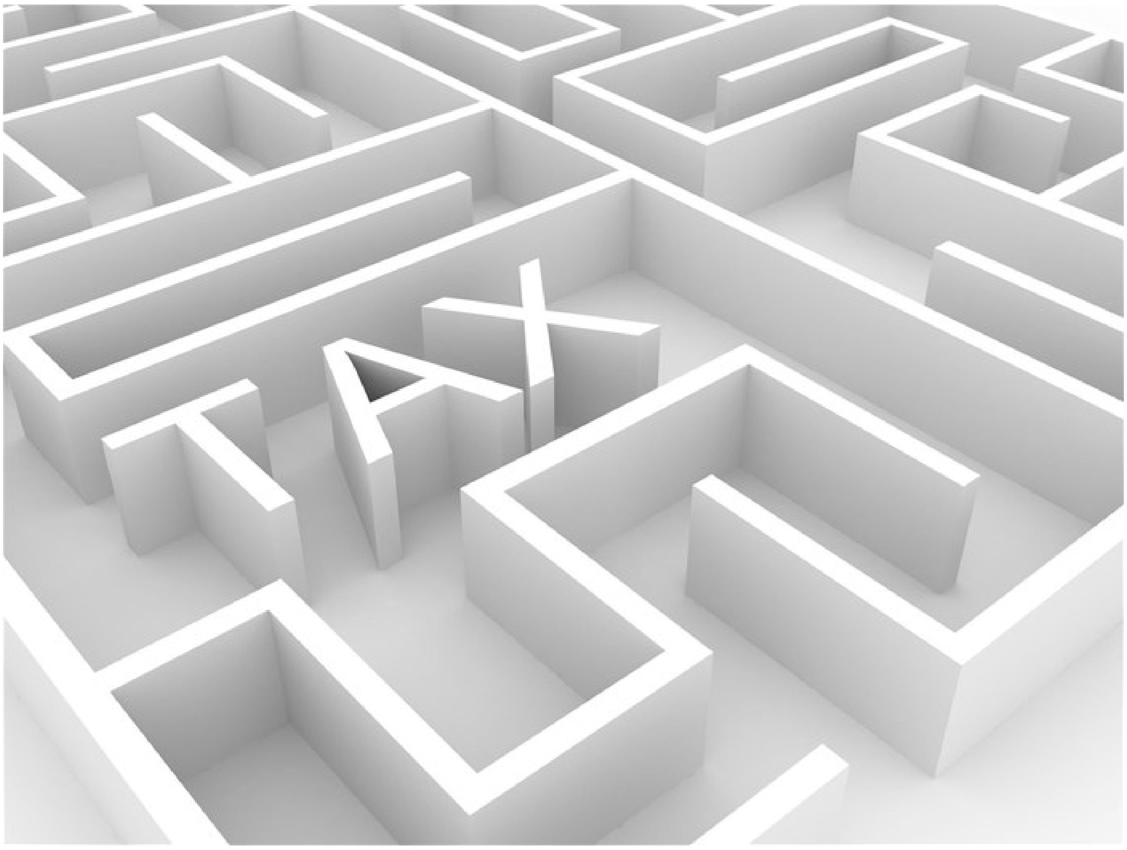
Unpacking the complexities of ETI

The Employment Tax Incentive (ETI) scheme, introduced by government in 2013, is designed to encourage employers to hire young work seekers by sharing costs. Although it was only supposed to run for three years, government has extended the term to 2029, due to the initiative's success and the continuing need to support youth employment.



Source: Supplied

Here Sandra Maritz, Senior Legislation Consultant at CRS Technologies, examines some of the complexities behind this initiative.

“To be eligible, a company must operate in the private sector and be registered for tax. For large companies with thousands of qualifying employees, ETI provides massive cost benefits. It really is essential for these businesses to take advantage of the scheme while it is still active. However, it is a complicated process to determine which employees qualify for the incentive as there is a myriad of criteria with which to comply. Having an experienced and knowledgeable partner to assist in this regard becomes key,” she says.

An eligible employer can only claim the ETI for a maximum of 24 months per qualifying employee, although this does not have to be consecutively. Furthermore, the ETI is only claimable on monthly remuneration paid on or after 1 January 2014 for qualifying employees who commenced employment with an eligible employer on or after 1 October 2013.

A qualifying employee is a natural person who works directly for another person, is paid remuneration by the other person, and is not an independent contractor. For example, companies who use specialist IT people as outsourced resources in their offices will not be able to claim ETI for these individuals. Additionally, the employee must between 18 to 29 years old at the end of the month in which the ETI is claimed. Employees also cannot be a connected person in relation to the employer and is also not a domestic worker.

Furthermore, the employee must earn between R2,000 and R6,500 per month to qualify. The R2,000 minimum does not apply where a lower amount is payable by virtue of a wage regulating measure. This means companies with many low income workers, such as those found in factories and manufacturing, can significantly benefit from ETI.

Automated calculations

“Beyond determining the qualifying criteria for employees, calculating the ETI is a complicated process that entails determining the number of hours each employee has worked in a given month and several other aspects that make it a challenge for already under-pressure finance departments. Using automated solutions that deliver this functionality becomes essential, especially if a company is not to fall foul of legislation and run the risk of paying fines,” she adds.

For example, an employer that pays a qualifying employee less than the monthly wage prescribed by a bargaining council or sectoral determination, is ineligible for the ETI. Should the employer claim for ETI in these circumstances, the employer must pay a penalty to SARS of 100% of the ETI received for that employee. An employer that is found to have unfairly dismissed an employee to obtain a benefit under the ETI must pay a penalty of R30,000 for each employee so displaced. In addition, such an employer may be disqualified by the Minister from receiving any future incentive by notice in the Government Gazette.

“Organisations need to have the ETI process built into their payroll systems. Even though some try to manage this process through spreadsheets, it can quickly become an administrative nightmare to effectively manage. Using cloud-based software can automate much of the processes with it being updated to reflect the latest regulations,” Maritz concludes.