

Has Employment Tax Incentive created jobs?

By [Rob Cooper](#)

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Now that South Africa is just over halfway through the current legal life of the Employment Tax Incentive (ETI), it is opportune to consider whether the legislation has met its goal of creating new jobs for young people. The legislation is due to expire on 31 December 2016, so National Treasury and other government stakeholders will soon be debating whether it will be a good idea to extend it.



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I am a strong supporter of the ETI because we need to urgently do something about youth unemployment in South Africa. Our youth unemployment rate is 52%, or four times the rate in sub-Saharan Africa as a whole, so it qualifies as a crisis. It demands that we take bold steps to resolve it.

As we take stock, however, there is reason to fear that some employers are profiting from the scheme by claiming the incentive for workers they would have employed in any case. In other words, they are benefitting from a taxpayer-funded tax break without necessarily creating new jobs. My interactions with employers suggest that there are some that are not adhering to its spirit. Rumours abound of employers who keep remuneration below R6 000 per month in order that their employees qualify and the employer benefits.

According to government, 29,000 employers had claimed R2 billion from the scheme for at least 270 000 young people employed between October 2013 and February 2015. However, there are no reliable numbers about how many of these youngsters would have been employed even if the ETI scheme did not exist or what sort of training they're receiving. However, I suspect government would be shouting from the rooftops about its success if these metrics were favourable.

Changes that could benefit extended ETI

I cannot predict whether the Treasury will extend the ETI but I think it would be a good idea to do so, provided it makes some significant changes to the scheme to improve its effectiveness. I hear many complaints from employers about the complex administration, particularly around the company's 'tax compliant' status, and the rollover and refund procedures. These are a good place to start with a review.

Thus, some changes I would propose include the following:

- Remove the minimum wage compliance test completely, or at the very least make it clear that an hourly wage rate can be used for the wage-qualifying test. Many people do not even understand what 'wage' is and confuse it with

'remuneration'.

- Simplify the current definition for the hours per month an employee under the ETI is 'in employment'. Again, some people are confused by the distinction between the hours someone worked in a month and the hours they were employed.
- Remove the tax compliance requirement or limit it substantially to reduce the risk of inadvertently claiming ETI while not tax compliant and being penalised.
- Allow youngsters to be appointed on a probationary basis so that employers can employ young people without fearing that it will be difficult and expensive to dismiss them if things do not work out.

Many trade union representatives and workers will find the last point unpalatable but it is key to lowering the risk for employers of taking on unskilled and inexperienced young employees that may need a lot of training and guidance.

Conclusion

Ultimately, the ETI can only be a partial answer to the youth unemployment crisis. We all know that behind our unemployment problem is a lack of quality education. Our Statistician-General Pali Lehohle said, "Grey matter is what makes successful countries. It's not about the amount of gold you are sitting on."

Even so, it is important to remember that the employment of even one youngster will keep him or her off the street and result in some money going back to the family. This can help reverse the current cycle of poverty and social instability, and will gradually result in lower rates of unemployment amongst the youth, all to the benefit of our country and the economy.

ABOUT ROB COOPER

Rob Cooper is a tax expert and director of legislation updates and proposed legislation of Sage VIP.

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