

Proposed amendments to the Employment Tax Incentive Act: A win-win for employers and employees

Authors: Jessica Osmond and Louis Botha.



To encourage employment across specific sectors in South Africa, the Employment Tax Incentive Scheme (ETI Programme) was introduced. Since 2014, this ETI Programme was structured in a way which mutually benefits both the employee and the employer. This mutually beneficial relationship was achieved by offering an employer an employees tax incentive if the employer employed anyone within the definition of qualifying employees in the Employment Tax Incentive Act, No 26 of 2013 (ETI Act).

In terms of the Explanatory Memorandum to the Draft Taxation Laws Amendment Bill, 2019 (Memorandum) (Draft TLAB), the ETI Programme was initially only intended to be in force for a period of three years, but in 2017 this was extended for a further two years. Considering the need to support youth employment as highlighted in the State of the Nation Address (SONA) and after further consultations with NEDLAC, in 2018 the decision was taken to extend the programme until 2029.

Pursuant to this extension of the ETI, the Draft TLAB and Memorandum were recently published for public comment. The Draft TLAB contains, among other things, the proposed amendments to the ETI Act, while the Memorandum explains the

reason behind the proposed amendments.

The proposed amendments were initially mooted in the 2019 Budget Review, which we discussed in our [Special Edition Budget Speech Alert 2019](#).

General Principles and Proposed Amendments of ETI

The ETI Act was initially implemented in 2014 as a temporary measure/scheme primarily designed to promote the employment of young employees. Specifically, the definition of qualifying employees states that the following persons, amongst others, fall within this definition:

- Persons between the ages of 18 and 29 (s6(a)(i) of the ETI Act);
- Any employee employed by an employer operating through a fixed place of business located within a special economic zone (s6(a)(ii) of the ETI Act); and
- Employees within a specific industry as designated by the Minister of Finance (s6(a)(iii) of the ETI Act).

To promote employment for the abovementioned groups of persons, employers were incentivised to employ them by reducing employees tax payable by the employer in an amount determined in terms of s7 of the ETI Act. The Memorandum explains that this would reduce the cost to an employer for hiring employees from the stipulated groups by way of a cost sharing mechanism with the Government while leaving the employees remuneration unaffected.

Proposed amendment and reason for change

Amendments to the ETI Act which have been proposed are, among others, that of consideration for the new national minimum wage provisions in accordance with the National Minimum Wage Act, No9 of 2018 (NMWA). It is proposed that the provisions relating to wages applicable in the NMWA be catered for under s4 of the ETI Act.

This has been as a direct consequence of the implementation of the NMWA and its regulations which only came into effect on 1 January 2019. The amendments seek to align the ETI with the provisions and regulations set out in the NMWA. It has been suggested that the national minimum wage should also be included as one of the eligibility criteria for purposes of claiming the ETI.

Another proposed amendment is that of the maximum amount of earnings for eligible employees in s6(g) of the ETI Act. According to the Draft TLAB, the amendment that has been proposed is to increase the earnings threshold of eligible employees to that of an amount of R6,500 as opposed to the original R6,000. This is to account for inflation, and to continue to include the employees which the legislature originally had in mind.

Comment

In the economic climate we as South Africans find ourselves in, more and more people are struggling to find work, and employers are looking to downscale in order to continue running profitable businesses. The ETI Act looks to incentivise the recruitment of employees within the parameters of the ETI Act and assists employers by offering a tax incentive for doing so.

The amendments proposed seek to allow for a continued positive implementation of the Act for the next 10 years, ultimately looking to benefit both employees and employers.

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SA Budget 2019/20 – A further win for the youth



The historically high levels of unemployment among the youth in South Africa has led to the introduction of various tax incentives and benefits aimed at encouraging the employment and training of such persons. Among

these is the employment tax incentive (ETI) scheme which was introduced by the Employment Tax Incentive Act, No 26 of 2013 (ETI Act).

The ETI is a temporary tax incentive aimed at encouraging employers to employ young employees between the ages of 18 and 29, as well as employees of any age in special economic zones and industries indicated by the Minister of Finance. The benefit for employers is that the ETI enables eligible employers to reduce the amount of employees tax due by them by the ETI amount claimed.

The ETI scheme originally came into operation on 1 January 2014 and was legislated to end on 28 February 2019, after which date no further ETI credits would be claimable by any employer. A review of the ETI scheme presented the following positive outcomes:

- The employment growth rate and number of employees increased significantly in firms that claimed the ETI;
- The ETI improved employment growth rates even in firms with deteriorating employment rates, thereby demonstrating the role played by the ETI in halting job losses; and
- The retention rate of the ETI employees after the two-year eligible period has lapsed is substantial as employers are inclined to retain those employees who have gained experience and training.

Given the success of the ETI scheme, it has been proposed that the period for which the scheme applies be extended by 10 years. Employers will therefore be able to claim the ETI for qualifying employees until 28 February 2029.

A further amendment has also been proposed to cater for the effects of inflation. In this regard, it is noteworthy that the ETI is claimable in respect of employees earning income within specified income bands. From 1 March 2019, employers will be entitled to claim the maximum value of R1,000 per month for each employee earning up to R4,500, where previously this amount was R4000. The maximum monthly income earned by employees to qualify for the ETI has also increased from R6,000 to R6,500 per month.

Author: Louise Kotze – Special Edition Budget Speech Alert 2019

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Budget 2016 – Review of the employment tax incentive

SA Budget 2016/17
Commentaries
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By Nyasha Musviba

Government formally introduced the employment tax incentive into law on 1 January 2014, through the promulgation of the Employment Tax Incentive Act, No 26 of 2013.

The purpose of the employment tax incentive was to reduce the cost to employers of hiring young and inexperienced youth. In other words, the employment tax incentive is essentially a cost-sharing mechanism between the private sector and Government, which operates by reducing the amount of tax that is owed by an employer through the Pay-As-You-Earn (PAYE) system.

It should, however, be noted that the employment tax incentive expires on 31 December 2016 and accordingly, the incentive will cease after 1 January 2017. Therefore, incentive amounts not deducted from PAYE as at 31 December 2016, will be forfeited.

Notwithstanding the aforementioned, SARS has made data on the employment tax incentive available and a review, as to whether to extend the period for which the incentive can be utilised, is currently under way. In the event of any delay in finalising the aforementioned review, Government may consider extending the employment tax incentive by one year.

The outcome of the review will be published and presented to Parliament by the third quarter of 2016.

by Nicole Paulsen

This article forms part of [Special Edition Tax and Exchange Control Alert – 24 February 2016: Download PDF](#)

Employment Tax Incentive:

Reminder



**Author: Lloyd Ponter,
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The Employment Tax Incentive (“ETI”) was introduced from January 2014 and is scheduled to end on 31 December 2016, when its effectiveness will be reviewed to determine whether it should continue beyond this date. Despite the possible termination looming, employers still have an opportunity to benefit from this incentive.

In summary, the ETI is available to “eligible employers” as defined in the Employment Tax Incentive Act and can be claimed in respect of “qualifying employees.” The ETI is aimed quite specifically at the private sector and its intention is to encourage the employment of employees of a certain profile. This includes employees who inter alia:

- earn R6,000 or less per month;
- are between the ages of 18 and 30 years old;
- are persons with a valid South African Identification Card, or who possess an asylum seeker permit; and
- were employed on or after 1 October 2013.

Read our full explanation of how the ETI functions work [here](#).

The ETI is claimed against an employer’s PAYE liability on its monthly EMP201 declarations. The quantum thereof, ranges between nil and R1, 000 per employee per month, in the first year of employment, and is effectively halved in the second

year. Due to their low income, most qualifying employees wouldn't be liable for PAYE and the ETI is therefore a claim against the employer's overall PAYE liability. It has the potential to decrease the PAYE liability of some employers significantly.

Employers that haven't claimed the ETI yet are still able to claim the retrospective amounts in current tax periods, but must adhere to the relevant rollover provisions and other limitations. It is recommended that all employers, whether they have claimed the ETI or intend doing so in future, quantify their ETI roll over limitation on a six-monthly basis to avoid undue errors and resultant interest and penalties.

There are numerous requirements, provisos and pitfalls contained in the ETI Act which could result in an employer incorrectly claiming the allowance. Furthermore, employers are only entitled to claim the ETI if their tax affairs are in order failing which, there may be significant penalties. In such cases, we recommend that those employers quantify their errors and apply for relief in terms of the SARS Voluntary Disclosure Programme to avoid inter alia, "understatement penalties" levied under the Tax Administration Act, which can range anywhere from 0 to 200% of the prejudice to the fiscus.

Youth incentive scheme bears fruit

✘ ✘ Author: Siyabonga Mkhwanazi (IOL)

AT LEAST 209 000 youth have been absorbed into the labour market this year under the government's youth employment tax incentive scheme, a significant increase from the 56 000 young

people announced by then finance minister Pravin Gordhan in his Budget speech in February.

Gordhan said at the time, during the first month of the launch of the scheme, 56 000 young people were employed by different companies.

But in the medium-term budget policy statement tabled by Gordhan's successor, Nhlanhla Nene, in Parliament yesterday the latter revealed a massive expansion of the programme.

While this was called the youth wage subsidy when Gordhan first introduced it in 2010, with a budget of R5 billion, it was changed to the youth tax incentive scheme.

This followed wrangling between Cosatu and the government over the form and shape of the incentive scheme.

The labour movement was opposed to the idea because it believed companies would use the scheme to substitute older workers with the youth.

But this was denied by the government and during public hearings in Parliament last year it was agreed that companies who were found doing this would be penalised heavily.

In the statement yesterday the scheme received support from the business sector and labour market.

"The employment tax incentive, which provides firms with incentives to hire young workers, is already supporting at least 209 000 young workers in about 23 500 firms," it said.

DA MP and its spokesman on finance, Dion George, said they welcomed the fact that more young people were being absorbed into jobs they would otherwise not have had.

"But more could be done to break the cycle of unemployment among the youth," he said, adding that this was reaching 40

percent.

He believed there could be more uptake by companies on the youth tax incentive scheme.

Although the scheme had been introduced by the government, it was former DA parliamentary leader Lindiwe Mazibuko who had called for its urgent implementation when the government halted plans to implement it during its wrangle with Cosatu and further consultations with various stakeholders.

Mazibuko has since left the DA to pursue studies in the US.

George said in their engagement with Sars recently the latter said that it believed more companies could take up the offer.

Employment Tax Incentive (ETI) Refund Process

❑ How does it work?

The Employment Tax Incentive Act and the draft amendments to this Act in terms of the Draft Taxation Laws Amendment Bill, 2014, allows for the introduction of a refund process that will refund employers the amount of the allowable ETI that wasn't used to reduce the Employees' Tax amount payable at the end of each six month reconciliation period (1 March to 31 August and 1 September to 28/29 February).

An ETI refund will only be paid if an employer is tax compliant. This means that all tax returns have been submitted and there is no outstanding tax debt, when the Employer Reconciliation documents [EMP501 and IRP5/IT3(a)s] are

received and processed by SARS.

Top Tip: A non-compliant employer will have six months from the start of the next reconciliation cycle (1 September to 28 February or 1 March to 31 August in respect of the interim and annual reconciliations) to correct any non-compliance and be able to receive the ETI refund. If the employer doesn't become compliant by the end of the next six month reconciliation period, 28 February or 31 August, the ETI refund will be forfeited.

When will refunds be implemented?

The refund process is expected to be introduced in the last quarter of 2014 and a final pay-out date will be announced soon.

Important facts about refunds

▪ ETI not used at 31 August 2014

- Is the "*ETI not Utilised*" amount on the August (201408) Employer Reconciliation Declaration (EMP501
- This amount won't be allowed to be carried forward as the "*ETI Brought Forward*" amount on the September (201409) [Monthly Employer Declaration \(EMP201\)](#)
- The "*ETI Brought Forward*" amount on the September (201409) EMP201 must be zero.

Top Tip: This amount, "*ETI not Utilised*", will be ring-fenced for refunding purposes, once the refund process is implemented.

▪ ETI not used at 28 February 2014

- Any amount of ETI not used to reduce the Employees' Tax amount payable at 28 February 2014 could be included as an ETI carried forward amount.
- This amount could be included in the ETI brought

- forward amount on the March 2014 (201403) EMP201.
- This is the only time a rollover amount will be carried forward to the next reconciliation period.
 - This was necessary as no refund will be paid for an ETI carry forward amount at the end of February 2014.

Top Tip: Where the ETI amount not used at 28 February 2014 was included in the ETI brought forward amount on the EMP201 for March to August 2014 and was not used in full to reduce the Employees' Tax amount payable over these months, the amount will be included in the "*ETI Not Utilised*" amount at 31 August 2014. This amount will be considered for refund purposes, once implemented.

▪ **ETI Errors**

- ETI not claimed or under-claimed in a previous month (including January and February 2014)
 - Where an ETI amount was not claimed or a lower amount than the qualifying amount was claimed, the shortfall must be claimed in the month during which the error is realised.
 - Include the amount (not claimed/shortfall) on the current month's EMP201 under "*ETI Calculated*".
 - The ETI information on the Employee Tax Certificates [IRP5/IT3(a)s] for that month mustn't be changed to include the ETI information of the previous month.
- ETI over-claimed in a previous month (including January and February 2014)
 - Where a higher ETI calculated amount was claimed than the qualifying amount, a revised EMP201 must be submitted for that period.
 - If the error is realised, after the EMP501 has been submitted, the ETI information on

the relevant IRP5/IT3(a)s must be corrected and resubmitted together with the revised EMP501.

Top Tips:

- Except for the March 2014 (201403), the *ETI Brought Forward* amount for March and September must always be zero.
- Any *ETI Carried Forward* amount at the end of the reconciliation periods, [interim (31 August) and annual (28/29 February)] will be refunded, only if the employer is tax compliant.

Changes to the ETI Calculated amounts

During the interim and annual reconciliation submission periods, employers must send their EMP501 and IRP5/IT3(a)s to SARS.

Once received, SARS will verify the “*ETI Calculated*” amount on the EMP501 against the ETI information provided in the relevant IRP5/IT3(a)s.

Should any differences be found, employers will be asked to either correct or clarify these within 21 [business days](#).

Any changes made to the “*ETI Calculated*” amounts, resulting in revised “*ETI Utilised*” amounts, will be shown on the Employer Statement of Account (EMPSA), which can be requested through [eFiling](#) or [e@syFile™ Employer](#).

Top Tip: The changes may result in penalties and interest being charged, if the Employees’ Tax payable wasn’t paid in full by the due date.

Where an employer benefitted from the ETI incentive and was non-compliant on the last day of the month in which the incentive was used, the “*ETI Utilised*” amount will be reversed, which may result in penalties and interest being charged, if the Employees’ Tax payable wasn’t paid in full by the due date.

Source: SARS

Employer interim reconciliation open between 1 September and 31 October 2014

✘ The employer interim reconciliation for the transaction period 1 March to 31 August 2014 is open between 1 September and 31 October 2014. During this period you should submit your interim reconciliation declaration to SARS.

In preparation for the reconciliation we would like to inform you of the changes you can expect. A number of changes are due to the introduction of the Employment Tax Incentive (ETI) which came into effect on 1 January 2014. Changes to the submission channels available to employers will also be introduced.

Changes to submission channels

Employers, who in the past prepared an off-line e@syFile™ Employer disk for submission at a SARS branch, need to note that this submission channel is no longer available.

We would like to encourage you to submit your declaration through one of the following online channels:

	eFiling – available to employers with less than 20 employees
	e@syFile™ Employer – available to employers with any number of employees.

The only exception made for submission at branches will be for

employers with a maximum of five IRP5/IT3(a) certificates.

As previously communicated, manually completed payroll tax forms dropped-off at a SARS branch or posted, will no longer be accepted from 30 August 2014.

Changes to the Employer Reconciliation Declaration (EMP501)

To facilitate the ETI changes, new fields on the Employer Reconciliation Declaration (EMP501) have been introduced.

The financial information on the EMP501 now makes provision for the following new fields:

	On the EMP501, you need to indicate if you want to claim for ETI. If you indicate that you want to claim, an additional section of the EMP501 will open and reflect ETI fields such as amount brought forward, calculated and utilised
	The EMP501 header field will be pre-populated to reflect the reference numbers of the relevant payroll taxes (PAYE, SDL, and UIF).

Employee Tax Certificates [IRP5/IT3(a)]

You need to indicate if an employee benefited from the ETI. If you answer yes, a page with ETI information will appear as part of the certificate.

Please note: ETI details must not form part of the certificate that is issued to an employee.

New source codes

Due to legislative changes we have introduced New Bursary/Scholarship Source Codes which are valid from the 2014 year of assessment:

	Taxable Bursaries or scholarships – Further Education (PAYE) (NQF levels 5 to 10): Code 3820 (3870)
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	Non-taxable Bursaries or scholarships – Further Education (Excl) (NQF levels 5 to 10) – section 10(1)q Exempt portion only: Code 3821 (3871)]
	Acquisition of an Asset – Immovable Property Source Code 3822 (3872) must be used for a Non-taxable Fringe Benefit – Acquisition of Immovable Property as contemplated in par 5(3A) of the Seventh Schedule from the 2015 year of assessment.

Changes to the Monthly Employer Declaration (EMP201)

You are advised to make sure that you do not have any outstanding declarations and/or debt with SARS before you complete and submit your monthly EMP201. Employers who have outstanding debt or returns will not be allowed to complete the ETI fields and will therefore not be able to claim for ETI.

The financial fields on the EMP201 have been updated to reflect ETI Calculation details. The updated fields include open, pre-populated and auto-calculated fields. When completing your monthly EMP201 please note the following:

	The PAYE, SDL, UIF liabilities, ETI calculated and ETI utilised are open fields which you need to complete
	Penalties and interest is also an open field and should be completed. Outstanding amounts for penalties and interest can be found on your Statement of Account
	SDL payable and UIF payable are pre-populated fields completed by SARS based on the liability amounts completed
	Auto-calculated fields include Payroll liability, ETI carried forward, PAYE payable (PAYE liability less the ETI utilised) and total payable (the amount payable by you to SARS). You will not be able to change these amounts.

Source: SARS

Youth wage subsidy a delicate balancing act

✘ *Author: Talita Laubscher (Bowman Gilfillan Africa Group)*

The Employment Tax Incentives Act, 2013 (EITA), was signed into law on 18 December 2013 as one of government's responses to the persistently high rate of youth unemployment. The EITA seeks to encourage the employment of younger workers by allowing a reduction in the mandatory pay as you earn tax (PAYE) that is payable by employers to the South African Revenue Service (SARS), in respect of employees who qualify in terms of the Act. The EITA has, however, not been without controversy. Critics have expressed concern about the temptation created for employers to give preference to younger workers over older workers in order to gain the tax benefit. The Act does, however, seek to address this concern.

In terms of the EITA, a "qualifying employee" is:

- aged between 18 and 29 ; or
- is employed by an employer operating through a fixed place of business located within a special economic zone designated as such by the Minister of Finance and who renders services to the employer mainly within that economic zone; or
- is employed in an industry designated by the Minister of Finance.

The designated industries include:

- buses
- textile, clothing, leather and footwear
- power pylons

- canned or processed vegetables
- rolling stock
- pharmaceutical products
- set-top boxes for TV migration
- furniture products
- solar water heater components
- electrical and telecom cables

The special economic zones will be established in the yet to be enacted Special Economic Zones Act. In order to be a qualifying employee in terms of the EITA the employee:

- must be in possession of a valid South African identity document or asylum seeker permit;
- must not be a connected person vis-a-vis the employer;
- must not be a domestic worker;
- must have been employed on or after 1 October 2013; and
- must not be an individual in respect of whom the employer is ineligible to receive the incentive.

Section 4 renders the employer ineligible to receive the employment tax incentive:

- if the employer has paid that employee less than the amount payable by virtue of a wage regulating measure (for example, an applicable collective agreement such as a sectoral determination or a binding bargaining council agreement) or,
- if the wage paid to the employee is not regulated by a wage regulating measure, if the employer pays the employee less than R2 000 a month.

An “eligible employer”:

- must be registered for the purposes of the withholding and payment of employees’ tax by virtue of the Fourth Schedule to the Income Tax Act, 1961;
- is not the government or a public entity or a municipality; and

- must not be disqualified from receiving the incentive.

The EITA sets out the consequences for displacing older employees in favour of younger ones by providing that an employer may be disqualified from receiving the incentive if it has displaced an employee or if it has not complied with such conditions as the Minister of Finance may prescribe in relation to training requirements or conditions based on the classification of trade.

An employer is deemed to have displaced an employee if the dismissal of the employee is found to have been automatically unfair and if the employer replaces the employee with a qualifying employee. A dismissal would be automatically unfair if the reason is unfair discrimination on any of the grounds listed in section 187(1) of the Labour Relations Act, 1995 (LRA). These grounds of unfair discrimination age.

Accordingly, the dismissal of older workers simply because of their age in order to replace them with qualifying employees would disentitle the employer from receipt of the employment tax incentive contemplated by the EITA, and put the employer at risk of a R30 000 penalty in respect of each employee displaced.

An attempt to retrench older employees in favour of employing qualifying employees may also be regarded as substantively unfair (and potentially also automatically unfair) on the basis of discrimination on the grounds of age. Unless an employer can establish that retrenchments are due to genuine operational requirements, such as the elimination or reduction of roles through structural changes or the introduction of technology, such retrenchments may be unfair.

Of course, the EITA does not altogether prohibit or prevent the replacing of older employees with younger ones. Employees who resign or retire or who are dismissed for reasons that are not automatically unfair (for example, for reasons related to

their conduct or capacity) may be replaced with “qualifying employees”. It seems therefore that the EITA attempts to strike a balance between addressing a crucial government objective and addressing labour’s concerns in as far as ensuring that the EITA does not become a threat to the job security of older workers. The extent to which it is successful in achieving this balance remains to be seen.

Employment Tax Incentive – accounting and income tax treatment

✘ It is no hidden secret that unemployment in South Africa remains considerably high. According to the World Economic Forum Global Risk 2014 Report, structural unemployment and underemployment appears second overall in the Ten Global Risks of Highest Concern as many people in both advanced and emerging economies struggle to find jobs. The youth and minorities are especially vulnerable. Youth unemployment rates hover around 50% in some countries and South Africa was listed among them.

Therefore, previous similar reports encouraged the South African government to introduce a cost-sharing taxation structure in order to encourage the employment of young and less experienced work seekers in the form of the Employment Tax Incentive Act 2013, No. 26 of 2013 (“**ETIA**”) that commenced on 1 January 2013. The ETIA provides an employment tax incentive in the form of an amount by which employees’ tax,

also known as Pay-As-You-Earn (“PAYE”) may be reduced. However, this incentive has further income tax implications, and accordingly it is necessary for employers to understand not only the qualifying criteria for the employees’ tax incentive, but the accounting and income tax treatment as well.

Briefly, the ETIA provides that eligible employers who can receive the incentive are private entities that are duly registered for PAYE, and that are not disqualified from receiving the incentive by the Minister of Finance (the “Minister”) due to the displacement of an employee or by not meeting, *inter alia*, the training and classification conditions as prescribed by the Minister by regulation. Eligible employers must employ qualifying employees who are between 18 to 29 years old at the end of the month the incentive is claimed, and who have South African Identity documents or asylum seeker permits. However, the age limit is not applicable if the employee renders their services to an employer who operates in a special economic zone or an industry designated by the Minister. However, the employee must not be employed as a domestic worker, nor be a ‘connected person’ to the employer or an associated person to the employer on or after 1 October 2013. Furthermore, the employee must be paid the applicable minimum wage in that sector or industry, or be paid a wage of not less than R2 000 if a minimum wage is not applicable.

Section 7 of the ETIA sets out the formulae to determine the amount of the employment tax incentive. For instance, from 1 January 2014 for each month of the first 12 months of which an eligible employer employs a person for a full month and who earns R2 000, the employer will enjoy a reduction of R1 000 of their monthly PAYE liability.

Regarding the accounting and income tax treatment of the employment tax incentive, e.g. R1 000, section 13 of the ETIA read together with Schedule 1 refers to the amendment of

section 10 of the Income Tax Act 1962, No. 58 of 1962 (“ITA”). Section 10(1)(s) provides that:

“There shall be exempt from normal tax any amount by which the employees’ tax as defined in section 1 of the Employment Tax Incentive Act 2013, payable by an employer as contemplated in section 3 of that Act is reduced in terms of section 2(2) of that Act or paid in terms of section 10 of that Act.”

It follows that, the benefit enjoyed in the form of the above employment tax incentive is exempt from income tax, and will be accounted for as income in the accounting records of the employer.

The ETIA also provides for the “roll-over” of the incentive amount, whereby the incentive amount may be rolled over to the next month in three instances. Firstly, where the incentive exceeds the PAYE otherwise due in a month, secondly if the employer did not claim the available incentive in the appropriate month; and finally if the employer failed to submit any tax return or is liable for any tax debt that is outstanding and which is not subject to an agreement entered into with SARS. In these circumstances, the employer will be allowed to carry forward the incentive to the next month and this timing difference creates a deferred tax asset that should be accounted for in the balance sheet of the employer.

Furthermore, section 10 of the ETIA provides for a reimbursement from SARS of the excess amount of the incentive so carried forward at the end of each employees’ tax reconciliation period. Such reimbursement would result in the correction of the overstated tax expense in the income statement and as a current asset on the balance sheet.

In conclusion, the Quarterly Labour Force Survey released by Statistics South Africa on 5 May 2014 has confirmed that unemployment in South Africa continues to rise. This begs the

question as to whether the tax incentive is attracting enough employers to create new jobs because the unemployment rate in South Africa rose to 25.2% in the first quarter of 2014, up from 24.1% in the fourth quarter of 2013. Therefore, the effects of the tax incentive are still to be felt. However, those employers who have taken advantage of the employees' tax relief should ensure that they have treated it correctly for tax purposes.

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THE Employment Tax Incentive (ETI) calculations explained



A diversified Financial Services Group.

Formulas are sometimes difficult to understand so we have step-by-step examples and a handy ETI calculator. The examples

and the ETI calculator are intended to help you work out your incentive amount which may be claimed.

We draw your attention to the following:

Disclaimer:

- What is contained in this calculator is intended as a guide only and is not considered to be a legal reference nor is it a binding ruling. The calculator does not take the place of legislation and readers who are in doubt regarding any aspect of the information displayed in the questionnaire should refer to the relevant legislation, or seek a formal opinion from a suitably qualified individual.
- **More information**
 - [Contact us](#)
- It remains the responsibility of the employer to ensure the information provided, when using the ETI calculator, is accurate and the requirements are met for the employer and the employees to qualify.

[spoiler title="Example 1 – Employees who earn between R0 – R2 000 " style="fancy"]

Monthly Remuneration ☐	ETI per month during the first 12 months of employment of the qualifying employee ☐	ETI per month during the next 12 months of employment of the qualifying employee☐
R 0 – R2 000 ☐	☐50% of Monthly Remuneration	☐25% of Monthly Remuneration

You have 3 employees, who qualify, each earning R2 000 a month. They have been employed from 1 October 2013.

Top Tip: Remember follow the 4 simple steps to calculate you

ETI.

1. Identify all qualifying employees for the month – 3 employees
2. Work out the applicable employment period for each qualifying employee – *Within the first 12 months of the ETI programme*
3. Then work out each employee’s “monthly remuneration” – R2 000 per month per qualifying employee
4. Calculate the amount of the incentive per qualifying employee according to the calculation.

The amount which may be claimed on the EMP201 is:

Monthly Remuneration ☐	ETI per month during the first 12 months of employment of the qualifying employee ☐	Amount which may be claimed on the EMP201
R2 000 per employee	☐50% of Monthly Remuneration 50% X R2 000 = R1 000 per employee	☐R1 000 per employee X 3 employees who qualify = R3 000 per month

From the 13th month of employment, the incentive amount will be calculated as:

Monthly Remuneration ☐	ETI per month during the next 12 months of employment of the qualifying employee ☐	Amount which may be claimed on the EMP201
R2 000 per employee	☐25% of Monthly Remuneration 25% X R2 000 = R500 per employee	☐R500 per employee X 3 employees who qualify = R1 500 per month

[/spoiler]

[spoiler title="Example 2 – Employees who earn between R2 001 – R4 000" style="fancy"]

Monthly Remuneration ☐	ETI per month during the first 12 months of employment of the qualifying employee ☐	ETI per month during the next 12 months of employment of the qualifying employee☐
R 2 001 – R4 000 ☐	☐R1 000	☐R500

You have 3 employees, who qualify, each earning R3 500 a month. They have been employed from 1 January 2014.

1. Identify all qualifying employees for the month – *3 employees*
2. Work out the applicable employment period for each qualifying employee – *Within the first 12 months of the ETI programme*
3. Then work out each employee’s “monthly remuneration” – *R3 500 per month per qualifying employee*
4. Calculate the amount of the incentive per qualifying employee according to the calculation.

The amount which may be claimed on the EMP201 is:

Monthly Remuneration ☐	ETI per month during the first 12 months of employment of the qualifying employee ☐	Amount which may be claimed on the EMP201
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R3 500 per employee	<p>□A fixed amount may be claimed for employees who earn between R2 001 – R4 000 =</p> <p>R1 000 per employee</p>	<p>□R1 000 per employee X 3 employees who qualify =</p> <p>R3 000 per month</p>
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From the 13th month of employment, the incentive amount will be calculated as:

Monthly Remuneration □	ETI per month during the next 12 months of employment of the qualifying employee □	Amount which may be claimed on the EMP201
R3 500 per employee	<p>□A fixed amount may be claimed for employees who earn between R2 001 – R4 000 =</p> <p>R500 per employee</p>	<p>□R500 per employee X 3 employees who qualify =</p> <p>R1 500 per month</p>

[/spoiler]

[spoiler title="Example 3 – Employees who earn between R4 001 – R6 000" style="fancy"]

Monthly Remuneration □	ETI per month during the first 12 months of employment of the qualifying employee □	ETI per month during the next 12 months of employment of the qualifying employee□
R 4 001 – R6 000 □	<p>Formula:</p> <p>R1 000 – (0.5 x (Monthly Remuneration – R4 000)) □</p>	<p>□Formula:</p> <p>R500 – (0.25 x (Monthly Remuneration – R4 000))</p>

You have 3 employees, who qualify, each earning R5 000 a month. They have been employed from 1 January 2014.

1. Identify all qualifying employees for the month – 3

employees

2. Work out the applicable employment period for each qualifying employee – *Within the first 12 months of the ETI programme*
3. Then work out each employee's "monthly remuneration" – *R5 000 per month per qualifying employee*
4. Calculate the amount of the incentive per qualifying employee according to the calculation.

The amount which may be claimed on the EMP201 is:

Top Tip: Remember to always do all calculations in brackets first.

Step 1: Take the monthly remuneration and subtract R4 000 – $R5\ 000 - R4\ 000$

Step 2: Take the result in step 1 and halve the number – $R1\ 000/2$

Step 3: Take R1 000 and subtract the amount calculated in steps 2 – $R1\ 000 - R500$

The result of the calculation is what you can claim for that one person – *R500 per employee.*

The total ETI amount which may be claimed for all employees who qualify during the first 12 months = R500 per employee X 3 employees who qualify = R1 500

Step 1: Take the monthly remuneration and subtract R4 000. – $R5\ 000 - R4\ 000$

Step 2: Take the result in step 1 and take a quarter of the number – $R1\ 000/4$

Step 3: Take R500 and subtract the amount calculated in steps 2. – $R500 - R250$

The result of the calculation is what you can claim for that

one person – R250 per employee.

The total ETI amount which may be claimed for all employees who qualify during the next 12 months = R250 per employee X 3 employees who qualify = R750

[/spoiler]

[spoiler title="Example 4 – Part month employment" style="fancy"]

5 new employees will earn the following monthly salaries. They start employment on 17 March 2014 and receive an apportioned salary for March.

- Employee 1 – R2 000
- Employee 2 – R3 500
- Employee 3 – R4 500
- Employee 4 – R5 000
- Employee 5 – R6 500

March has 20 working days, of which the employees worked 10 days. Therefore the remuneration for March will be adjusted to the ratio of the days worked to the number of working days in March.

- Employee 1 : $R2\ 000 \times 10/20 = R1\ 000$
- Employee 2 : $R3\ 500 \times 10/20 = R1\ 750$
- Employee 3 : $R4\ 500 \times 10/20 = R2\ 250$
- Employee 4 : $R5\ 000 \times 10/20 = R2\ 500$
- Employee 5 : Does not qualify because he earns more than R6000

The ETI amount which may be claimed on the March Monthly Employer Declaration (EMP201) is calculated as follows:

EMPLOYEE	MONTHLY REMUNERATION	Calculation	ETI for the full month (In the first 12 months)	Calculation (Apportionment for part of the month)	Amount which may be claimed on March EMP201
1	R2 000	$R2\ 000 \times 50\%$	R1 000	$R1\ 000 \times (1\ 000/2\ 000)$	R500
2	R3 500	Fixed ETI amount for remuneration between more than R2 001 – R4 000	R1 000	$R1\ 000 \times (R1\ 000/R2\ 000)$	R500
3	R4 500	$R1\ 000 - [0.5 \times (R4\ 500 - R4\ 000)]$	R750	$R750 \times (R2\ 250/R4\ 500)$	R375
4	R5 000	$R1\ 000 - [0.5 \times (R5\ 000 - R4\ 000)]$	R500	$R500 \times (R2\ 500/R5\ 000)$	R250
5	R6 500	Does not qualify			
Total			R3 250		R1 625

[/spoiler]

[spoiler title="Example 5 – Associated person" style="fancy"]Where an employee moves between companies (who are part of a group) with the same PAYE reference number, for ETI purposes this will be deemed to be continuous service by the employee and the ETI will continue and not start again.[/spoiler]

[spoiler title="More worked examples" style="fancy"]Available on request – Request For Information (RFI) / Contact Us[/spoiler]