HOW THE EMPLOYMENT TAX INCENTIVE WORKS FOR YOU

What is the Employment Tax Incentive (ETI)?

It is an incentive aimed at encouraging employers to hire young and less experienced work seekers. It reduces an employer's cost of hiring young people through a cost-sharing mechanism with government, while leaving the wage the employee receives unaffected. The employer can claim the ETI and reduce the amount of Pay-As-You-Earn (PAYE) tax payable by the amount of the total ETI calculated in respect of all qualifying employees. This incentive came into effect on 1 January 2014.

Why the Employment Tax Incentive?

Many young South Africans are excluded from economic activity, and as a result suffer disproportionately from unemployment, discouragement and economic marginalisation. High youth unemployment means young people are not gaining the skills or experience needed to drive the economy forward. This lack of skills and experience can easily become an impediment to employment, thereby having long-term adverse effects on the individual and the economy.

In response to the high youth unemployment rate, government has implemented an incentive aimed at encouraging employers to hire young and less experienced work seekers, as stated in the National Development Plan.

Who qualifies for the ETI?

Employers who are registered for Employees' Tax (PAYE) with SARS.

Only employers who are tax compliant will be able to claim the ETI. However the amount will be available, subject to limitations, once non-compliant employers become compliant.

Who doesn't qualify for ETI?

- National, provincial and local spheres of government
- Public entities listed in Schedule 2 or 3 of the Public Finance Management Act
- Parastatals, government entities or municipal entities, unless the Minister of Finance designates them by regulation
- Employers who have been disqualified by the Minister of Finance due to displacement of employees or by not meeting conditions as may be prescribed by the Minister by regulation

When can the incentive be claimed?

Employers are able to claim the incentive when they have employees who:

- Have a valid South African ID
- Are from 18 to 29 years old
- Are not domestic workers
- Are not related or "connected" to the employer
- Earn at least a minimum wage in terms of wage regulating measures. If no measure exists then the employee must earn R2 000 per month in wages
- Earn less than R6 000 per month in total remuneration (basic salary plus all other benefits)
- Were newly employed on or after 1 October 2013

Note: It can be claimed for a maximum of 24 monthly periods per qualifying employee.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SARS
At Your Service

How is the ETI claimed?

An employer can claim the incentive by decreasing the amount of PAYE that is payable to the SARS for every qualifying employee that is hired by the employer.

This is done by completing the Employment Tax Incentive (ETI) field on the employer's monthly EMP201 submission to SARS.

Note: No refunds are currently permitted and employers should be able to produce IDs for the employees that the incentive is claimed for, if required to.

Tip: There is no limit to the number of qualifying employees that an employer can hire.

How does it work?

In determining the value of the incentive for a particular month, an employer must follow 5 steps:

- Identify all qualifying employees for that month
- Determine the applicable employment period for each qualifying employee (1st 12 months or 2nd 12 months)
- Determine each employee's "monthly remuneration"
- Calculate the amount of the incentive per qualifying employee
- Aggregate the result

The incentive should be calculated as follows:

	Year 1	Year 2
MONTHLY REMUNERATION	Employment Tax Incentive per month during the first 12 months of employment of the qualifying employee	Employment Tax Incentive per month during the next 12 months of employment of the qualifying employee
R0 - R2 000	50% of Monthly Remuneration	25% of Monthly Remuneration
R2 001 - R4 000	R1 000	R500
R4 001 - <R6 000	Formula: R1 000 – (0.5 x (Monthly Remuneration – R4 000))	Formula: R500 – (0.25 x (Monthly Remuneration – R4 000))

Examples:

The following examples are available to assist employers to ensure the incentive amount, which may be claimed, is calculated correctly:

Example 1

5 employees are employed for the following periods and earn the following salaries:

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

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

EMPLOYEE	MONTHLY REMUNERATION	FIRST 12 MONTHS		NEXT 12 MONTHS	
		Calculation	Amount which may be claimed on EMP201 per month	Calculation	Amount which may be claimed on EMP201 per month
1	R2 000	R2 000 X 50%	R1 000	R2 000 X 25%	R500
2	R3 500	Fixed deductible amount for remuneration from R2 001 to R4 000	R1 000	Fixed deductible amount for remuneration from R2 001 to R4 000	R500
3	R4 500	R1 000 – [0.5 X (R4 500 – R4 000)]	R750	R500 – [0.25 X (R4 500 – R4 000)]	R375
4	R5 000	R1 000 – [0.5 X (R5 000 – R4 000)]	R500	R500 – [0.25 X (R5 000 – R4 000)]	R250
5	R6 500	Does not qualify			
Total			**R3 250**		**R1 625**

Example 2: Part-month employment

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 X 10/20 = R1 000
- Employee 2 – R3 500 X 10/20 = R1 750
- Employee 3 – R4 500 X 10/20 = R2 250
- Employee 4 – R5 000 X10/20 = R2 500
- Employee 5 – Does not qualify because he earns more than R6 000

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 X 50%	R1 000	R1 000 x R1 000/R2 000	R500
2	R3 500	Fixed ETI amount for remuneration between more than R2 000 - R4 001	R1 000	R1 000 x R1 000/R2 000	R500
3	R4 500	R1 000 -(0.5X(R4 500-R4 000))	R750	R750 x R2 250/R 4 500	R375
4	R5 000	R1 000 -(0.5X(R5 000-R4 000))	R500	R500 x R2 500/R5 000	R250
5	R6 500	Does not qualify			
Total			**R3 250**		**R1 625**

Example 3: Associated person (e.g. where a company is part of a group of companies and the employee is moved from one company in the group to another)

An employee of ABC company works for ABC for 10 months and is then moved to XYZ company, an associated person of ABC, in the 11th month. For the purposes of ETI, the calculation will not start from scratch but will continue from the 11th month.

Tip: If the value of the incentive is more than the PAYE liability of the employer in a particular month, or the employer cannot claim in that month for whatever reason, then the incentive will roll over to the next month with certain limitations.

How long will the incentive be available?

The incentive will be available until 31 December 2016 with continuous review of its effectiveness.

When do penalties apply?

Penalties will be levied when:

- An employer claims an employment tax incentive in respect of an eligible employee earning less than the minimum wage (or less than R2 000 where a minimum wage is not applicable). The employer will be liable for a penalty equal to 100% of the employment tax incentive received and will have under-payment of employees' tax and possible interest in penalties in terms of the Tax Administration Act
- An employer is deemed to have displaced an employee in order to employ an eligible individual. In this instance the employer will be liable for a penalty of R30 000 in respect of that employee.

DISCLAIMER

What is contained in this leaflet is intended as a guide only and is not considered to be a legal reference nor is it a binding ruling.

The information does not take the place of legislation and readers who are in doubt regarding any aspect of the information displayed in the leaflet should refer to the relevant legislation, or seek a formal opinion from a suitably qualified individual.

For more information about the contents of this publication you may

Visit the SARS website at www.sars.gov.za

Visit your nearest SARS branch

Contact your own tax advisor/tax practitioner

If calling from within South Africa, contact the SARS Contact Centre on 0800 00 SARS (7277)

If calling from outside South Africa, contact the SARS Contact Centre on +27 11 602 2093 (only between 8am and 4pm South African time).

NEED HELP?

For policy related issues: National Treasury on employment.incentive@treasury.gov.za

For tax related issues: SARS Contact Centre on 0800 00 SARS (7277), or visit your nearest SARS branch