NATIONAL
TREASURY

REPUBLIC OF SOUTH AFRICA

EXPLANATORY MEMORANDUM

ON THE

EMPLOYMENT TAX INCENTIVE AMENDMENT BILL, 2016
(DRAFT)

23 September 2016

[W.P. – '16]

TABLE OF CONTENTS

EXPLANATION OF MAIN AMENDMENTS

1. INCOME TAX: BUSINESS (INCENTIVES)

1.1. EXTENSION OF THE LEARNERSHIP TAX INCENTIVE

[Applicable provision: sections 12H of the Income Tax Act No. 58 of 1962]

I. Background

The Learnership Tax Incentive was introduced to encourage skills development and job creation, by providing an additional tax deduction for formal, SETA-registered training programmes.

II. Reasons for change

The review of the programme indicated that the incentive delivers on its objectives where it is accessible to employers and training programmes are relevant to needs of employers. Claims are not evenly spread across sectors. Sectors with high uptake are sectors where SETAs are perceived to administer training programmes effectively.

In its current form, the incentive will only be available for learnership registered before 1 October 2016. An extension will require legislative amendment.

The current design targets all skills levels equally. The economic situation and skills development priorities have shifted since, and government support should target workers that are most vulnerable to unemployment due to a lack of relevant qualifications.

III. Proposal

National Treasury proposes continuation of the programme until a sunset date of 31 March 2022.

The values of the claims are adjusted in order to target the incentive to crucial training, in line with DHET policies. While all registered learnerships will still qualify for the incentive, our proposed targeting prioritises learners without basic to intermediate qualifications by providing a higher value of claims. The prior qualifications of the learner entering into the learnership agreement will determine the value of the claim.

Table 1: Proposed Learnership Tax Incentive claim values

	Qualification	**Proposed**	Current
Person without disability	NQF 1 - 6	**40,000**	30,000
	NQF 7 - 10	**20,000**	30,000
Person with disability	NQF 1 - 6	**60,000**	50,000
	NQF 7 - 10	**50,000**	50,000

In order to augment the future evidence base for policy evaluation, National Treasury and the SARS are discussing the most appropriate mechanism to collect more information on claims and learners The intention is to make reporting compulsory for claimants of the learnership tax incentive.

IV. Effective date

The proposed amendments are deemed to have come into effect from 1 October 2016

---

2. EMPLOYMENT TAX INCENTIVE

2.1. EXTENSION OF THE EMPLOYMENT TAX INCENTIVE

[Applicable provision: sections 1, 4, 7, 9, 10 and 12 of the Employment Tax Incentive Act No. 26 of 2013]

I. Background

The Employment Tax Incentive (ETI) was introduced in January 2014 to promote employment, particularly of young workers. A programme of this nature is new to the South African policy landscape.The initial three-year period of the programme was intended to evaluate the viability of the programme, and to indicate initial economic effects.

II. Reasons for change

During the legislative process to introduce the ETI, National Treasury committed to review the programme before its sunset 3 years later. While the broad contours of potential impacts were known at the time, the sizes of impacts were subject to some variation.

From the review process, we are now able to indicate significant positive effects on growth rates of youth employment in claiming firms – albeit modest in size. Significant, wide-spread negative effects did not materialize.

In its current form, the incentive can only be claimed by employers up to 31 December 2016. In order to extend the programme, the process of legislative amendment is required.

Government has seen a higher-than-expected take up, which means that the programme exceeded initial cost estimates. We have also started to gather an evidence base to indicate for which employers the incentive makes the biggest impact – namely in smaller firms. While this does not suggest that there are no effects in larger firms, we can attempt to target the incentive better in order to eliminate some portion of windfall benefits for activities that would have taken place in absence of the incentive.

III. Proposal

To extend the ETI programme beyond 31 December 2016, we propose the following refinements to its application:

- Extending the incentive: Allow claims beyond the current sunset of 31 December 2016, namely until 28 February 2019. The extension to the end of February is proposed in order to coincide with the end of the tax year. During this period further data and evidence on the performance of the programme can shed light on impacts of the programme.
- Imposing caps on the level of claims: Employers will only be able to claim up to a total of R 20 million in each tax year. As our evidence base is preliminary in nature, we invite comments on the potential impacts of such a cap.
- Limit roll-overs and back-dated claims: Monthly claims can only be made up to the date of each 6-monthly reconciliation. After that no further claims for that reconciliation period can be allowed. At this time any excess becomes available as a refund.
- Clarifying the number of hours worked.
- Clarifying the applicable hours in the grossing up / grossing down calculation.
- Administrative issues.

IV. Effective date

The proposed amendments are deemed to have come into effect from 1 October 2016. A separate effective date for capping amounts is proposed to come into effect from 1 March 2017.