

Employment Tax Incentive (“ETI”)

March newsletter | 2022



During the February 2022 budget speech, the Minister of Finance announced a 50% increase in the (ETI) value which came into effect on the 1st of March 2022.

The ETI came into effect on the 1st January 2014 and ends on the 28th of January 2029. The incentive is aimed at encouraging employers to hire young and less experienced employees for them to gain the necessary skills and work experience to further their careers, thereby promoting towards the national job creation agenda. The ETI effectively reduces the overall cost of employment to an employer by allowing a reduction in the monthly Pay-as-you-earn (PAYE) liability.

To qualify for an ETI claim, the employer should be a qualifying employer who employs qualifying employees. Below is amongst others the requirements for both a qualifying Employer and Employee.

Qualifying employer

An employer is a qualified employer if the employer is:

1. registered for PAYE and is tax compliant
2. is not the Government or a municipal entity and
3. has not been disqualified by the Minister of Finance.

Qualifying employee

An individual is a qualifying employee if he/she:

1. has a valid South African ID or an asylum seeker permit/ID issued in terms of the Refugees Act,
2. Is 18 to 29 years of age,
3. Is not a domestic worker,
4. Is not a connected person to the employer,
5. Was employed by the employer or an associated person to the employer, after 1 October 2013 and,
6. is paid the minimum wage or where a minimum wage is not applicable, a remuneration of at least R2 000 per month but not more than R 6 500. *(Where an employee works less than 160 hours per month, excluding overtime, the remuneration should be grossed up to 160 hours to see whether the employee would qualify).*

Calculating the claim

The following table sets out the formula to be used for an ETI claim.

Monthly remuneration	Formula effective from 1 March 2022 (New)		Formula applicable up to 28 February 2022 (old)	
	Formula – First 12 months	Formulate – Second 12 months	Formula – First 12 months	Formulate – Second 12 months
R0 – R1 999.99	75% of Monthly remuneration	37.5% of Monthly remuneration	50% of Monthly remuneration	25% of Monthly remuneration
R2 000 – R4 499.99	R1 500	R750	R1 000	R500
R4 500 – R6 499.99	R1 500 – (75% x (monthly remuneration – R4 500))	R750 – (37.5% x (monthly remuneration – R4 500))	R1 000 – (50% x (monthly remuneration – R4 500))	R500 – (25% x (monthly remuneration – R4 500))

In determining the first or second 12 month period, only the months in which the employee was a qualifying employee are taken into account.

For example, an employee may be a qualifying employee in first three months but not qualifying employee in fourth and fifth months. If employee is qualifying employee again in the sixth month, the sixth month is month number four as far as the 12-month period is concerned.

The age and the monthly remuneration should be calculated at the end of each month. The ETI can not be claimed for the month that the employee turns 30 and can be claimed in the month that the employee turns 18.

Where less than 160 hours have been worked

Where the employee was employed for less than 160 hours in a month, the employment tax incentive must be calculated on a pro-rata basis.

Example:

An employee worked for 120 hours in a specific month, earning R4 000 for the month. This is part of the first 12 months of employment for the employee.

If the employee worked for 160 hours he/she would have earned:

$R4\ 000 / 120 \text{ hours} * 160 \text{ hours} = R5\ 333.$

The employee is a qualifying employee as the salary would not have exceed R6 500 if the employee worked 160 hours.

The incentive is calculated as follows (using grossed up salary of 160 hours):

$R1\ 500 - (75\% \times (5\ 333 - 4500)) = R875$

Then reduced to 120 actual hours:

$R875 / 160 * 120 = R656.25$

Employer is non-compliant

Where an employer is non-compliant, the ETI may be rolled over to the following month until such employer becomes tax compliant. However if that employer does not become tax compliant at the time of submission of the EMP501 return, that rolled over amount is reduced to nil.

Penalties

A penalty of 100% of the ETI claimed will be imposed by SARS where an employer claimed for an employee, who earns less than the minimum wage (or less than R2 000 where the minimum wage is not applicable).

A penalty of R30 000 is imposed by SARS where an employer displaced and employee.

An employer is deemed to have displaced an employee, if the employer unfairly dismisses one employee and replaces that employee with a qualifying employee, with the intention of claiming ETI.

Employers are encouraged to make use of this incentive and assist in bringing down the high rate of unemployment in South Africa. However, it is imperative that the criteria for claiming the incentive is met and that the employer is tax compliant at the time of claiming the credit.

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