national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**MEDIA STATEMENT**

**CABINET APPROVES PUBLICATION OF DRAFT EMPLOYMENT TAX INCENTIVE BILL FOR PUBLIC COMMENT**

Cabinet this week approved the publication for public comment of the Draft Employment Tax Incentive Bill which is aimed at encouraging employers to give young people their first job experience as well as boost employment by firms operating in the Special Economic Zones (SEZs).

The Bill gives effect to the announcement by the President in his 2010 State of the Nation Address and the National Youth Accord. National Treasury on Thursday briefed Parliament's Standing Committee on Finance (SCOF) on the bill.

The proposed employment tax incentive will reduce the cost to employers of hiring young people through a cost-sharing mechanism with government, while leaving the wage the employee receives unaffected. Employers who are registered for tax will be eligible to decrease their PAYE employees' tax that is payable for hiring a qualifying individual. These employees must be between the ages of 19 and 29, possess a South African ID and must receive a salary that is between the minimum wage for that specific sector and R6 000 per month. A minimum of R2 000 applies where no sectoral determination is applicable. The employee cannot be related or connected to the employer in any way. Domestic workers will not be eligible for the incentive.

The incentive will be available for the first two years of employment. The value of the incentive is prescribed by a formula, which has three components for different wage levels. For monthly wages of R2 000 or less the incentive value is 50% of the wage, for wages that are above sectoral minima. For monthly wages that range from R2 001 to R4 000 the value of the incentive is R1 000 per month per qualifying employee in the first twelve months. For monthly wages between R4 001 and R6 000 the value of the incentive tapers down from R1 000 pm to zero. The value of the incentive is halved for the second year of employment. In the Budget Review 2013 tax revenue of R500 million was set aside for the incentive for the 2013/14 tax year.

The incentive will also apply within Special Economic Zones (SEZ) and designated industries where the age restriction will not apply. Public entities identified by the Minister of Finance in regulation can also be eligible.

The employment incentive was first announced by President Jacob Zuma in the 2010 State of Nation and then the Minister of Finance in 2010 Budget. These announcements were followed by the publication in February 2011 of a discussion paper, "Confronting youth unemployment: policy options for South Africa", which formed the basis of the consultation with key stakeholders through NEDLAC. Government has taken concerns raised during the NEDLAC consultations into account and revised its initial proposals. The draft bill contains the revised proposals.

The background to the employment incentive is that millions of 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 can have long-term adverse effects on the economy.

In South Africa's labour market, the current lack of skills and experience as well as perceptions regarding the restrictiveness of labour regulations make some prospective employers reluctant to hire youth. Given that the private sector contributes about 82 per cent towards Gross Domestic Product and employs over 70 per cent of those in formal employment outside of agriculture, it is critical that the sector be involved in order to have the biggest impact on joblessness. The incentive seeks to do exactly this.

To reduce youth unemployment, Government wishes to implement an incentive mainly aimed at encouraging employers to hire young and less experienced work seekers, as stated in the National Development Plan. The incentive is one among many under the umbrella of Government's National Youth Accord, which outlines a programme of action to address youth unemployment. Commitment 6 under the Accord calls for the development of support and incentive mechanisms to expand the intake of young workers by the private sector. This incentive will complement existing government programmes, such as the Expanded Public Works Programme and Community Work Programme, skills development under the auspices of the Further Education and Training colleges, the Sector Education and Training Authorities, the National Skills Fund and programmes that support enterprise development under the Industrial Policy Action Plan.

An incentive aimed at youth employment could have significant advantages, and would form part of a holistic programme of policies to address the causes and consequences of youth unemployment. The incentive is meant to stimulate demand for young workers but could not possibly address all structural issues in the youth labour market. The first phase of the incentive is intended to be simple and easy to implement, using existing tax administration platforms. National Treasury and the South African Revenue Service will monitor the incentive closely to evaluate the impact. After a review of the effectiveness and impact of the incentive after two years, the second phase could include additional policy features and possible refinement.

The incentive is expected to commence on 1 January 2014. Employers will be able to claim the incentive for employment that commences after 1 October 2013.

The draft Bill and explanatory memorandum can be found on the National Treasury (www.treasury.gov.za) or SARS (www.sars.gov.za) websites. Whilst the Standing Committee on Finance is expected to announce its process for considering this Bill, including taking public comments and having hearings, written comments should also be submitted to the National Treasury by the close of business on Friday, 11 October 2013.

Thereafter, National Treasury will revise the bill to take into account the comments received, including those to Parliament and in the hearings to be convened by Parliament. The revised Bill will then be introduced in Parliament in late October for the formal parliamentary legislative process, in accordance with the Money Bills Amendment Procedure and Related Matters Act, 2009.

Please forward written comments to employment.incentive@treasury.gov.za and acollins@sars.gov.za by the close of business on Friday, 11 October 2013.

The following documents are available electronically:

- The draft Employment Tax Incentive Bill (Annexure A). This is the proposed legislation that will enact the incentive.
- The draft Explanatory Memorandum (Annexure B). This provides an explanation of the legislation in plain language.
- Frequently asked questions sheet (Annexure C). This gives a non-technical overview of characteristics of the incentive.

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