national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Release of a descriptive report detailing the progress of the Employment Tax Incentive

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The Employment Tax Incentive (ETI) was introduced by Government on 1 January 2014 as part of a package of programs to address the social and economic problem of youth unemployment. The incentive aims to stimulate employment of 18 to 29 year olds in the formal sector by reducing the risks and costs associated with hiring younger workers, who tend to be inexperienced.

Youth employment is a critical component of the overall unemployment challenge. The burden of this unemployment falls heaviest on the poorest in society, with severe consequences for both the youth and the economy.

The ETI was legislated to continue until 31 December 2016, and if no legislative amendments are made before the end of the year then the ETI will expire. Parliament had requested a full review of the incentive in order to inform whether it should be continued, refined or allowed to lapse.

Government is currently engaging on these issues with other constituencies in NEDLAC. The inputs for the review to assess the impact of the incentive will also include feedback from constituencies and affected parties and additional independent research using the tax data. If amendments are required to extend or alter the design of the ETI, a draft version of the legislation will be published in the next two months to allow for public comment and sufficient time for the legislation to be considered in Parliament. The current draft tax bills before Parliament therefore do not deal with the ETI since the review is still in progress.

The report makes use of a unique dataset made available to National Treasury by the South African Revenue Service for the purposes of policy evaluation. The data is only available for the 2013/14 and 2014/15 tax years, due to the lags in tax data reporting. The dataset has not been used in this manner for detailed policy evaluation before, and as a result, significant attention is devoted to explaining the dataset in order to inform policy makers, social partners and interested members of the public.

The data suggest that take up of the ETI has been strong. R6.06 billion was claimed between 1 January 2014 and 31 March 2016. In 2014/15, 32 368 firms lodged at least one claim on the ETI. Whilst this is a large number of firms, this represents 15% of firms in the tax database with eligible employees. The ETI has been claimed for 134 923 jobs in 2014 and 686 402 jobs in 2015. This implies the ETI supported approximately 5 per cent of all jobs in the tax dataset based on individual employee tax certificates in the 2014/15 tax year.

In the 2011 discussion document, it was estimated that R5bn would be spent on the youth wage subsidy over three years, supporting 423 000 jobs, of which 178 000 would be new jobs or jobs saved from loss. Since 2011, changes to the timing of spending, as well as slight differences in design have occurred, but broadly **the estimates of jobs supported are higher than the initial 2011 projections.**

As with all incentive evaluations, changes in the external environment make it harder to assess whether the ETI created new jobs or prevented a further worsening in youth unemployment. It is not possible to use descriptive data to determine whether these supported jobs are new jobs created, jobs that have been saved from being lost or jobs that would have been created anyway. To make this estimate, it is necessary to make assumptions about what might have happened in the absence of the ETI. Econometric studies provide a tool for doing this, but are beyond the scope of this paper.

These reports will be made available to the public as they are completed.

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