

Tracking early Employment Tax Incentive impact through a tax administrative panel (2013-2015)

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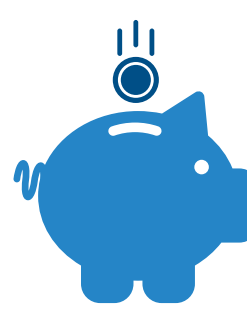
A - Background to the Employment Tax Incentive (ETI)

1 Youth employment remains critically low



Unemployment is higher amongst the youth than in any other age group. 18-29 year olds account for 35% of the working age population. Of these 12million individuals, 43% are not in employment, education or training.

2 The Employment Tax Incentive (ETI) aims to stimulate youth employment through a cost-sharing mechanism with government



A lack of skills and experience, coupled with labour regulations, result in reluctance to hire young employees

The ETI aims to stimulate youth employment in the formal sector by reducing the cost to employers of hiring young people, through a cost-sharing mechanism with government.

3 An employer claims the incentive by reducing PAYE payments for qualifying employees.



The ETI was introduced on 1 Jan 2014. Employers opting to claim the incentive must be registered for PAYE and be tax compliant.

Employers submit monthly EMP201 forms, reflecting total PAYE withheld from employees and paid over to SARS. The ETI is offset against this cash flow. Monthly submissions are reconciled through an annual IRP5 form.

4 Employees need to meet eligibly criteria in order to qualify for the ETI



ETI eligible employees have to:
 be aged 18 to 29 years
 earn less than R6 000 per month
 have a valid ID or asylum seeker status
 not be connected or related to the employer
 earn at least the minimum wage
 be newly appointed on or after 1 Oct 2013.

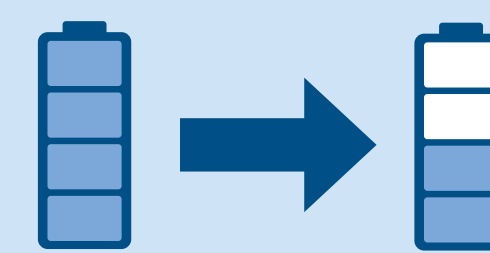


Public sector employers and domestic workers are not eligible.

5 The value of the incentive depends on employee's monthly salary



The ETI can be claimed for 24 months.



The value of the claim halves during the second 12 months.

Monthly value of ETI by salary

Monthly salary	R1 000	R1 500	R2 000	R2 500	R3 000	R3 500	R4 000	R4 500	R5 000	R6 000
Monthly value of incentive: 1 st year	R500	R750	R1 000	R1 000	R1 000	R1 000	R1 000	R750	R500	R0
Monthly value of incentive: 2 nd year	R250	R375	R500	R500	R500	R500	R500	R375	R250	R0

B - Creating the data panel (2013-2015)

1 A panel data set containing 800 000 individuals associated with ETI claims was created spanning 2013-2015 tax years

PHASE 1: 2015

The analysis considers all employees associated with ETI claims for at least one month within the 2015 tax year, as recorded through IRP5 certificates submitted by employers.

PHASE 2: 2013 - 2015

A panel for these almost 800 000 individuals was created spanning the 2013-2015 tax years (1 Mar 2012-28 Feb 2015).

2 The panel enables the distinction between individuals who were employed prior to the implementation of the ETI and those who were not



The tax administrative panel enables a distinction between individuals who were employed by PAYE-registered employers prior to the implementation of the ETI (job changers) and those who had not been employed by registered employers for at least the previous 19 months (newly employed).

This distinction provides a measure of the extent to which the incentive has been successful in its intention to alleviate unemployment, as opposed to stimulating job churning.



3 New entrants represent unemployment alleviation associated with the ETI



Job changers N = 285 000 (36%)

These individuals were formally employed (according to SARS records going back to Mar 2012) prior to entering an ETI position after 1 Oct 2013.



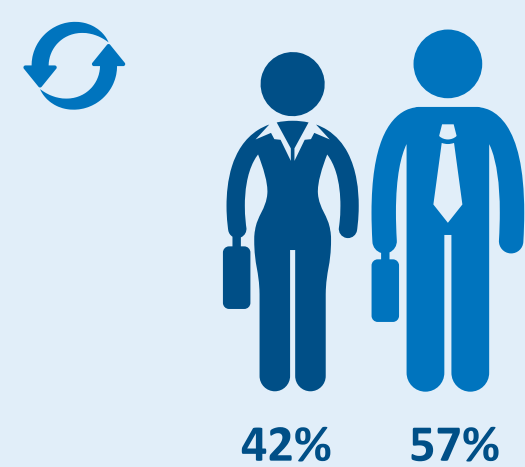
Newly employed N = 514 000 (64%)

These individuals were not formally employed (according to SARS records going back to Mar 2012), prior to being employed in an ETI position after 1 Oct.

C - Analysis results

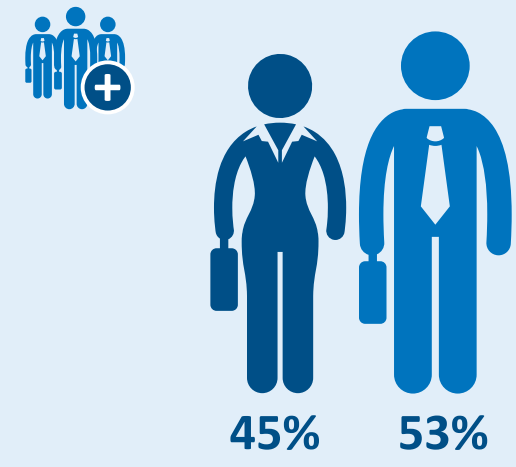
1 The number of males exceed the number of females in both populations

Proportion of job changers population by gender.



The job changers population contains 120 000 (42%) females and 163 000 males (57%). For 1% of individuals the gender could not be derived.

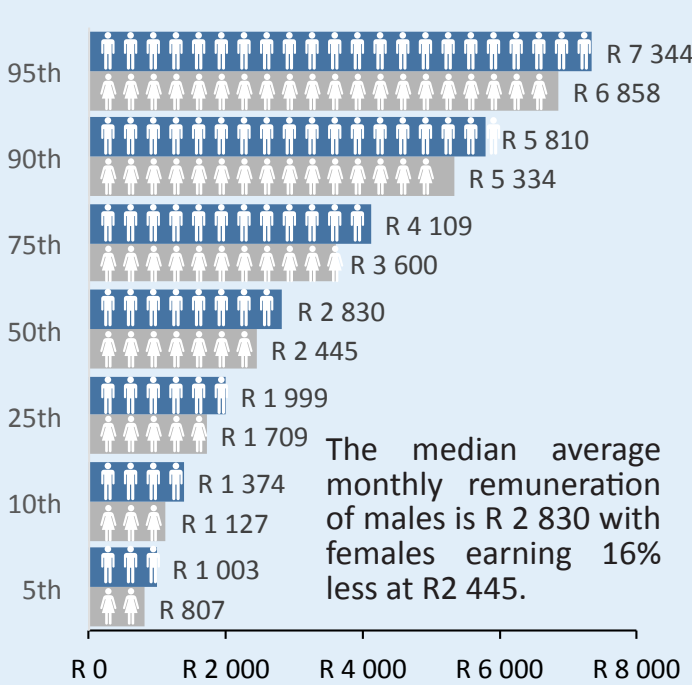
Proportion of newly employed population by gender.



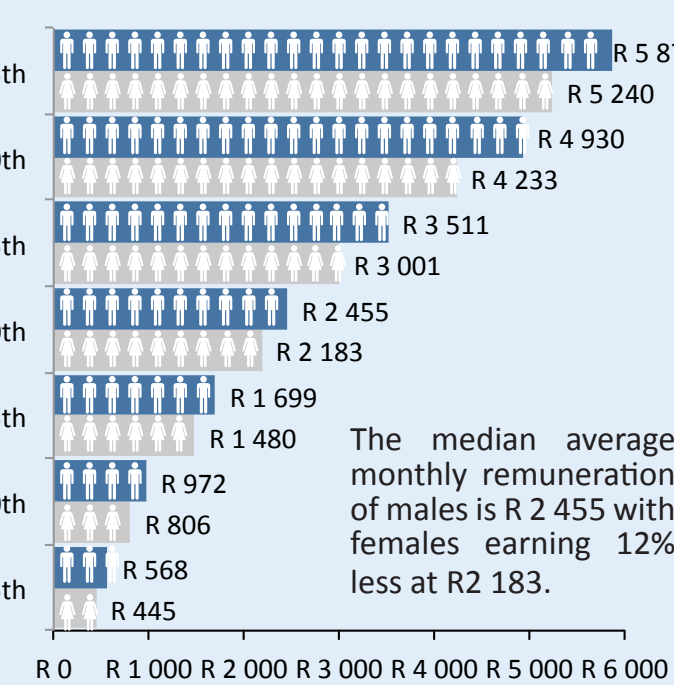
The newly employed population contains 232 000 (45%) females and 274 000 (53%) males. For 2% of individuals the gender could not be derived.

4 Remuneration earned by the job changers population exceeds that of the newly employed population

Distribution of average monthly remuneration by gender



Distribution of average monthly remuneration by gender

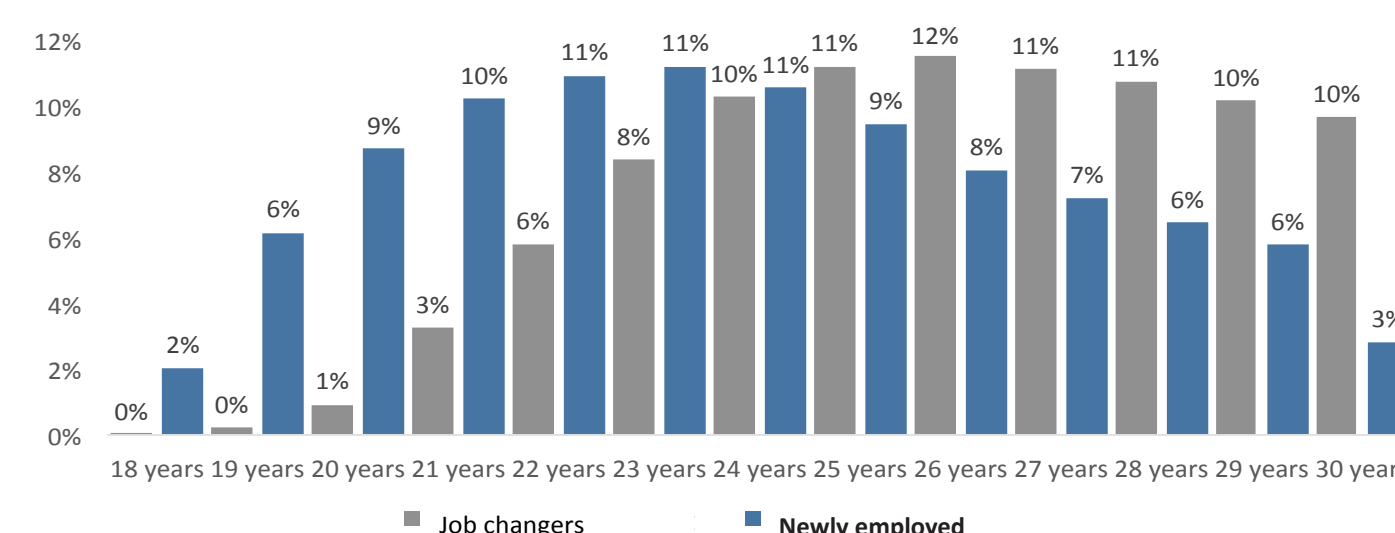


The median average monthly remuneration of males is R 2 830 with females earning 16% less at R 2 445.

The median average monthly remuneration of males is R 2 455 with females earning 12% less at R 2 183.

2 The job changers population peaks at 26 year olds, with the newly employed population peaking at 22-24 year olds.

Proportion of job changers population and newly employed population by age.



The proportion of the job changers population by age peaks at 26 year olds. The age breakdown of the newly employed population by age takes on a bell shape which is slightly more concentrated towards the younger age groups, peaking at 22-24 year olds.

5 The job changers population typically earns more than the newly employed population

Distribution of average monthly remuneration by age

Age/Percentile	10th	25th	50th	75th	90th
18 years	R 503	R 897	R 1 464	R 2 133	R 2 845
19 years	R 717	R 1 204	R 1 776	R 2 458	R 3 501
20 years	R 918	R 1 472	R 2 111	R 3 054	R 4 364
21 years	R 1 004	R 1 572	R 2 258	R 3 285	R 4 640
22 years	R 1 098	R 1 690	R 2 374	R 3 427	R 4 806
23 years	R 1 172	R 1 770	R 2 509	R 3 640	R 5 148
24 years	R 1 253	R 1 842	R 2 590	R 3 758	R 5 334
25 years	R 1 310	R 1 901	R 2 675	R 3 901	R 5 595
26 years	R 1 340	R 1 947	R 2 755	R 4 019	R 5 814
27 years	R 1 353	R 1 980	R 2 817	R 4 132	R 6 024
28 years	R 1 403	R 2 028	R 2 891	R 4 255	R 6 234
29 years	R 1 435	R 2 060	R 2 961	R 4 380	R 6 492
30 years	R 1 537	R 2 149	R 3 031	R 4 413	R 6 254
Total	R 1 257	R 1 868	R 2 661	R 3 916	R 5 626

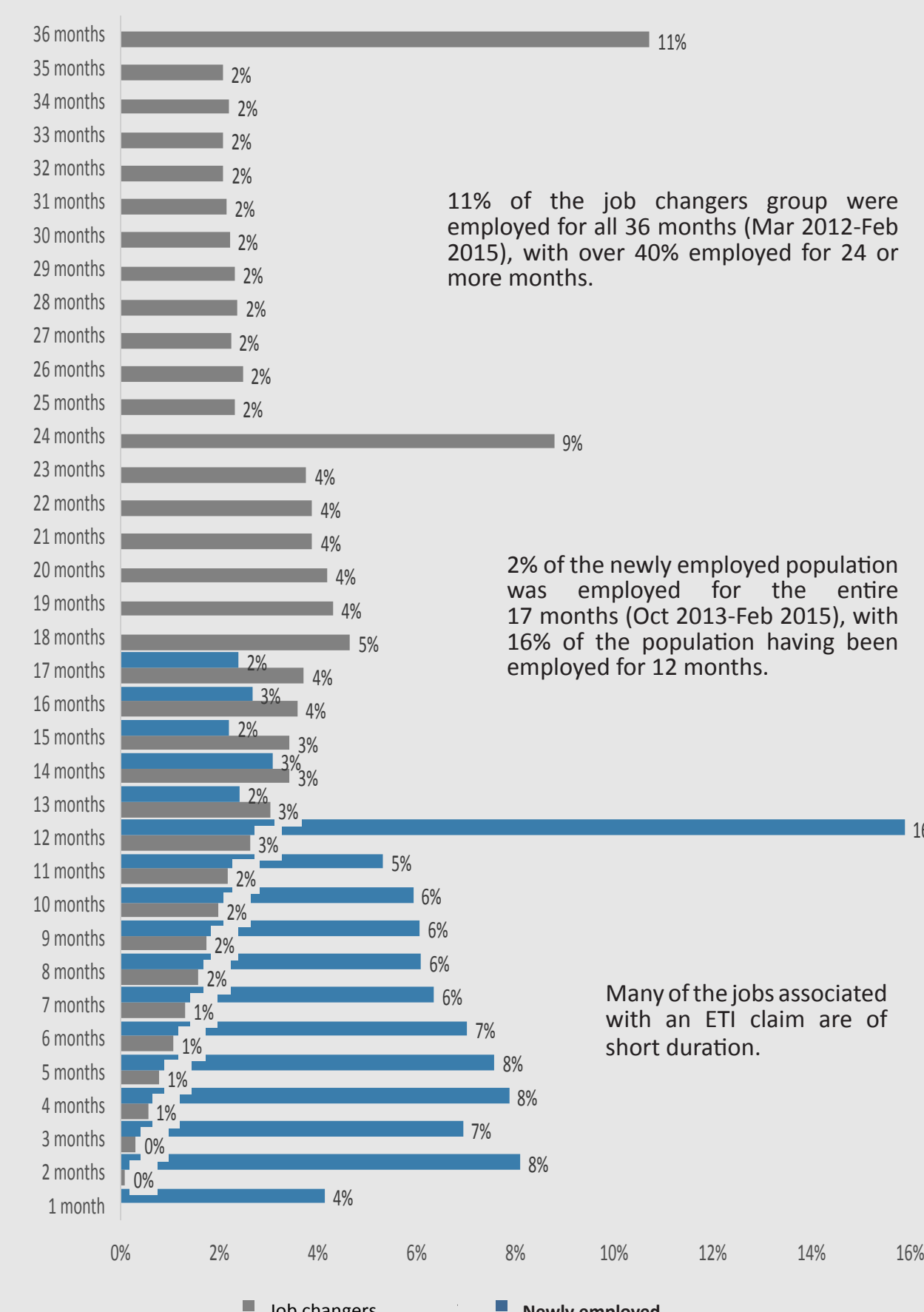
Distribution of average monthly remuneration by age

Age/Percentile	10th	25th	50th	75th	90th
18 years	R 735	R 1 287	R 1 981	R 2 728	R 3 792
19 years	R 751	R 1 385	R 2 113	R 3 029	R 4 339
20 years	R 725	R 1 400	R 2 121	R 2 974	R 4 258
21 years	R 782	R 1 460	R 2 161	R 3 000	R 4 276
22 years	R 831	R 1 534	R 2 241	R 3 109	R 4 459
23 years	R 874	R 1 590	R 2 309	R 3 241	R 4 632
24 years	R 929	R 1 648	R 2 386	R 3 351	R 4 790
25 years	R 973	R 1 695	R 2 424	R 3 396	R 4 824
26 years	R 1 001	R 1 695	R 2 429	R 3 405	R 4 824
27 years	R 1 013	R 1 723	R 2 468	R 3 475	R 4 867
28 years	R 1 025	R 1 740	R 2 491	R 3 512	R 4 934
29 years	R 1 043	R 1 771	R 2 529	R 3 565	R 4 987
30 years	R 1 242	R 1 962	R 2 693	R 3 775	R 5 182
Total	R 887	R 1 594	R 2 326	R 3 268	R 4 652

As expected, remuneration increases with age. Also, those who have been employed previously, typically earn more than new entrants.

3 11% of the job changers population was employed for all 36 months

Proportion of job changers population and newly employed population by age.



11% of the job changers group were employed for all 36 months (Mar 2012-Feb 2015), with over 40% employed for 24 or more months.

2% of the newly employed population was employed for the entire 17 months (Oct 2013-Feb 2015), with 16% of the population having been employed for 12 months.

Many of the jobs associated with an ETI claim are of short duration.

D - Conclusion

Early indications suggest that most ETI claims have contributed towards job creation for individuals in the targeted age group, slightly favouring younger and female employees compared with the broader employed population of that age, with less disparity between male and female earnings.

Nevertheless, typical job remuneration patterns by age and gender observed for all PAYE-registered employers are seen within the group associated with ETI claims.

Even within the limits placed on earnings permitted for ETI claims, there is clear evidence that previous formal work experience leads to higher remuneration.



South African Revenue Service