Background

- Policy into effect Jan 2014
- Implemented for 3 years, to be extended based on evaluation
- Aim: to incentivize firms to hire young workers
- Concerns about deadweight loss and substitution
- Administered through the tax system (payroll tax deduction)
- Expected: R5 billion in foregone tax revenue to add 178 000 new jobs and subsidize 423 000 jobs for young people

Eligibility Requirements

- Employee aged 18 to 29
- Earns between R2000 to R6000 per month
- Hired after Oct 1, 2013
- Not for public sector employees

Key Findings

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals on ETI</td>
<td>107 007</td>
</tr>
<tr>
<td>Firms using ETI</td>
<td>12 172</td>
</tr>
<tr>
<td>Amount claimed per year</td>
<td>R121,192,570</td>
</tr>
</tbody>
</table>

Data

- Anonymised employer-issued income tax forms IRP5 for 2013-2015
- Each observation is a firm-year
- Created balanced panel based on period employed from/ to dates where each unit is a firm-month
- Data problems: start of each tax year marked by sharp decrease in employment...

Theory & Methods

- Comparative Interrupted Time Series
- Model specification:

$$ Y_t = \beta_0 + \beta_1 T_t + \beta_2 X_t + \beta_3 T_t X_t + \beta_4 Z_t + \beta_5 Z_t T_t + \beta_6 Z_t X_t + \beta_7 Z_t T_t X_t + \epsilon_t $$

- $T_t$ is time since study began
- $X_t$ is time since intervention
- $Z_t$ is treatment dummy
- Key outcomes: # youth, # employees, % youth, youth hires, older separations

- Idea is to control for
  - Baseline differences ETI/ non-ETI
  - Time trend differences ETI/ non-ETI

- Matching to pre-process data for analysis
- Explore heterogeneity
  - Firm size
  - Start date
  - Intensity of use
  - Duration of use
  - Percent young/ # employees

Becoming Youthful?
An evaluation of the South African Employment Tax Incentive (ETI)

By Tumi Makgetla
Yale University

Food for Thought

- Not all firms stay on the incentive after they begin to use it – why is that?
- No evidence that older workers more likely to be fired after introduction of the ETI
- Only 318 individuals employed at firms before 1 Oct 2013 and later re-hired at same firm and placed on ETI
- (How) are eligibility requirements being enforced/ false claims followed up?
- Employment for young people declines overall over period of study; overall employment increases but slows.

Overall:

- No substantial increase in employment of young workers
- Some evidence firms on ETI see workforce become younger
- Employee growth not clearly caused by ETI
- Some firms that start after 1 January see significant effects

Individuals on ETI vs non-ETI firms:

- Firms on the ETI differ greatly from all other firms on average:
  - Faster growing
  - More employees
  - More youthful
  - More turnover over the course of the year

Methods

- Process data for firms on ETI and non-ETI
- Integrated into larger project on hiring and separations
- Analysis by age band
- Matching to pre-process data for analysis