

Employment Tax Incentive review needed to reduce payroll admin

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The South African Revenue Service (SARS) introduced the Employment Tax Incentive (ETI) in January 2014 to stimulate employment for work seekers with little work experience and in the age bracket of 18-29.



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However, it may be necessary to review some of the binding conditions in order to reduce the administrative burden associated with ETI for the extended period to 28 February 2019.

Through the ETI, employers are incentivised by way of a reduction in PAYE according to the prescribed ETI guidelines, if the employer is fully compliant for all registered taxes. Supporting the ETI program is a no-brainer, as our youth unemployment is in the range of 52% and there is an urgency to change this situation.

In so much as the effect has been partially positive in seeming to boost employment for young work seekers and providing them with a platform to launch their careers, it lacked administration consideration for payroll departments. It seems that some employers have manipulated it by claiming the incentive for workers they would have employed in any case, without creating new jobs

The payroll department has to contend with multiple issues resulting from a set of prescribed guidelines in the Act, which do not appear to take the actual work and business environment realities into account, as well as payroll systems' inflexibility to have robust programming to accommodate the ETI prescribed rules. This has been a major reason that has made business shun away from implementing ETI. Ultimately, the noncompliance resulting from this becomes payrolls' accountability.

The difficulty experienced with lack of clarity about implementation of the new (and changing rules) and the slow rate of some payroll systems to program the complex rules has resulted in noncompliance as well as additional manual intervention by the payroll department to verify the calculations.

Some issues

It is known that companies have had problems with the payroll system programming where it is unable to manage the exclusion of non-qualifying employees when they turn 29.11 years, resulting in claims being made for employees who do not qualify.

The value of the remuneration must be based on 160 ordinary hours per month, excluding overtime and unpaid hours. This means that if less than 160 hours is worked, the system must gross up the remuneration to 160 hours per month to calculate the value of the ETI, which must then be grossed down on the same basis. This means that hours worked must be recorded and tracked for the correct claim calculation to be made. The calculation needs to be rules based to avoid manual intervention. This adds complexity with system programming and as a result is often managed manually.

Employers must ensure that they adhere to the qualifying period of 24 months claim for each individual. The 24 months need not be consecutive. Here again it is critical to have systems in place to manage this as non-adherence will be penalised.

In addition, one of the ETI requirements is that an employer must remain tax compliant for all registered taxes to be able to claim the tax incentive. If at any stage the employer is found to be non-compliant, all ETI previously claimed may be subject to reversal. The implications are that interest and penalties are imposed on arrear taxes. To rectify the process can take up to 21 working days, as there is no ETI dedicated contact at SARS. This becomes administratively burdensome.

To avoid this situation, the payroll department must be proactive and add an additional control function in its already busy schedules. A monthly statement of account must be requested from SARS (or can be obtained from e-filing through the person who is accountable for this in the company). This must be reviewed and any abnormal item reflected must immediately be raised, as a query with SARS, and rectified to ensure that the ETI claim is processed by SARS.

Comments can be made on Ruling

SARS has issued a Draft Binding General Ruling on the ETI Act 28 of 2013 for which comments must be submitted by the 24 July 2017.

This clarifies the definition of remuneration, which states that overtime is excluded from the calculation of remuneration for the 160 hours in the month. Previously variable pay that was paid was included in the calculation of remuneration. Although welcome, the question is when implemented, do we recalculate the history based on the new ruling? The South African Payroll Association welcomes input from business, so that ideas regarding the General Ruling can be submitted.

Given all of the above employers are still required to be fully compliant and to ensure incentives are claimed correctly, as SARS applies strict measures for the utilisation of the incentive by employers.

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