

COVID-19 Tax Relief: Employment Tax Incentive (ETI)

Background

The Employment Tax Incentive (ETI) programme was introduced in January 2014, mainly to promote the employment of young workers. The programme aimed to reduce the cost to employers of hiring young people through a cost sharing mechanism with Government.

The programme was originally scheduled to end on 31 December 2016 but was extended to 28 February 2018 by the Taxation Laws Amendment Act 2016, following which it was again extended for a further 10 years by the Taxation Laws Amendment Act 2018. The employment tax incentive programme is currently scheduled to come to an end on 28 February 2029.

How does it work?

The ETI programme works by allowing eligible employers to reduce the amount of employees' tax (PAYE) payable to the South African Revenue Service (SARS) by a prescribed amount in respect of each qualifying employee that the employer employs, while leaving the amount of remuneration paid to the employee unchanged.

Eligible Employers

In terms of section 3 of the Employment Tax Incentive Act 2013, an employer is eligible to receive the employment tax incentive if the employer:

- Is registered with SARS for the withholding and payment of employees' tax (PAYE).
- Is not in the national, provincial or local spheres of government.
- Is not a public entity listed in schedule 2 or 3 of the Public Finance Management Act 1998.
- Is not a municipal entity.
- Is not disqualified from receiving the incentive due to displacement of an employee, based on training requirements or based on the employer's classification of trade.

Qualifying Employees

In terms of section 6 of the Employment Tax Incentive Act 2013, an employee is a qualifying employee if the employee:

- Is between the ages of 18 and 29 on the last day of the month in respect of which ETI is being claimed, or is employed by an employer through a fixed place of business located in a designated special economic zone (in which case the age restriction no longer applies); and
- Is in possession of a valid South African ID document or an asylum seeker permit issued in terms of section 22 of the Refugees Act 1998; and
- Is not a connected person in relation to the employer; and
- Is not a domestic worker; and
- Was employed by the employer on or after 01 October 2013; and
- Is paid at least the minimum wage in terms of the National minimum Wage Act, or if it is higher, the minimum wage in terms of a wage regulating measure applicable to that employer.

Determining the Amount of Employment Tax incentive

In terms of section 7 of the Employment Tax incentive Act 2013, during each month (commencing on 01 January 2014) that an eligible employer employs a qualifying employee, the amount of

employment tax incentive that the employer can claim in respect of each qualifying employee is calculated on a sliding scale which depends on:

- The monthly equivalent of the remuneration paid to the employee in that month, and
- The number of months in which the employee was previously a qualifying employee (i.e. the number of months in which ETI could have or has been claimed in respect of that employee).

The amount of ETI that can be claimed in respect of a qualifying employee (outside of the COVID-19 tax relief period) is summarized below:

Monthly Remuneration	ETI (First 12 Months)	ETI (Next 12 Months)
R 0.00 - R 1 999.99	50% of Remuneration	25% of Remuneration
R 2 000.00 - R 4 499.00	R 1 000.00	R 500.00
R 4 500.00 - R 6 499.99	$R 1 000.00 - (0.50 \times (\text{Remuneration} - R 4 500.00))$	$R 500.00 - (0.25 \times (\text{Remuneration} - R 4 500.00))$
R 6 500.00 or more.	R 0.00	R 0.00

Note that in terms of section 7 of the ETI Act and employer can claim ETI in respect of a qualifying employee for a maximum of 24 qualifying months (those months do not have to be consecutive).

COVID-19 Relief Measures (Second Set)

The Disaster Management Tax Relief (DMTR) Bill proposes three major changes to the Employment Tax Incentive Act 2013 to provide tax relief to employers.

These changes include:

- Increasing the amount of ETI that can be claimed in respect of employees who would normally already have been qualifying employees during the tax relief period.
- Including employees between the ages of 30 and 65 in the definition of “qualifying employees” during the tax relief period.
- Increasing the maximum number of months in which ETI can be claimed in respect of a qualifying employee from 24 to 28 during the tax relief period.

Increase in ETI Amounts (Normally Qualifying Employees)

The DMTR Bill proposes to amend section 7 of the Employment Tax Incentive Act 2013 to increase the maximum amount of ETI that can be claimed in respect of a normally qualifying employee during the COVID-19 tax relief period by R 500.00 (which was increased to **R 750.00** in the **second draft** of the DTMR Bill published on **01 May 2020** but effective 01 April 2020) across all remuneration levels.

The amount of ETI that can be claimed in respect of a normally qualifying employee during the COVID-19 tax relief period (following the second set of relief measures) is summarized below:

Monthly Remuneration	ETI (First 12 Months)	ETI (Next 12 Months)
R 0.00 - R 1 999.99	R 750.00 + (50% of Remuneration)	R 750.00 + (25% of Remuneration)
R 2 000.00 - R 4 499.99	R 1 750.00	R 1 250.00
R 4 500.00 - R 6 499.99	$\mathbf{R 1 750.00 - (0.875 \times (\text{Remuneration} - R 4 500.00))}$	$\mathbf{R 1 250.00 - (0.625 \times (\text{Remuneration} - R 4 500.00))}$
R 6 500.00 or more.	R 0.00	R 0.00

Note the above calculation methods apply only to ETI amounts calculated in respect of normally qualifying employees in the months of April, May, June and July 2020.

Expanded ETI: Increase in Qualifying Age

The DMTR Bill proposes to amend section 6 of the Employment Tax Incentive Act to include in the definition of a “qualifying employee” employees who are between the ages of 30 and 65 on the last day of the month in respect of which ETI is claimed, effective from April 2020 to July 2020.

Employees who would normally not qualify for ETI due to their age can now qualify for ETI from April 2020 to July 2020, provided that all the other qualifying criteria are still met.

Expanded ETI: Increase in Number of Qualifying Months

The DMTR Bill proposes to amend section 7 of the Employment Tax Incentive Act to increase the maximum number of months for which ETI can be claimed in respect of a qualifying employee from 24 months to 28 months, effective from April 2020 to July 2020.

Employees who would normally no longer qualify for ETI due to the fact that ETI had already been claimed in respect of those employees for the maximum of 24 qualifying months can now qualify for an additional 4 months from April 2020 to July 2020, provided that all the other qualifying criteria are still met.

Expanded ETI Amounts (Previously Non-qualifying Employees)

The amount of expanded ETI that can be claimed in respect of previously non-qualifying employees (i.e. employees between the ages of 30 and 65 or employees who have reached the maximum of 24 qualifying months) during the COVID-19 tax relief period is summarized below:

Monthly Remuneration	Ages 30 - 65 Years (April 2020 to July 2020)	Qualifying Month No. 25 - 28 (April 2020 to July 2020)
R0.00 - R 4 499.99	R 750.00	R 750.00
R 4 500.00 - R 6 499.99	R 750.00 – (0.375 x (Remuneration – R 4 500.00))	R 750.00 – (0.375 x (Remuneration – R 4 500.00))
R 6 500.00 or more.	R 0.00	R 0.00

Note the above calculation methods apply only to ETI amounts calculated in respect of previously non-qualifying employees in the months of April, May, June and July 2020.

Acceleration of ETI Refunds by SARS

In terms of section 10 of the Employment Tax Incentive Act 2013, any excess ETI that was available to an employer to claim but that was not claimed, must be refunded to the employer by SARS at the end of each period for which the employer was required to render a return in terms of paragraph 14(3)(a) of the Fourth Schedule to the Income Tax Act. In practical terms this means that SARS will normally refund any unused ETI to the employer every six months, at the end of August and/or February of each year.

In addition to the ETI tax relief already discussed, the DMTR Bill also proposes to amend section 10 of the ETI Act 2013 to temporarily change the frequency of ETI refunds from six-monthly to monthly, in order to get funds into the hands of employers as soon as possible. How exactly SARS will process the monthly refunds remains to be seen, but that is an internal SARS administrative process and is

outside the scope of the payroll. The important thing to note here is that SARS will not carry unused ETI amounts forward from one month to the next on the employer's monthly EMP201 returns during the four-month tax relief period, so in order for the EMP201 information on the payroll and that on the SARS systems to remain in synch, the payroll must not do so either.

This change has already been built into Intercode Payroll (V5.10.1 or later) and will be applied automatically – there is no need for you to change anything on your payroll. If there are any unused ETI amounts on your payroll at the end of April, May, June or July 2020, Intercode Payroll will **not** carry the unused ETI forward to the next month like it usually would, as it will now be assumed that the excess would have been refunded to the employer by SARS immediately when the previous month's EMP201 return was submitted to SARS.

When printing the EMP201 return for May, June, July or August 2020, the ETI Brought Forward field on the EMP201: Employment Tax Incentive window will therefore be zero.

EMP201 : Employment Tax Incentive

Employment Tax Incentive Calculation

ETI Brought Forward

ETI Calculated for This Month

ETI Total (Available to be Used)

PAYE Liability

Total PAYE Liability

Employment Tax Incentive Utilised

ETI Utilised This Month

Utilise Maximum Allowable ETI

This will also be evident when printing the ETI Reconciliation for months ending after May 2020, where the opening balances (i.e. ETI brought forward) will be zero for May to August 2020.

ETI RECONCILIATION
New Employer (Unregistered)

Payroll Month	Opening Balance	Total ETI for Month	Total Available ETI	Total PAYE	ETI Claimed	ETI Balance	ETI Reimbursed	ETI Forfeited	Closing Balance
2020 03	R 2 500.00	R 1 000.00	R 3 500.00	R 1 000.00	(R 1 000.00)	R 2 500.00	(R 0.00)	(R 0.00)	R 2 500.00
2020 04	R 2 500.00	R 2 500.00	R 5 000.00	R 1 000.00	(R 1 000.00)	R 4 000.00	(R 4 000.00)	(R 0.00)	R 0.00
2020 05	R 0.00	R 2 500.00	R 2 500.00	R 1 000.00	(R 1 000.00)	R 1 500.00	(R 1 500.00)	(R 0.00)	R 0.00
2020 06	R 0.00	R 2 500.00	R 2 500.00	R 1 000.00	(R 1 000.00)	R 1 500.00	(R 1 500.00)	(R 0.00)	R 0.00
2020 07	R 0.00	R 2 500.00	R 2 500.00	R 1 000.00	(R 1 000.00)	R 1 500.00	(R 1 500.00)	(R 0.00)	R 0.00
2020 08	R 0.00	R 1 000.00	R 1 000.00	R 1 000.00	(R 1 000.00)	R 0.00	(R 0.00)	(R 0.00)	R 0.00
2020 09	R 0.00	R 1 000.00	R 1 000.00	R 1 000.00	(R 500.00)	R 500.00	(R 0.00)	(R 0.00)	R 500.00
2020 10	R 500.00	R 1 000.00	R 1 500.00	R 1 000.00	(R 1 000.00)	R 500.00	(R 0.00)	(R 0.00)	R 500.00
ETI Closing Balance as at the end of October 2020 :									R 500.00

IMPORTANT: It is not clear at this point whether SARS will continue to process ETI refunds on a monthly basis after the end of the COVID-19 relief period, or whether they will go back to six-

monthly refunds. As things currently stand, Intercode Payroll will automatically revert to carrying unused ETI amounts forward from one month to the next as of September 2020 onwards (August would have been a “refund month” anyway). If necessary, we will issue another update once SARS’s future intentions in respect to ETI refunds become clear.

Frequently Asked Questions

Do I need to manually identify “newly qualifying” ETI employees on my payroll during the COVID-19 tax relief period?

No. Intercode Payroll will automatically identify employees who previously did not qualify for ETI due to their age or due to the fact that they had already qualified in 24 previous months, and will automatically calculate ETI in respect of those employees for each of the months in which they now qualify. Intercode Payroll will also automatically stop calculating ETI in respect of those employees once the four-month tax relief period has come to an end.

Do I need to tell Intercode Payroll which ETI formulas to use during the COVID-19 tax relief period?

No. You do not need to make any changes to your payroll to take advantage of the increased or the expanded COVID-19 ETI amounts during the four-month tax relief period. Intercode Payroll will automatically apply the correct formula when calculating the value of the ETI in respect of each qualifying employee, based on whether the relevant month falls within the four-month COVID-19 tax relief period. Intercode Payroll can also automatically differentiate between “normally qualifying” and “newly qualifying” employees and will use the applicable ETI formula as required. Intercode Payroll will automatically revert to the “normal” ETI calculations once the four-month tax relief period has come to an end.

Where can I see which employees qualified for ETI in a month?

To see which employees qualified for ETI:

- Go to the Payroll section.
- Select Monthly Totals at the top left of the Payroll window.
- Select the relevant month on the calendar to the left of the window.

Each employee that qualified for ETI in that month will have the value of the ETI that was calculated in respect of that qualifying employee shown in the “ETI Value” column.

Monthly Totals (April 2020)									
		Payroll No.	Surname : First Name	Known As	Payroll Month	Period Ending	UIF Status	UIF Status Date	ETI Value
<input type="checkbox"/>		00000001	Doe John	John	Apr 2020	2020/04/30			R 750.00
<input type="checkbox"/>		00000002	Doe Jane	Jane	Apr 2020	2020/04/30			R 750.00
<input type="checkbox"/>		00000003	Doe James	James	Apr 2020	2020/04/30			R 1 750.00
<input type="checkbox"/>		00000004	Doe Jenny	Jenny	Apr 2020	2020/04/30			

Can I print a breakdown of the ETI that was calculated for all employees in a month?

Yes. To print a breakdown of the total ETI that was calculated in respect of all qualifying employees for a month:

- Click Print Reports on the toolbar at the top of the Monthly Totals window.
- Select ETI Breakdown from the resulting drop-down menu.

The Employment Tax Incentive Breakdown shows details of all employees in respect of whom ETI was calculated for the relevant month, as well as the details of all employees in respect of whom no ETI was calculated.

EMPLOYMENT TAX INCENTIVE BREAKDOWN									
New Employer (Unregistered)									
April 2020									
Payroll No.	Employee	Actual Remuneration	Hours Employed	Months Employed	ETI Remuneration	Gross ETI Value	Nett ETI Value	Qualifying Month No.	ETI Status
00000001	Doe John	R 4 000.00	176.0000	1.0000	R 4 000.00	R 750.00	R 750.00	01	01
00000002	Doe Jane	R 4 000.00	176.0000	1.0000	R 4 000.00	R 750.00	R 750.00	25	01
00000003	Doe James	R 4 000.00	176.0000	1.0000	R 4 000.00	R 1 750.00	R 1 750.00	02	01
00000004	Doe Jenny	R 4 000.00	176.0000	1.0000	R 4 000.00				16
Total ETI : April 2020							R 3 250.00		

ETI Status Codes :

10 : Employer is not an Eligible Employer as per ETI Act | 11 : Invalid Employee Type | 12 : Connected Person in Relation to Employer | 13 : Employed by Associated Employer since before 01 October 2013
 14 : Appointed before 01 October 2013 | 15 : Age Outside Allowed Range and Not in SEZ and Not in SIC | 16 : No ID Number or Section 22 Permit Number | 17 : Paid at Less than Minimum Wage
 18 : Maximum Number of ETI Months Reached (Max. 24) | 19 : No Remuneration Paid for Month | 20 : Monthly Remuneration Greater or Equal to ETI Maximum | 21 : Portion of Month Employed Cannot be Zero

Where can I see why ETI was not calculated for certain employees?

When ETI is not calculated for an employee, the reason why the ETI was not calculated can be found by looking at the ETI Status code (last column) on the Employment Tax Incentive Breakdown report (see previous question above). The list of ETI Status Code descriptions can be found on the last page of the report, indicating the reason why ETI was not calculated for non-qualifying employees.

For more detailed information you can also print the ETI Trace Calculation report (see next question) which shows all the information related to an employee's ETI status in any given month, including the reason why ETI was not calculated for an employee in a particular month, if applicable.

Where can I see exactly how an employee's ETI amount was calculated?

To see a detailed analysis of how an employee's ETI amount was calculated in a specific month:

- Go to the Payroll section.
- Select Monthly Totals at the top left of the Payroll window.
- Select the relevant month on the calendar to the left of the window.
- On the toolbar at the top of the window, click Print Reports, then select ETI Trace Calculation from the drop-down menu.

This will print a report containing a one-page analysis if the ETI calculation of each employee on the payroll for the relevant month.

ETI CALCULATION

Demo Company
April 2020

COVID-19 Tax Relief Expanded ETI (April 2020 to July 2020):

Monthly Remuneration	Monthly ETI During First 12 Qualifying Months	Monthly ETI During Next 12 Qualifying Months
R 0.00 - R 1 369.99	R 750.00 + 50% of ETI Remuneration	R 750.00 + 25% of ETI Remuneration
R 2 000.00 - R 4 499.99	Fixed Amount of R 1 750.00	Fixed Amount of R 1 250.00
R 4 500.00 - R 6 499.99	R 1 750.00 - (0.875 x (Remuneration - R 4 500.00))	R 1 250.00 - (0.625 x (Remuneration - R 4 500.00))
R 6 500.00 >	R 0.00	R 0.00

* Expanded ETI of R 750.00 per month also applies to employees 30 to 65 years of age and employees over 24 qualifying months during tax relief period.

Employee Details

Payroll No.	00000002	Qualifying Month No.	25
Employee	Doe Jane	Tax Reference No.	
Employee Type	Normal Employee	Connected to Employer	No
Refugee / Asylum Seeker	Yes	Section 22 Permit No.	123456
Date of Birth	01 January 2000	Age at Month End	20
Appointment Date	01 January 2019	Previously Employed	No

ETI Calculation Details : April 2020 (01 April 2020 to 30 April 2020)

Gross Remuneration	R 4 000.00	Hours in Full Month (ETI Act)	160.0000
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You can also print this report for a single employee by first double-clicking on the employee's name in the Monthly Totals window, selecting the Employment Tax Incentive tab, and then clicking Trace Calculation.

Can I use the ETI Trace Calculation report to view the expanded ETI calculations in months that fall in the COVID-19 tax relief period as well?

Yes. The ETI Trace Calculation report has been updated to take the expanded ETI calculations that are applicable during the COVID-19 tax relief period into account. If the month for which you are printing the report falls in the COVID-19 tax relief period, you will see a notation on the report indicating that the "COVID-19" ETI calculations were used to calculate the ETI value in respect of that employee in that month.

Determine the Amount of Employment Tax Incentive in terms of Section 7(2)(c) of the Act (COVID-19 Relief Period)

If Monthly Remuneration is between R 4 500.00 and R 6 499.99 during the employee's first 12 qualifying months then:

$$\begin{aligned}
 \text{Monthly ETI Value} &= R\ 1\ 750.00 - (0.875 \times (\text{Monthly Remuneration} - R\ 4\ 500.00)) \\
 &= R\ 1\ 750.00 - (0.875 \times (R\ 6\ 000.00 - R\ 4\ 500.00)) \\
 &= R\ 1\ 750.00 - (0.875 \times R\ 1\ 500.00) \\
 &= R\ 1\ 750.00 - R\ 1\ 312.50 \\
 \text{Monthly ETI Value} &= R\ 437.50
 \end{aligned}$$