Southern African Catholic Bishops' Conference
PARLIAMENTARY LIAISON OFFICE

Submission to the Standing Committee on Finance

on the

DRAFT EMPLOYMENT TAX INCENTIVE BILL

PO Box 2910 Cape Town 8000 South Africa ● 12 Bouquet Street Cape Town 8001
Tel: +27 (0)21 461 1417 ● Fax: +27 (0)21 461 6961 ● E-mail: info@cplo.org.za ● Website: www.cplo.org.za
'Participating in Public Policy'

Introduction

1. The Southern African Catholic Bishops' Conference strongly supports the proposed Employment Tax Incentive Bill. It addresses the deep-seated problem of youth unemployment in a new and creative way. The recently released crime statistics reveal a society struggling with crimes which are often associated with poverty and unemployment. Poverty-driven diseases, such as TB, also point to the need for increased employment among the poor, and especially among young people trying to escape poverty. We believe that any solution that seeks to improve the lives of the poor, and especially of the youth, should be supported.

2. The need for a reduction in very high unemployment levels especially among the youth is extremely urgent. In this regard we note that the idea of an employment tax incentive was first mentioned in President Zuma's State of the Nation address in 2010; and repeated in Minister Gordhan's budget speech that year, and again in 2011. It is a great pity that it has taken so long for the idea to be translated into draft legislation, and we urge the Committee to ensure that the Bill is dealt with expeditiously, so that the scheme can indeed commence in January 2014.

3. Within our broad support for the Bill, there are a number of aspects which, we suggest, could be amended to make it an even more effective weapon in the fight against unemployment.

Specific Comments

Entrenching Low Wages

4. Clause 4(2) provides that the incentive will be available to employers (who are not subject to sector determinations) who pay at least R2 000 per month to their qualifying employee(s). Clause 7, which sets out how the incentive is to be determined, indicates that an employer will receive an incentive of R1 000 for every employee who earns R2 000; and that the incentive will reduce on a sliding scale down to zero for employees who earn R6 000 or more.

We suggest that this arrangement could exert generally downward pressure wages. Firstly, it makes it attractive to ‘peg’ wages at R2 000, since any increase in the wage will not bring with it an increase in the incentive. On the contrary, an increase in wages up to R4 000/month will result in the incentive staying at R1 000; and an increase beyond R4 000 will see the incentive gradually declining.

Secondly, the fact that the incentive ‘runs out’ at R6 000 per month means that employers will be reluctant to raise wages to, or beyond, this figure.

We suggest that consideration should be given to raising both the minimum and the maximum wages at which the incentive would apply, to R3 000 and R10 000 respectively.

Preventing Displacement

5. Opponents of the employment tax incentive scheme have argued that employers will take advantage of the scheme’s provisions in order to dismiss older workers (who are earning higher wages) and replace them with younger workers who qualify for the incentive scheme. This objection must be taken seriously, since some employers will no doubt be tempted to do exactly that. To combat this, the Bill correctly provides for penalties to be applied to employers who ‘displace’ existing employees. However, there are two problems with the way these penalties are envisaged.

Firstly, the financial penalty itself is far too lenient: clause 5(3)(b) sets the penalty at 150% of whatever sum the employer received through the incentive in the preceding 12 months. This means, in effect, that the employer would have to pay back what he had been given by the treasury, plus half that amount. In our view this would be insufficient to dissuade some greedy employers from exploiting the scheme; the penalty should be set at a level that would be an effective deterrent: *we suggest an amount equal to ten times the value of the incentive payments received.*

We suggest further that employers that have dismissed or retrenched fulltime employees in the six months preceding their participation in the scheme should be required to furnish reasons for such dismissals or retrenchments before being allowed to apply for incentives.

Secondly, clause 5(3)(a) provides that a guilty employer would no longer be eligible to receive the incentive. We suggest that this part of the penalty would harm potential employees as much as it would punish exploitative employers. The whole point of the incentive scheme is to increase levels of youth employment; if potential employers are excluded, for whatever reason, this can only result in fewer young people being employed. The punishment for exploiting the scheme should be a financial one, as we have suggested above, rather than exclusion from the scheme.

We suggest that clause 5(3)(a) be deleted.

Qualifying Employees

6. Clause 6(1)(a) limits participation to employees who possess an identity card – in effect, South African citizens or permanent residents. It is not clear why refugees or asylum seekers who have been granted the right to seek employment should be excluded in this way. Indeed, the exclusion may well constitute unfair discrimination and thus be unconstitutional.

In our view, anyone who fulfils the criteria of age and who is not a ‘connected person’ should qualify for the incentive.

Clause 6(b)(i) sets out the age of qualifying employees as between 19 and 29. This appears to be inconsistent, firstly, with the fact that employment is legal from the age of 15 upwards. Why should 16, 17 and 18-year-olds be excluded from the scheme? Secondly, it is inconsistent with the definition of ‘youth’ in the National Youth Policy, which sets the upper limit at 35 years of age. It is noted that, according to clause 6(b)(ii) and (iii), these age limits do not apply to employees in special economic zones or in certain designated industries. There seems to be no obvious reason, then, why the limits should operate outside such zones or designated industries.

We propose that the age requirements for a qualifying employee be extended to include workers between the ages of 15 and 35.

Duration of the Incentive

7. It is clear from clause 7 that the incentive will operate for only two years in respect of any given employee; and that the amount of the incentive in the second year will be half what it was in the first year. We question why there should be a reduction in the second year, and why the incentive should last for only two years. This is surely too short a time to judge the impact of the scheme, to allow employers to assess its cost-effectiveness, and to allow the young employees to benefit from their employment.

We suggest that the incentive should remain at the same level for its duration, and that it be extended to at least five years for any given employee.

The Amount Allocated by Treasury

8. In a statement issued by the government news agency on 20th September this year it is indicated that "in the Budget Review 2013 tax revenue of R500 million was set aside for the incentive for the 2013/14 tax year."[1] However, in the 2011 budget speech, Minister Gordhan mentioned that a sum of R5 billion over three years had been allocated for the incentive. We question, therefore, why only R500 million has now been made available. If this scheme is to be pursued seriously so as to make a substantial impact on youth unemployment, an amount much greater than R500 million needs to be invested in it.

Conclusion

9. To reiterate, we strongly support the draft Bill and we commend treasury and government for at last starting to give effect to a scheme that promises to make a substantial difference to the lives of many young unemployed people.

However, we are concerned that the scheme as it is set out in the draft Bill is too cautious and too limited in its scope. It needs to be run for longer than two years; it needs to embrace a wider age-

[1] http://www.sanews.gov.za/south-africa/youth-tax-incentive-expected-january-2014

range of employees; it needs to apply to employees earning more than R6 000 per month; and it should receive a much larger allocation than R500 million (out of a budget that now exceeds one trillion Rands!)

In addition, the penalties for abuses of the incentive need to be strengthened. This is too important an initiative to run the risk that greedy employers will undermine it by displacing existing workers in order to benefit from the scheme.

For further information, please contact:

Adv Mike Pothier
Research Co-ordinator
Catholic Parliamentary Liaison Office
mike@cplo.org.za

11th October 2013