



# Employment Tax Incentive (ETI) IN A NUTSHELL

Below are FAQs that typically relate to ETI processes:

- **Is ETI legitimate?**
  - ETI is most certainly legitimate and was promulgated into law by the finance minister on 18 December 2013 to address the critical issue of unemployment through the private sector. It was scheduled to expire in 2017, then extended to 2018, and then the President in his SONA address on 6 February 2019, extended the ETI legislation to 2029. This due primarily to an increasing take up by corporates employing young low-income people and providing them with the ability to acquire entry level skills.
- **How do corporates participate?**
  - When companies submit their PAYE tax payments by the 7th of each month, they do so on a form known as the EMP201. This form is a SARS document that includes an ETI section. Once a company has “ticked” this box, SARS is aware that it is participating in the ETI process.



- **What else is the corporate required to do?**
  - ❑ In several larger corporate entities, the ETI process is utilised to subsidise the cost of internal training as typically the employees who are targeted for this training have very low to no basic skills, thus placing the employer in a difficult position as they are required by other legislation to employ these people but are required to incur the costs of training them. The ETI provides a maximum of R1,500.00 per month per employee deduction off the total PAYE amount as reflected on the EMP201 document that is submitted with the corporate's monthly payment to SARS. There is also a capability of extending the employment past 12 months, however the subsidy amount then drops to R750.00 per month per employee for the second 12-month period.
- **What are the criteria for employee qualification?**
  - ❑ For a corporate to be able to deduct the R1,500.00 per month per employee, the qualification criteria are clear; the employee must be between the ages of 18 and 29, and their remuneration by the corporate should not exceed R6,000.00 per month. There is speculation that the age limitation will be increased to 35, but no clear instruction is yet on the table.



- **How many employees would fall into this category?**
  - ❑ This could be an unintended consequence of the ETI concept, in that only high-volume employers would likely employ large numbers in this category, thus limiting the qualifying numbers. Typically, organisations such as the mining industry and similarly structured entities are the ones who can actively participate in ETI. Small to medium enterprises would not normally have volumes of employees that would fall into the ETI category.
- **How do these entities participate then?**
  - ❑ This is where YDC enter the picture. YDC has secured a tax legal opinion that acknowledges a “fair and reasonable” relationship between the employer, the employee and YDC, whereby YDC, whose specialist skills are in the field of compliance to labour law, will sub-contract with the employer such that the employer is able to enter a fixed term employment contract with employees who qualify in terms of the ETI process, but are not currently employed by the Company. YDC undertakes all the compliance matters relating to these “employees” and runs a parallel payroll consisting only of these “employees” which is fully compatible with the employers existing payroll systems. This is the intellectual property of YDC, and further detail will be supplied on the signing of a Non-Disclosure agreement (NDA) with YDC.



- **Are these entities required to pay salaries?**
  - The employer pays the total salary cost of R3,710.40 per Sales Intern per month. These employees sign a 12-month fixed term contract and are placed on a membership programme where they have access to resources via LobaBeGlobal.
  - The Employer invoices YDC for a guaranteed commission of R2,773.00 (Vat incl.)
  - The employer claims the ETI Rebate of R1,500.00 back on his EMP201. The Employer receives a cashback of R201.27 per sales intern per month.
  - The employer has no obligation to employ these employees once their contract has come to term. The employer can however make use of these employees as additional resources from time to time should they require such resources.



### \*POTENTIAL CASHFLOW SCENARIO PER SALES INTERN

Total Salary Cost per Sales Intern	R3,710.40
Sponsor Invoice VAT Inclusive	R2,773.00
Sponsor VAT Output	R 361.70
ETI Claim	R1,500.00
Cashback	R 201.27
Tax Benefit @ 28%	R 363.64

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