

# Income Tax Benefits for Employers

## Learnership Allowance

Section 12H of the Income Tax Act provides an employer with an allowance called the learnership allowance. **This allowance may be claimed over and above any other expense (such as salary) claimed by the employer in respect of the learner.** The allowance is dealt with in SARS Interpretation Note No. 20.

The learnership allowance may only be claimed in respect of learnership agreements that are registered with the Skills Development Act.

Two types of allowances are available, namely:

1. Annual allowance: for the duration of the learnership agreement. This allowance is claimed pro-rata if the learnership was concluded during a tax year and it is based on full months concluded under the learnership. The table below sets out the relevant allowances.

<b>Annual Allowance</b>	<b>NQF Level</b>	<b>After 1 October 2016</b>	<b>Prior to 1 October 2016</b>
Learner <b>without</b> disability	NQF 1 – 6	R40,000	R30,000
	NQF 7 – 10	R20,000	R30,000
Learner <b>with</b> disability	NQF 1 – 6	R60,000	R50,000
	NQF 7 – 10	R50,000	R50,000

To claim the allowance the learnership must be registered as required by the Skills Development Act within a year of the learnership being concluded. The annual allowance is not dependent on the successful completion of the learnership.

2. Completion allowance: may be claimed on completion of the learnership. The **completion allowance is in addition to the annual allowance** and is claimed in the year of assessment in which the learner successfully completes the learnership, provided that sufficient proof of completion is supplied to SARS.

<b>Completion Allowance</b>	<b>Learnership less than 24 months</b>	<b>Learnership more than 24 months successfully completed</b>
NQF 1 – 6 held through learnership	R40,000 in year of successful completion	R40,000 x No. of consecutive 12-month periods within the duration of the agreement
NQF 7 – 10 held through learnership	R20,000 in year of successful completion	R20,000 x No. of consecutive 12-month periods within the duration of the agreement

## Bursaries

Section 10(1)(q) exempts from income tax in the hands of an employee, any bona fide scholarship or bursary granted to assist or enable any person to study at a recognized educational or research institution. The allowance is dealt with in SARS Interpretation Note No. 66.

In the event that the bursary is offered to an employee or a relative of such employee the following additional rules apply:

1. The employee, in the bursary agreement with the employer must agree to reimburse the employer, if the employee or the employee's relatives fail to complete their studies or do not pass their exams.

2. Only employees earning less than R600,000 per year (in the year prior to receiving the bursary) are eligible to receive such a bursary on a tax-exempt basis.

<b>Qualification level</b>	<b>Maximum tax-free bursary</b>
Grades R to 12 and NQF 1 to 4	R20,000 per annum (R30,000 disabled)
NQF 5 to 10	R60,000 per annum (R90,000 disabled)

3. The bursary may include the following:

- Fees in respect of tuition, registration and examinations;
- Textbooks;
- Equipment for studies; and
- Accommodation, meals and transport.

The fees are paid directly to the educational institution and normally in advance.

The following will not qualify for the tax exemption:

1. A low-interest or interest-free loan from an employer is not treated as a bursary. The employee will be liable for tax on the subsidised portion of such loan.
2. Where the employee receives an amount for passing exams or qualifying. This amount will be taxable. In the case of the reimbursement of study fees, this is treated as a bursary, of which R20,000 is not taxable.

Only the portion of a bursary in excess of the limits is subject to the deduction of employee tax.

A bursary that must be repaid by an employee if the employee studied unsuccessfully, will still qualify for the tax exemption until such time that the non-fulfilment conditions of the agreement come into effect.

# Employment Tax Incentive (“ETI”)

## What is the ETI?

The ETI is an incentive aimed at encouraging employers to hire young work seekers. It was implemented with effect from 1 January 2014.

## What does this mean for employers?

The benefits of the ETI are:

- It will reduce the employer’s cost of hiring young people through a cost-sharing mechanism with government, by allowing you to reduce the amount of PAYE the employer must pay while the wage received by the employee is not touched.
- Employers will only be able to claim the incentive for the 24-month period for all employees who qualify.
- The incentive amount differs based on the salary paid to each qualifying employee and whether the qualifying employee was employed after the inception of the ETI programme on 1 October 2013.

## Which employers qualify?

- The employer is eligible to claim the ETI if the employer–
  - Is registered for Employees’ Tax (PAYE), or must be eligible to register for PAYE (for example, the employer can't register for PAYE just to claim ETI, other registration requirements must be met);
  - Is not in the national, provincial or local sphere of government;

- Is not a public entity listed in Schedule 2 or 3 of the Public Finance Management Act (other than those public entities designated by the Minister of Finance by Notice in the Gazette);
- Is not a municipal controlled entity; and
- Is not disqualified from claiming the ETI by the Minister of Finance due to the displacement of an employee or by not meeting the conditions as may be prescribed by the Minister by regulation.

In addition, SARS has in practice not allowed the ETI to be claimed in the event that all of the employer's taxes are not up to date and fully paid.

### **How do I determine who is a qualifying employee?**

There is no limit to the number of qualifying employees that an employer can hire as long as they meet the criteria.

An individual is a "qualifying employee" if he or she:

- Has a valid South African ID, Asylum Seeker permit or an ID issued in terms of the Refugee Act.
- Is 18 to 29 years old (please note that the age limit is not applicable if the employee **renders services mainly inside** a special economic zone (SEZ) to an employer that **is operating inside the SEZ**). The following SEZs have been designated by the Minister of Finance with **effect from 1 August 2018**:

<b>Code</b>	<b>Description</b>
COE	COEGA SEZ
DTP	DUBE TRADE PORT SEZ
EAL	EAST LONDON SEZ
MAP	MALUTI-A-PHOFUNG SEZ

SLB	SALDANHA BAY SEZ
RIB	RICHARDS BAY SEZ

- Please note that this unrestricted age limit has not been activated as yet for any specific industry designated by the Minister of Finance.
- Is not a domestic worker;
- Is not a “connected person” to the employer;
- Was employed by the employer or an associated person to the employer on or after 1 October 2013; and
- Is paid the minimum wage applicable to that employer or if a minimum wage doesn't apply, is paid a wage of at least R2,000 (where the qualifying employee was employed for 160 hours in a month) and not more than R6,000 remuneration.

### How is the ETI determined?

#### Tax period (months) from 1 March 2019

The monthly calculated ETI amount per qualifying employee is determined as follows:

- For the **first twelve months** of employment:

Monthly Remuneration	Basis of Calculation	Monthly Calculated ETI Amount
<b>R0 – R2,000</b>	50% x monthly remuneration	R0 - R1,000
<b>R2,001 - R4,500</b>	Fixed at R1,000	R1,000
<b>R4,501 – R6,500</b>	Formula: $X = A - (B \times (C - D))$ X = monthly calculated amount A = R1,000	R 999 - R0

	B = 0,5 C = Monthly Remuneration D = R4,500	
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- For the **second twelve months** of employment:

<b>Monthly Remuneration</b>	<b>Basis of Calculation</b>	<b>Monthly Calculated ETI Amount</b>
<b>R0 – R2,000</b>	25% x monthly remuneration	R 0 – R499
<b>R2,001 - R4,500</b>	Fixed at R 500	R500
<b>R4,501 – R6,500</b>	Formula: $X = A - (B \times (C - D))$ X = monthly calculated amount A = R500 B = 0,25 C = Monthly Remuneration D = R4,500	R499 – R0

**Important:** The value of the ETI the employer may claim depends on the value of the monthly remuneration paid to the qualifying employee. If the employee has worked less than 160 hours in the month, the remuneration amount must be “grossed up” to 160 hours per month to calculate the value of the ETI.

### **Will any penalties apply?**

Penalties will apply when:

- An employer claims the ETI for an employee who qualifies and earns less than the minimum wage (or less than R2,000 where a minimum wage is not applicable). Here the penalty imposed is equal to 100% of the ETI claimed for

that employee. This will lead to an under-payment of employee's tax and possible interest and penalties in terms of the Tax Administration Act.

- An employer is believed to have displaced an existing employee in order to employ an employee who qualifies for the ETI. In this case a penalty of R30,000 will be levied, for each employee displaced.

### **How long will the ETI be available?**

The ETI came into effect on 1 January 2014 and it will end on 28 February 2029.