Introduction

- South Africa has one of the highest rates of unemployment worldwide
- Young inexperienced workers have few credible ways to signal to employers that they will be productive – difficult to get in the door

- Government proposes a cost-sharing mechanism with private sector to hire young and less experienced workers
- Cannot address all structural issues in the youth labour market, rather it is a temporary programme to stimulate demand for young workers
- Complement to skills upgrade programmes (on the job training, soft skills)
- Simplicity, to implement quickly and easily

- Not a panacea, but part of package of measures
- Experimental, will review and adjust after monitoring and evaluation
Youth Unemployment

- Youth unemployment is extremely high by international standards
  - 2.4 million under the age of 30 are unemployed

Source: Statistics SA, Quarterly Labour Force Survey (QLFS, March 2013)

Unemployment rate (narrow) by age group (Q1 2013)

- Steep decline with age
- Above national average
- Secondary education should be focus before age of 19
Causes of youth unemployment in South Africa

- Slowdown in economic growth – this has also led to high youth unemployment in other countries (e.g., Spain)
- SALDRU study suggest that educational attainment boosts chances of employment, but many young South Africans struggle to gain accredited education after school
- Very few credible ‘signals’ for young, unemployed person to indicate potential productivity to prospective employer
- Lack of experience cited as a major inhibitor by employers
- Changing structure of employment towards more skills-intensive jobs, but youth have not yet attained the skills in demand
- Wages reflect a fair wage for workers in employment with skill and experience, but it is difficult for young, inexperienced workers to compete with more experienced workers for these jobs at these rates
- Mismatch in job-search methods of work seekers and recruitment strategies by firms
Process for the youth incentive

- First announced by the President in the SONA in 2010 to table proposals to subsidise the cost of hiring workers
- Minister of Finance also announced proposals in the Budgets in 2010 and 2011. Policy levers included:
  - Youth wage subsidy (R5 billion over three years)
  - Creation of jobs fund (R9 billion over three years)
  - FET colleges (R14 billion)
  - Expanded public works (R73 billion)
  - Tax incentives for manufacturing (R23 billion)
- Publication of discussion paper ‘Confronting Youth Unemployment: Policy options for South Africa’ at the same time as Budget 2011
- Tabled in NEDLAC thereafter incl bilateral with Labour on 26 May 2011
Objectives of incentive

- Aim to improve employment prospects for young workers over the medium term, by giving work experience
  - Government to share initial cost of hiring with employer to boost job creation
  - Work experience gained will improve long term employment prospects
- Incentivise employment in Special Economic Zones and designated industries
- Jobs created will enjoy protection under labour law legislation
  - Penalties for abuse and displacement of employees will avoid adverse impact on existing workers

The tax incentive is
- A demand-side intervention
- One intervention amongst many
- Meant as a temporary intervention
- Not a remedy for structural supply-side causes of youth unemployment

Existing complements: FET, small enterprise support, EPWP & CWP, IPAP
National Youth Accord: Skills, Public Employment Services, Internships, Public Employment, Youth entrepreneurship and cooperatives
Tax incentives: Learnerships, Bursaries.
How does employment incentive work?

- Government shares the cost of employment with employers
  - Wage of the worker stays intact
  - Cost of employment lower for employer

- Labour demand intervention
  - Employers can afford to employ more workers
  - Employers can afford to pay slightly higher wages for young, inexperienced workers due to cost-sharing

- Benefits to young workers
  - Employees do not receive any monetary benefit
  - Employees benefit from higher chance of employment, wages earned, longer work experience. All boost long term earnings.
Eligibility

EMPLOYERS
- Aimed at private sector employers
- Public sector and state-owned entities excluded, designated public entities may be allowed
- Registered for employees’ tax (PAYE)
- Good standing with the tax authorities
- Penalty for employers if minimum wages are not upheld or displacement of workers takes place.
- Minister may exclude employers if displacement is severe
- Minister of Finance, in consultation with the Minister of Labour, can exclude certain sectors
- No cap on maximum level of incentive, but can’t claim more than PAYE liability initially

EMPLOYEES
- Newly employed after 1 October 2013
- Earning not more than R72 000 per annum (R6000 per month)
- South African citizens, permanent residents or asylum seekers with work permit
- 18 – 29 years old
- No domestic workers
- No relatives of family-owned employers (to prevent fraud)
- Can change employers and remain eligible
- Not worked at associated institution after 1 October 2013
Incentive value

- Minimum income for calculation of wage
  - Based on sectoral determinations on minimum wages
  - If no determination exist, at least R2 000 pm

- Duration of incentive: 2 years
  - Value of incentive is halved in second year of employment

### Formula: 1000 - (0.5(Inc-4000))

<table>
<thead>
<tr>
<th>Income (pm)</th>
<th>Incentive (pm)</th>
</tr>
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<tbody>
<tr>
<td>1,000</td>
<td>500</td>
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<tr>
<td>1,500</td>
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<tr>
<td>5,000</td>
<td>500</td>
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<tr>
<td>6,000</td>
<td>0</td>
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</tbody>
</table>

- Close to tax threshold (R5600)
- Subject to minimum wages
- Wages for age group concentrated in this range
- Maximum value = R1 000 pm per employee
Key concerns raised via consultations

• Problem of displacement

• Problem of two-tier labour market

• Not training based

• Abuses by employers

• Risk of early schooling exit and age range of subsidy

• Will employers create new jobs
Public consultation process

- Published a discussion paper in February 2011
- Comments on the discussion paper came from community organisations, business fora, individual employers and individuals
- Extensive consultation with stakeholders, through the NEDLAC process.
- Resulted in numerous changes to the incentive design, including mechanisms to detect abuse, penalties for abuse, containing the risk of early schooling exit, changes to the age range of eligible workers and mechanisms to cut deadweight loss.

- Money Bills deal with the imposition of taxes or allocation of public funds
- This Bill does not rewrite or reinterpret any labour law or regulation
- Thus not compelled to be approved by Nedlac, according to the Nedlac Law
- Parliament only body to approve, reject or amend bills
- Support broad objective of National Youth Accord, but Parliamentary processes must take precedence
Labour market functioning

• **Extension to SEZs and designated industries** – wedge between eligible and other workers
  – South Africa competes for investment with other countries.
  – Offer a suite of incentives to companies in SEZs, most are capital intensive
  – Most of these incentives result in capital-intensive investment.
  – We want to attract investment with inclusive economic benefits.
  – Most are greenfield investments, with net job creation.
  – DTI to set criteria for SEZ investments to counter abuse

• **Possible difference in cost for the employer between the eligible workers and other workers**
  – Conscious decision to target hiring of entry level, inexperienced workers
  - Current market wages between R1 500 to R3 500 per month.
  - Workers who will not qualify for the incentive are older, have lower rates of unemployment and longer experience.
  - Shortage of skilled and experienced workers, wages are unlikely to adjust downward.
  - Workers are not completely substitutable
Implications for labour relations

• *Displacement of workers*
  - False premise that labour is a uniform factor of production,
  - Workers are not completely substitutable
  - Specific provisions to penalise employers who displace workers to get the incentive
  - Bill has no impact on labour legislation, cannot weaken the rights of the workforce
  - All workers have access to mechanisms described in labour laws and unions

• *Creation of a two-tier labour market in relation to wages, benefits and overall employment conditions.*
  - Does not relax current labour law or regulations in any way
  - Prescribed non-wage benefits will still be required
  - Employer will merely be able to share a portion of the cost with government.
Skills development and training

- **The incentive is not linked to mandatory skills development or training**

  - Not able to implement immediately.
  - Further consultation (with for example Department of Higher Education, labour, employers) and legislative amendments to other Acts of Parliament may be required
  - This proposal can therefore be considered for enactment in the second phase of the tax incentive programme.
  - In the meanwhile, government intends to encourage all employers accessing the tax incentive to take up training programmes.
  - The Bill will be amended to allow the Minister to prescribe by regulation any conditions that may be required of employers in relation to training of their employees.
Legislative changes that have taken place due to Parliamentary processes

- **Eligible employees:**
  - The minimum was adjusted to 18 years to ensure that the incentive does not interfere with school attendance, but that newly matriculated workers are included.
  - Workers with an asylum seeker permit will be included. This includes a technical amendment to correct the legal reference to the appropriate permit.
  - Only intended to apply in respect of employees that are natural persons.
  - Age of the employee to be determined at the end of a particular month.

- **Eligible employers:**
  - Include sole proprietors.
  - Definition of ‘employee’: has a direct contract of employment and employer pays the remuneration
  - Accommodate registration for PAYE, even if it isn’t required
  - Minister of Finance consult with Ministers of Labour and Trade & Industry to designate industries
Legislative changes that have taken place due to Parliamentary processes

- References to labour law
  - Significant revisions to sections 5 & 6 in order to ensure that the scope is appropriate and consistent with labour laws
  - Include wage setting through collective agreements, sectoral determinations, bargaining councils and Ministerial extensions
  - Displacement: include other forms of resolution of disputes (e.g. agreement)

- Part-time work
  - Minimum of R2000 pm where there is no other minimum wage will be adjusted in relation to number of days worked per month
  - The value of the incentive will also be calculated pro-rata

- Administration of incentive
  - If the employer fails to claim incentive, amount may be rolled over
  - Tax exemption of income from this incentive
  - Reset balance to zero if reimbursement took place
Displacement penalty:

- In order not to disadvantage workers, only exclude employers at the direction of the Minister.
- Penalty amount will be set at R30 000 per dismissed employee, in order for penalty not to be out of relation to the size of transgression.

Minimum wages penalty:

- Based on amounts claimed for workers who were not paid stipulated minimums,
- Impose a penalty of 200% (100% repayment plus 100% penalty) of the incentive for month(s) where the employer was in breach,
- Exclusion for employees and periods in breach.
Monitoring and enforcement

- SARS will enforce anti-abuse provisions
  - With information from Department of Labour
  - With information from labour authorities
  - With information from any other third party

- National Treasury and SARS will monitor the incentive closely through the bi-annual reporting requirements for
  - Effectiveness (job creation)
  - Cost effectiveness (revenue forgone)
  - Social and economic impact (longer term job prospects)

- Findings will be shared with interested stakeholders and the public
END
ANNEXURE: Incentives for businesses

• **Tax incentives**
  – Accelerated depreciation for mining, manufacturing, renewable energy, etc.
  – Industrial policy - SIP & 12i
  – MIDP / APDP
  – Learnership allowance – tax incentive
  – Urban development zones (buildings)
  – Research & Development
  – Film incentive
  – Small business corporations
  – Energy efficiency savings tax incentive (regulations nearly finalised)
  – International shipping

• **On budget allocations – cash grants, DTI**
  – Manufacturing Competitiveness Enhancement Programme (MCEP)
  – The Clothing and Textiles Competitiveness Programme (CTCP)
  – Automotive Investment Scheme (AIS) – part of APDP
Tax incentives - businesses

- Accelerated depreciation for mining (100%); manufacturing assets (40:20:20:20), renewable energy (50:30:20)
- MIDP / APDP – Motor vehicles
  - Tax expenditure (customs duties & excise): R12.6bn (2009/10) and R22.6bn (2010/11)
- Learnership allowance
  - 2002, encourage on-the-job training and enhance skills capacity
  - Tax expenditure: R644m (2009/10) and R501m (2010/11)
- Urban Development Zones
  - Accelerated depreciation to encourage the refurbishment of inner cities and stimulate low-cost residential housing; New buildings (20% 1st year and 8% for 10 years)
  - Tax expenditure: R238m (2009/10) and R354m (2010/11)
- Special Economic Zones (SEZs)
  - VAT and customs relief (similar to that for the current IDZs)
  - Businesses operating within approved SEZs (by MoF) will be eligible for two additional tax incentives:
    - accelerated depreciation allowances on capital structures (buildings)
    - certain companies (carrying on qualifying activities within an approved SEZ) will be subject to a reduced corporate tax rate (i.e. 15 per cent instead of 28 per cent).
Tax incentives - businesses

- **Research & Development**
  - 100% expenditure deduction, plus additional 50% (subject to adjudication)
  - Tax expenditure: R714m (2009/10) and R416m (2010/11)

- **Film production allowances**
  - Tax expenditure: R180m (2009/10) and R2m (2010/11)

- **Small Business Corporations**
  - A graduated rate income structure for qualifying small business corporations (0%, 7%, 21% & 28%) with turnover below R20 million
  - Immediate expensing of investment by qualifying (manufacturing) small business corporations from 1 March 2001.

- **Energy efficiency saving tax incentive**
  - Aimed at helping to address climate change related challenges through improvement in energy use and address energy security concerns
  - The value of the incentive (i.e. a tax deduction) is 45 cents per kwh saved
  - Legislation in place and Regulations to effect the incentive await publication
  - The EES incentive will run until January 2020
### Tax expenditure: 2009/10 & 2010/11

<table>
<thead>
<tr>
<th>R million</th>
<th>2009/10</th>
<th>2010/11</th>
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<tbody>
<tr>
<td><strong>Corporate income tax</strong></td>
<td></td>
<td></td>
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<tr>
<td>Small business corporation tax savings</td>
<td>1,330</td>
<td>1,343</td>
</tr>
<tr>
<td>- <em>reduced headline rate</em></td>
<td>1,307</td>
<td>1,321</td>
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<tr>
<td>- <em>s12E depreciation allowance</em></td>
<td>23</td>
<td>22</td>
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<tr>
<td>Research and development (R&amp;D)</td>
<td>714</td>
<td>416</td>
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<tr>
<td>Learnership allowances</td>
<td>644</td>
<td>501</td>
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<tr>
<td>Strategic Industrial Policy</td>
<td>215</td>
<td>138</td>
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<tr>
<td>Film incentive</td>
<td>180</td>
<td>2</td>
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<tr>
<td>Urban development zones (UDZ)</td>
<td>238</td>
<td>354</td>
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<tr>
<td><strong>Total: Corporate income tax</strong></td>
<td>3,321</td>
<td>2,754</td>
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<tr>
<td><strong>Customs Duties and Excise</strong></td>
<td></td>
<td></td>
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<tr>
<td>Motor vehicle industry (MIDP, including IRCCs)</td>
<td>12,673</td>
<td>22,645</td>
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<tr>
<td>Textile and clothing industry (Duty Credits - DCCs)</td>
<td>2,231</td>
<td>1,621</td>
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<tr>
<td>Furniture and fixtures industry</td>
<td>153</td>
<td>562</td>
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<tr>
<td>Other customs</td>
<td>787</td>
<td>2,801</td>
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<tr>
<td>Diesel refunds (mining, agriculture and fishing)</td>
<td>1,295</td>
<td>1,283</td>
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<tr>
<td><strong>Total Customs and excise</strong></td>
<td>17,139</td>
<td>28,912</td>
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*(Budget Review 2013, page 179)*