Understanding the Employment Tax Incentive Act

In recent months various ongoing debates have plagued the Payroll profession, including to-ing and fro-ing over the implementation of retirement reforms, varying opinions regarding what constitutes travel to be considered as private or business, and finally the whole debacle around the taxability of insurance premium contributions.

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Chief among payroll debates, however, is the Employment Tax Incentive Act (ETI) introduced by the National Treasury in 2014. The ETI has huge potential but continues to baffle many employers when it comes to "grossing up" and determining what one is actually entitled to claim.

These issues and more are to be interrogated at the 2015 LexisNexis Payroll Managers Tax Year End Seminar, which takes place from 9-20 March in Cape Town, Durban, Port Elizabeth, Pretoria and Johannesburg.

The ETI was officially implemented as of January 2014 with much anticipation of creating a number of new job opportunities for new entrants into the job market. This initiative offers virtually all South African employers the opportunity to increase employment among youngsters and in return reduce their company's monthly PAYE liability through a rebate system.

As with any new initiative, employers were faced with a few growth pains, most of which only became evident when employers began to implement the Act in a practical manner. What was meant to be a simple and easy to implement initiative has proven to be anything but for hundreds of employers, each with their own set of rules and policies.

One source of contention is the interpretation of when employers need to "gross up" remuneration, particularly in instances where employees are contracted to work less than a full month.

The Act specifies that one should gross up "... in the same ratio as the number of days that the employee worked during that month bears to the number of days that the employee would have worked had the employee been employed for a full month".

Sounds simple. However this issue becomes a little more complicated, for example when reviewing a contract for a security guard who works shifts and then comparing this to a receptionist who only works half day.

Similarly, if one looks at the minimum wage requirement where an employee needs to earn at least the industry minimum wage per month to qualify, this is more complicated than originally anticipated.

This requirement can be problematic when working with weekly employees. All "base" calculations are based on the premise that a month has 4.2 weeks, which is theoretically true. As we all know, ordinarily a weekly payroll averages 52 weeks in a year, which less than elegantly divides into 12 months. This then leaves us with most months with 4 weeks and some with 5.

Should an employer remunerate his employees at the industry minimum wage, they could fall short of the monthly minimum wage requirement if the month only has 4 weeks (minimum wage is based on a 4.2 week month), thus preventing the employer from claiming what they are legally entitled to during those months which have 5 weeks in them.

The ETI is just one of the many pieces of legislation that makes it imperative for businesses of all sizes to remain abreast of developments in this field. The LexisNexis 2015 Payroll Managers Tax Year End Seminar will help ensure that you are up to date with ever-changing requirements from SARS.

ABOUT THE AUTHOR

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