

Employment Tax Incentive Relief

Summary:

This article will explain the changes to ETI for the employment tax incentive relief period as announced by the President. These changes are effective 1 April 2020 – 31 July 2020.

Changes:

Employers registered for PAYE after 25 March 2020.

This employer is not eligible for the extended ETI relief and no changes should be made for these employers.

This employer should use the below table to calculate the ETI value for each employee given that the employer meets all other ETI requirements.

Table 1

| Monthly Remuneration | First 12 Months | Next 12 Months |
|----------------------|--|---|
| R0 – R1999.99 | 50% of monthly remuneration | 25% of monthly remuneration |
| R2000 – R4499.99 | R1000 | R500 |
| R4500 – R6499.99 | Formula: R1000 – (50%*(Monthly Remuneration – R4500)) | Formula: R500 – (25%*(Monthly Remuneration – R4500)) |

A qualifying employee is an employee who –

- Has a valid South African ID, a valid asylum seeker permit or valid refugee ID,
- Is 18 to 29 years old on the last day of the calendar month, or is any age and renders services mainly (more than 50%) within a special economic zone (SEZ) to an employer that carries on trade within a SEZ who is a qualifying company as contemplated in the Income Tax Act under the SEZ regime, or if the employee is employed by an employer that operated in an industry designated by the Minister of Finance,
- Was employed by the employer or associated institution on or after 1 October 2013,
- Is not a connected person in relation to the employer,
- Is not a domestic worker,
- Earns at least the minimum wage (the higher of the minimum wage as specified by a wage regulating measure or the National Minimum Wage Act, or if none of these are applicable - R2 000 wage for a full month which is 160 employed and remunerated hours), and
- Earns monthly remuneration of less than R6 500 (i.e. remuneration for a full month, which is 160 employed and remunerated hours must be less than R6 500. If the employee was not employed and remunerated for a full month, the actual remuneration must be grossed-up to 160 hours. Please note that this is remuneration as defined in paragraph 1 of the Fourth Schedule to the Income Tax Act).



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Employers registered for PAYE on or before 25 March 2020

This employer will be eligible for the extended ETI relief and the below changes will apply. This employer should use the below table to calculate the ETI value for each employee given that the employer meets all other ETI requirements.

Table 2

| Monthly Remuneration | First 12 Months | Next 12 Months | Months exceeding 24 months/30-65 years of age (Extended ETI) |
|----------------------|--|--|--|
| R0 – R1999.99 | 87.5% of monthly remuneration | 62.5% of monthly remuneration | 37.5% of monthly remuneration |
| R2000 – R4499.99 | R1750 | R1250 | R750 |
| R4500 – R6499.99 | Formula: R1750 – (87.5%*(Monthly Remuneration – R4500)) | Formula: R1250 – (62.5%*(Monthly Remuneration – R4500)) | Formula: R750 - (37.5%*(Monthly Remuneration – 4500)) |

A qualifying employee is an employee who –

- Has a valid South African ID, a valid asylum seeker permit or valid refugee ID,
- Is 18 to 29 years old on the last day of the calendar month, or
 - **is 30 to 65 years old on the last day of the calendar month (April 2020 to July 2020), or**
 - is any age and renders services mainly (more than 50%) within a special economic zone (SEZ) to an employer that carries on trade within a SEZ who is a qualifying company as contemplated in the Income Tax Act under the SEZ regime, or if the employee is employed by an employer that operated in an industry designated by the Minister of Finance,
- **Was employed by the employer or associated institution on or after 1 October 2013, for the extended ETI periods this qualifying criterion does not apply to all employees**
- Is not a connected person in relation to the employer,
- Is not a domestic worker,
- Earns at least the minimum wage (the higher of the minimum wage as specified by a wage regulating measure or the National Minimum Wage Act, or if none of these are applicable - R2 000 wage for a full month which is 160 employed and remunerated hours), and
- Earns monthly remuneration of less than R6 500 (i.e. remuneration for a full month, which is 160 employed and remunerated hours must be less than R6 500. If the employee was not employed and remunerated for a full month, the actual remuneration must be grossed-up to 160 hours. Please note that this is remuneration as defined in paragraph 1 of the Fourth Schedule to the Income Tax Act).



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Notes

Changes to the ETI brackets and formulas are effective from 1 April 2020 – 31 July 2020. Please note that the March 2020 ETI value will still be calculated using table 1 as well as the ETI values for August 2020 – February 2021. These dates can be changed by the government at any time.

Government has recently released changes regarding the Gross up of the remuneration used to calculate the ETI value. For April 2020 the gross up still applies, therefore, if the employees employed and remunerated hours are less than 160, then the remuneration will be grossed up to calculate what the employee could have potentially earned for that month if they had worked 160 hours and that amount will be used to calculate the ETI value.

From May 2020 – July 2020 the gross up of the remuneration does not apply, if the employees employed and remunerated hours are less than 160, then the remuneration will not be grossed up and the Actual Remuneration will be used to calculate the ETI value.

The ETI value will now be grossed down for all tiers in the ETI table if an employees employed and remunerated hours are less than 160.

The PAYE registration date has changed from 1 March 2020 to 25 March 2020. Therefore, if you have already selected the date when your company was registered then please make the selection again under Setup...Company Parameters...Statutory...Statutory Information. This means employers will now be able to claim Extended ETI if they were registered for PAYE on or before 25 March 2020 where they were not eligible prior when 1 March 2020 was used. If you now qualify for Extended ETI Relief and would like to claim the extended ETI for your employees for April then you will need to restore your last Month/week/fortnight April backup and setup your employees' for ETI if necessary and do a Payroll Run for your employees ETI amounts to be calculated. You will then need to roll over into May and reprocess May.

The qualifying criteria where the employee had to be employed on or after 1 October 2013 has been removed for the extended ETI periods. Therefore, you will be able to claim ETI for employees who were employed before 1 October 2013. If you would like to claim the extended ETI for these employees for April you will need to restore your last Month/week/fortnight April backup and setup your employees for ETI if necessary and do a Payroll Run for your employees ETI amounts to be calculated. You will then need to roll over into May and reprocess May.

The minimum wage test has also changed, the R2000 wage comparison is not applicable in the Extended ETI periods 1 May 2020 – 31 July 2020 and will be explained in step 4 below.



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Steps to follow

1. Ensure that the company PAYE Reference number has been completed under Setup...Company Parameters...Statutory...Statutory Information tab. (If your company is already setup for ETI then skip steps 1 and 2)
2. On the same tab select 'Eligible to Claim ETI' and 'Registered for Employees' Tax' (If After 25 March 2020 is selected then Extended ETI cannot be claimed)
3. On each employee go to Edit...Employee Masterfile...Statutory...ETI and select 'Employee Qualifies for ETI' (Please note this can only be done in April for Extended ETI employees).
4. An employee's wage cannot be compared to R2000 in the Extended ETI periods to determine if the employee qualifies for ETI based on wage, therefore, all employees will need to be setup as a Wage regulatory Measure and you will need to enter your Industry Minimum Wage rate or the National Minimum Wage Rate on each employees masterfile.

This can be done simply either on the Masterfile or using the Employee Batch Assistant. See steps for the employee batch assistant below:

- Ensure all employees are not processed
 - Go to Process...Process Batches...Employee Batch Assistant
 - Filter for all ETI employees that you will be claiming ETI for
 - Under Select Option, select Statutory Details
 - In the 'Select the fields for employees.' field select Employee Wage Regulatory Measure and Minimum Rate per Hour
 - Once the fields have been selected then select Next and your employees will display on the grid.
 - You can change each employee individually or if the same rate will apply to all employees then use the field name and Apply all button to easily update all employees.
5. Process your employee's income and hours etc on the payslip for the month.
 6. At the end of the month go to Process...Payroll Run and process all employees.
 7. Go to View...Statutory Reports...EMP201...ETI Detailed Report and print this report for all employees to see the ETI values per employee.

| Employee Code | Hours | Monthly Minimum Wa Rate / Hr | Basic Wage | Actual Remuneration | Monthly Equivalent (Remuneration) | Period End Date | Month Year | Second Year Y/N | ETI Periods | ETI Amount | Reason for No/Date Overwritten | Extended ETI | Extended ETI Periods Claimed |
|---------------|--------|------------------------------|------------|---------------------|-----------------------------------|-----------------|------------|-----------------|-------------|------------|--------------------------------|--------------|------------------------------|
| 0001 | 158.36 | 2000 | 0 | 4614.6703714567.37 | 4614.67037130589 | 30/04/2020 | 2 | 2021 N | 2 | 1399.5 | | N | 0 |
| 0002 | 156.00 | 2000 | 0 | 3520 | 3520 | 25/04/2020 | 2 | 2021 N | 2 | 1462.5 | | N | 0 |
| 0003 | 158.00 | 0 | 2 | 1320 | 1303.5 | 25/04/2020 | 2 | 2021 N | 2 | 1145.5 | | N | 0 |

The Extended ETI and Extended ETI Periods claimed fields on the report will let you know if the employees ETI amount is calculated using the third column of table 2.



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Types of ETI employees:

First 12 Month employees

- Employees who meet all the ETI requirements, are not younger than 18 or older than 29, are not ticked for second year and are employed on or after 1 October 2013. The ETI amount will be calculated using the first column of table 2. (ETI amounts will be grossed down if the employee did not work 160 hours)
- Employees who meet all the ETI requirements, are not in the ETI age range 18-29 but fall in a valid SEZ and are not ticked for second year, irrespective of date employed. The ETI amount will be calculated using the first column of table 2. (ETI amounts will be grossed down if the employee did not work 160 hours)

Next 12 Month Employees

- Employees who meet all the ETI requirements, are not younger than 18 or older than 29, are ticked for second year and employed on or after 1 October 2013. The ETI amount will be calculated using the second column of table 2. (ETI amounts will be grossed down if the employee did not work 160 hours)
- Employees who meet all the ETI requirements, are not in the ETI age range 18-29 but fall in a valid SEZ and are ticked for second year, irrespective of date employed. The ETI amount will be calculated using the second column of table 2. (ETI amounts will be grossed down if the employee did not work 160 hours)

Extended ETI employees

- Employees who meet all the ETI requirements, are not younger than 18 or older than 29, have claimed ETI for 24 months and were employed on or after 1 October 2013. The ETI amount will be calculated using the third column of table 2. (The ETI amount will be grossed down if the employee did not work 160 hours).
 - This employee will need to be unticked for completed under Edit...Employee Masterfile...Statutory...ETI to claim extended ETI.
- Employees who meet all the ETI requirements, are not in the ETI age range 18-29 but fall in a valid SEZ and have claimed ETI for 24 months, irrespective of date employed. The ETI amount will be calculated using the third column of table 2. (The ETI amount will be grossed down if the employee did not work 160 hours).
 - This employee will need to be unticked for completed under Edit...Employee Masterfile...Statutory...ETI to claim extended ETI.
- Employees who meet all the ETI requirements, are in the age range 30-65 and do not have a valid SEZ, irrespective of date employed. The ETI amount will be calculated using the third column of table 2. (The ETI amount will be grossed down if the employee did not work 160 hours).
- Employees who meet all the ETI requirements, are not younger than 18 or older than 29 and were employed before 1 October 2013. The ETI amount will be calculated using the third column of table 2. (The ETI amount will be grossed down if the employee did not work 160 hours).



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Backdating ETI

You have two options to back date the Extended ETI values from April.

ETI Adjustment screen

This can be found on the Masterfile, go to Edit...Employee Masterfile...Statutory...ETI and select ETI Adjustments. This will show you all previous ETI periods that can be adjusted. Please note that we recommend you use this screen to Adjust the ETI values only. All other extended ETI employee indicators will not be updated by this screen. The ETI amounts will be limited to the maximum you can claim for the period. This means that the limits will change between March and April – July. The ETI values on the ETI Report and the EMP201 will be updated once the changes have been saved. Please reach out to you tax practitioner for advice on restating the EMP201's for the affected periods.

Employee ETI Adjustment Utility

This can be found by going to Utility...Employee ETI Adjustment Utility. This screen will show you all your ETI employees and gives you the option for Payroll to recalculate the ETI values for April as a new ETI table was introduced in May and can be backdated to April. Payroll will automatically recalculate April's values for you, and you will need to save the changes. The ETI values on the ETI Report and the EMP201 will be updated once the changes have been saved.

Please note that only the ETI values for the month of April can be adjusted using this utility, the ETI adjustment screen must be used to correct the ETI values for any other months.

If you have not claimed Extended ETI for your employees for April or May due to the PAYE registration date or any other reason, it is recommended to reprocess your Payroll for these months as the Extended ETI indicators must be updated for the IRP5 file to be correct. You can restore your last Month/week/fortnight April backup and setup your employees for ETI if necessary and do a Payroll Run for your employees ETI amounts to be calculated. You will then need to roll over into May and reprocess May.

Please reach out to you tax practitioner for advice on restating the EMP201's for the affected periods.



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Examples

Employee 1

The example below shows a First Year employee calculation in April and in May.

| | |
|--|--|
| <p>Age: 26</p> <p>Periods claimed: less than 12 Hours worked: 158.36 Basic Wage: R4614.67 Actual Remuneration: R4567.37 Monthly Equivalent: R4614.67 First year and in April 2020</p> <p>$1750 - (0.875 * (4614.67 - 4500))$ = R1649.66/160*158.36 = R1632.75</p> | <p>Age: 26</p> <p>Periods claimed: less than 12 Hours worked: 158.36 Basic Wage: R4614.67 Actual Remuneration: R4567.37 Monthly Equivalent: R4567.37 First year and in May 2020</p> <p>$1750 - (0.875 * (4567.37 - 4500))$ = R1691.05/160*158.36 = R1673.72</p> |
|--|--|

Employee 2

The example below shows a Second Year employee calculation in April and in May.

| | |
|--|---|
| <p>Age: 26</p> <p>Periods claimed: less than 24 Hours worked: 156 Basic Wage: R1440 Actual Remuneration: R1404 Monthly Equivalent: R1440 Second Year and in April 2020</p> <p>$0.625 * 1440$ = 900/160*156 = R877.5</p> | <p>Age: 26</p> <p>Periods claimed: less than 24 Hours worked: 156 Basic Wage: R1440 Actual Remuneration: R1404 Monthly Equivalent: R1404 Second Year and in May 2020</p> <p>$0.625 * 1404$ = 877.5/160*156 = R855.56</p> |
|--|---|

Employee 3

The example below shows an Extended ETI employee calculation in April and in May.

| | |
|---|---|
| <p>Age: 30</p> <p>Periods claimed: Never claimed Hours worked: 156 Basic Wage: R3960 Actual Remuneration: R3861 Monthly Equivalent: R3960 For extended ETI employees first year and second year do not affect the ETI amount. In April 2020</p> <p>$750/160 * 156$ = R731.25</p> | <p>Age: 30</p> <p>Periods claimed: Never claimed Hours worked: 156 Basic Wage: R3960 Actual Remuneration: R3861 Monthly Equivalent: R3861 For extended ETI employees first year and second year do not affect the ETI amount. In May 2020</p> <p>$750/160 * 156$ = R731.25</p> |
|---|---|



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Employee 4

The example below shows an Extended ETI employee calculation in April and in May.

| | |
|--|--|
| <p>Age: 30 Periods claimed: Never claimed Hours worked:158.36 Basic Wage: R5076.14 Actual Remuneration: R5024.11 Monthly Equivalent: R5076.14 For extended ETI employees first year and second year do not affect the ETI amount. In April 2020</p> <p>$750 - (0.375 * (5076.14 - 4500))$ = 533.95/160*158.36 = R528.47</p> | <p>Age: 30 Periods claimed: Never claimed Hours worked:158.36 Basic Wage: R5076.14 Actual Remuneration: R5024.11 Monthly Equivalent: R5024.11 For extended ETI employees first year and second year do not affect the ETI amount. In May 2020</p> <p>$750 - (0.375 * (5024.11 - 4500))$ = 553.46/160*158.36 = R547.79</p> |
|--|--|