

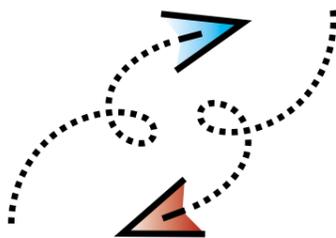
Benefits and Incentives for Employers

Q What are the benefits and incentives for implementing an A21?

Note: As many of the incentives described below are based on legislative provisions, all stakeholders should always check the guideline as given below with the relevant statutory bodies as the provisions may change from time to time.



1 Return on Value Approach



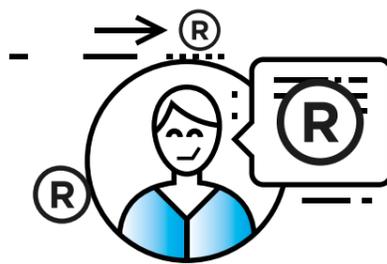
Mature and developed economies with efficient and effective apprenticeship development systems implement apprenticeships because it makes good business sense. The return on the value created by implementing an apprenticeship accrues to the employer, the learner, the college and the economic growth of a country as a whole.

- ▶ The employers benefit from the increasingly productive work of a young person at a very low cost base. Research has indicated that in some instances an apprentice can produce 85% value of a qualified and experienced person but at 40% of the actual cost of a qualified and experienced person.
- ▶ Young people benefit from the development of real-world skills that will allow them to become increasingly competent and experienced in their lives, while also earning an income, albeit a small one initially.
- ▶ Colleges benefit from continuous interaction with employers in industry, ensuring that they maintain a technology edge to their processes and that learning processes at a college match and align to what industry needs.

This tripartite value-driven formula results in economic growth within a country, clearly evidenced by the many countries that have effective and efficient apprenticeship systems in place.

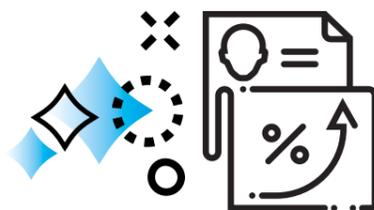
However, in a developing economy such as South Africa, the concept of Return on Value is not well developed enough and therefore a range of funding and incentive processes are available to progressively move the country towards a Return on Value approach over a period of time.

2 TVET College Funding as an Incentive for Employers



The costs for an A21 at a TVET College (for knowledge and practical components) are planned to be covered by fiscal funding – tax money that is channelled by national government into the public education and training system. The concomitant incentive for employers that actively participate and support the A21 system is that where they may in the past have had costs attached to the training of learners, either internally at their own training centres or utilised the services of private sector skills development providers, these costs could be reduced and possibly even completely eradicated.

3 Sector Education Training Authority (SETA) Grants (Mandatory, Discretionary and Pivotal)



The costs for an A21 at a workplace are planned to be covered by SETA Grant funding – skills levy money paid over by employers to Government every month.

SETA Mandatory Grants facilitate a reimbursement of training expenses incurred (both internal and external) by a compliant employer of up to 20% of their Skills Development Levy contribution. The grant is paid by a SETA if the levy-paying employer meets the following criteria:

- ▶ The company is registered in terms of the Skills Development Levies Act.
- ▶ Is an up-to-date levy payer.
- ▶ Submits a Workplace Skills Plan (WSP) and Annual Training Report (ATR) by the due date of 30 April annually.
- ▶ The WSP & ATR for the previous year were submitted.

SETA Discretionary Grants are paid to applicants at the SETA's discretion for Skills Development Projects. These are linked to scarce and critical skills and are awarded to companies that apply for training that falls within the SETA's skills development practices, objectives and targets. Availability of projects and grants are subject to the SETA's discretion and may be reduced, withdrawn or cancelled, upon informing the industry of SETA's intention to do so.

Types of training programs a company can apply for:

- ▶ Bursaries
- ▶ Apprenticeships
- ▶ Internships
- ▶ Learnerships
- ▶ Work placements

SETA PIVOTAL Grant is a type of discretionary grant defined as grants paid towards the implementation of professional, vocational, technical and academic learning programmes that result in qualifications or part qualification on the National Qualifications Framework (NQF).

Discretionary & Pivotal Grants are available to the following applicants as per the guidelines of the individual SETAs:

- ▶ Companies that are up-to-date with their levy payments.
- ▶ Accredited Education and Training Providers and emerging training providers within the SETA sector.
- ▶ Other associations or organisations that meet the criteria for the payment of such a grant.

These grants are made available through specific funding windows advertised by the individual SETAs from time to time and employers need to continually monitor communications from their SETAs.

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4 SARS Training Tax Allowance

Employers may claim learnership and or apprenticeship allowances in respect of registered learnerships, over and above the normal remuneration deduction. This allowance is granted in two parts which are made up of a recurring annual allowance and a completion allowance.

The annual allowance is subject to a pro-rata depending on the number of months falling within the relevant tax year. The completion allowance is determined by multiplying the number of completed 12-month periods of the learnership to the amounts below:

For learnerships entered on or after 1 October 2016, the allowance consists of two basic thresholds for each level of qualification on the National Qualifications Framework (NQF) as follows:

- ▶ **NQF levels 1 to 6:** R40 000 (disabled person R60 000)
- ▶ **NQF levels 7 to 10:** R20 000 (disabled person R50 000) Prior to 1 October 2016, the allowances were R30 000 (disabled person R50 000) regardless of the person's NQF level.

The NQF level descriptions are as follows:

- ▶ **NQF levels 1 to 4:** Up to grade 12 (National Certificate)
- ▶ **NQF level 5:** Higher Certificate
- ▶ **NQF level 6:** Diploma or Advanced Certificate
- ▶ **NQF levels 7 to 10:** Bachelor's Degree to Doctorate

5 SARS Employment Tax Incentive or ETI



What is the Employment Tax Incentive (ETI)? It is an incentive aimed at encouraging employers to hire young and less experienced work seekers. It reduces an employer's cost of hiring young people through a cost-sharing mechanism with government, while leaving the wage the employee receives unaffected. The employer can claim the ETI and reduce the amount of Pay-As-You-Earn

(PAYE) tax payable by the amount of the total ETI calculated in respect of all qualifying employees.

This incentive came into effect on 1 January 2014.

Q Why the Employment Tax Incentive (ETI)?

A Many young South Africans are excluded from economic activity, and as a result suffer disproportionately from unemployment, discouragement and economic marginalisation. High youth unemployment means young people are not gaining the skills or experience that is needed to drive the economy forward. This lack of skills and experience can easily become an impediment to employment, thereby having long-term adverse effects on the individual and the economy. In response to this high youth unemployment rate, government has implemented an incentive aimed at encouraging employers to hire young and less experienced work-seekers, as stated in the National Development Plan.

Q Who qualifies for the ETI?

A Employers who are registered for Employees' Tax (PAYE) with SARS. Only tax compliant employers will be able to claim the ETI. However, the amount will be made available, subject to limitations, once non-compliant employers become compliant.

Q Who doesn't qualify for ETI?

- A**
 - National, provincial and local spheres of government.
 - Public entities listed in Schedule 2 or 3 of the Public Finance Management Act.
 - Parastatals, government entities or municipal entities don't, unless the Minister of Finance designates them by regulation.
 - Employers who have been disqualified by the Minister of Finance due to displacement of employees or by not meeting conditions as may be prescribed by the Minister by regulation.

Q When can the incentive be claimed?

- A** Employers are able to claim the incentive when they have employees who:
- ▶ Have a valid South African ID.
 - ▶ Are 18 to 29 years old.
 - ▶ Are not domestic workers.
 - ▶ Are not related or "connected" to the employer.
 - ▶ Earn at least the minimum wage in terms of wage regulating measures. If no measure exists, the employee must earn R2 000 per month in wages.
 - ▶ Earn less than R6 000 per month in total remuneration (basic salary plus all other benefits).

- ▶ Were employed on/after 1 October 2013.

Note: It can be claimed for a maximum of 24 monthly periods per qualifying employee.

Q How is the ETI claimed?

A An employer can claim the incentive by decreasing the amount of PAYE payable to SARS for every qualifying employee that is hired by the employer. This is done by completing the Employment Tax Incentive (ETI) field on the employer's monthly EMP201 submission to SARS. There is no limit to the number of qualifying employees that an employer can hire.

Q How does it work?

A In determining the value of the incentive for a particular month, an employer must follow 5 steps:

- ▶ Identify all the qualifying employees for that month.
- ▶ Determine the applicable employment period for each qualifying employee (1st 12 months or 2nd 12 months).
- ▶ Determine each employee's monthly remuneration package.
- ▶ Calculate the amount of the incentive per qualifying employee.
- ▶ Aggregate the result.

The incentive should be calculated as follows:

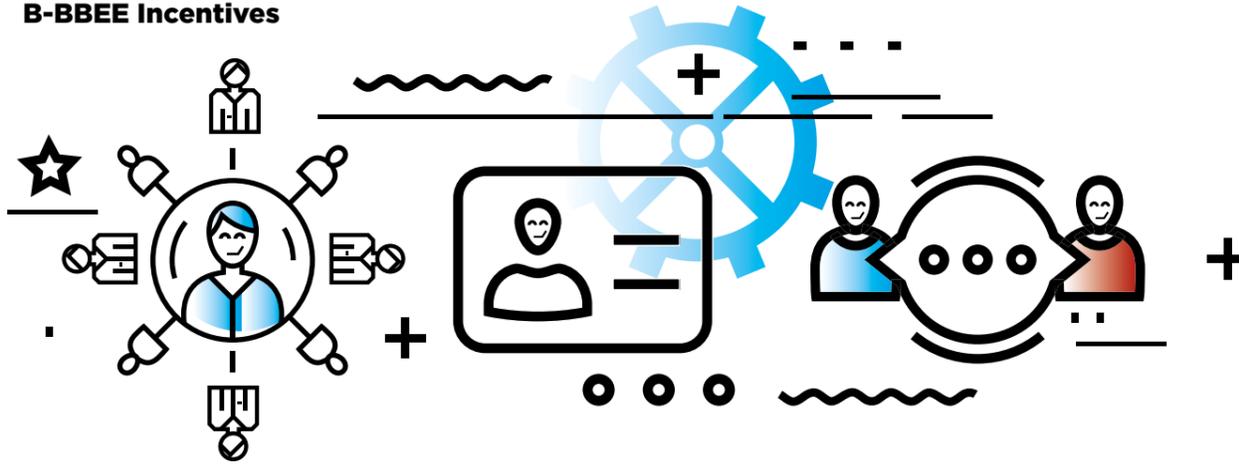
Year 1
MONTHLY REMUNERATION
R0 - R2 000
R2 001 - R4 000
R4 001 - <R6 000

Year 2
Employment Tax Incentive per month during the first 12 months of employment of the qualifying employee
50% of Monthly Remuneration
R1 000
Formula: R1 000 - (0.5 x [Monthly Remuneration - R4 000])

Year 2
Employment Tax Incentive per month during the next 12 months of employment of the qualifying employee
25% of Monthly Remuneration
R500
Formula: R500 - (0.25 x [Monthly Remuneration - R4 000])

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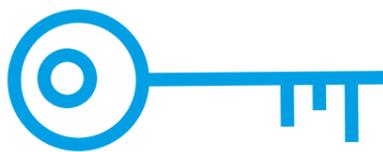
6 B-BBEE Incentives



Apprenticeships can influence all elements of an employer's B-BBEE Scorecard with the exception of ownership. Employers therefore benefit from the recognition of the spend (Procurement points as Skills Development points). With careful structuring, employers can earn B-BBEE points in the other BEE Scorecard elements as well.

The Skills Development scorecard allocates points for:

- ▶ Skills development spend on various Learning Programmes (particularly spend on black employees and black employees with disabilities).
- ▶ Learnerships and Apprenticeships for black employees participating in:
 - Institution-based theoretical instruction as well as some practical learning with an employer or in a simulated work environment - which is formally assessed through the institution.
 - Recognised or registered structured experiential learning in the workplace that is required after the achievement of a qualification - which is formally assessed by a statutory occupational or professional body.
 - An occupationally-directed instructional and work-based learning programme that requires a formal contract - formally assessed by an accredited body.



Key Measurement Principles

Companies receive points on the skills development scorecard only if they:

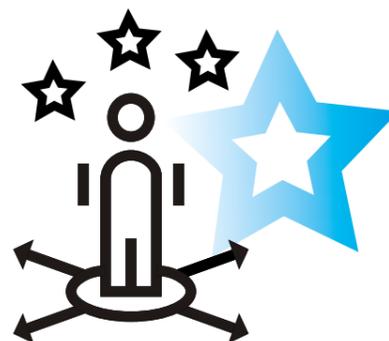
- are compliant with the requirements of the Skills Development Act and the Skills Development Levies Act.

- have registered with the applicable SETA.
- have developed a Workplace Skills Plan.
- have implemented programs targeted at developing Priority Skills, specifically for black employees.

Apprenticeships sit very high on the recognised list of programmes in the Learning Program Matrix (Category A-H). Employers receive full recognition for the expenditure (they can translate into procurement spend B-BBEE points) for funding apprenticeships.

However, due to the complexity of the B-BBEE process and the possible changes in legislation, it is advisable to seek the services of an experienced BEE advisor accredited with SANAs or a Skills Development Facilitator (accredited with ASDSA) to ensure correct structuring and contracting to maximise the B-BBEE benefits.

7 Other Incentive Options



Over and above all of the processes that could result in fully paid for and even an income-generating process for an employer that ethically and effectively implements a world-class apprenticeship system, there are often other role players that, from time to time, also contribute to apprenticeship development.

Provincial and Local Governments are an example of this and often have their own processes to fund and support apprenticeship development. Non-Governmental agencies as well as international philanthropic organisations are also involved in this space.