What The New Employment Tax Incentive Limits Mean for Your Business

> *"Since the unemployment rate in the Republic is of concern to Government; and since Government recognises the need to share the costs of expanding job opportunities with the private sector…" (Preamble to the Employment Tax Incentive Act 26 of 2013 [ETI Act])*

A substantial increase in the limits for the Employment Tax Incentive (ETI) - a tax concession encouraging employers to hire more young people – was announced during Finance Minister Enoch Godongwana's 2022 Budget Speech. These proposed new limits, effective from 1 March 2022, will increase the amount of tax relief employers can claim when employing young people.
In this article, we find out what the new limits are, look at a few ETI calculations to see the potential tax reduction, and draw attention to the pitfalls for employers to ensure this ETI incentive can be claimed successfully, allowing companies to employ more young people by sharing the cost with government.

During Finance Minister Enoch Godongwana's 2022 Budget Speech, a substantial 50% increase in the limits for the Employment Tax Incentive (ETI) was announced, effective from 1 March 2022. This will increase the amount of tax relief employers can claim when employing young people.

ETI fast facts

- An incentive encouraging employers to hire young work seekers aged between 18 and 29 years.
- Reduces the employer's cost of hiring young people through a cost-sharing mechanism with government.
- Can be claimed for a 24 month period for all employees who qualify.
- Came into effect on 1 January 2014 and will end on 28 February 2029.
- ETI is claimed by reducing the amount of Pay-As-You-Earn (PAYE) due by the company, leaving the wage received by the employee unaffected.

The new limits

The New Limits				
	First 12 Months		Second 12 Months	
Monthly Remuneration	**New Values from – 1 March 2022**	**Previous – Up to 28 February 2022**	**New Values – From 1 March 2022**	**Previous – Up to 28 February 2022**
R0 to R1999,99	Now 75% of Monthly Remuneration	Was 50% of Monthly Remuneration	Now 37.5% of Monthly Remuneration	Was 25% of Monthly Remuneration
R2000 to R4499,99	Now R1500	Was R1000	Now R750	Was R500
R4500 to R6499,99	Now R1500 – (75% x (monthly remuneration – R4500))	Was R1000 – (50% x (monthly remuneration – R4500))	Now R750 – (37.5% x (monthly remuneration – R4500))	Was R500 – (25% x (monthly remuneration – R4500))

Real Life Examples					
Salary	**Monthly Savings (1st 12 months)**	**Annual Saving - 1st year**	**Monthly Savings – 2nd 12 months**	**Annual Saving – 2nd year**	**Total Savings – 24 months**
R2 000 R4 400 R4 600	R1 500 R1 500 R1 425	R18 000 R18 000 R17 100	R750 R750 R712	R9 000 R9 000 R8 544	R27 000 R27 000 R25 644

As the monthly remuneration increases, the amount of the rebate reduces: at the upper limit with a monthly remuneration of R6 400, the monthly rebate is R750.

Even so, especially for companies with many employees, these rebates will add up on a monthly basis, and stack up over two years. There is no limit to the number of qualifying employees that you can hire.

Pitfalls to be aware of

- Beware the qualifying criteria
  - Employers must meet the qualifying criteria on an ongoing basis, including being registered for Employees' Tax (PAYE) and being tax compliant.
  - Employees must meet the qualifying criteria on an ongoing basis, including having a valid South African ID or permit; be between 18 and 29 years old; earning between minimum wage or R2 000 and R6 500 for a 160-hour month; and who is not a domestic worker or a "connected person" to the employer.
- Beware the continuous changes
  - The value of the ETI is not static but depends on the value of the monthly remuneration paid to the

qualifying employee, and must be calculated each month for each qualifying employee. In addition, if a qualifying employee worked less than 160 hours in the month, the value of the ETI must be calculated proportionally.
    - The ETI is constantly being refined, expanded and tightened – including a series of amendments to the ETI Act with effect from 1 March 2022, so employers claiming ETI must stay updated to ensure they remain within the bounds of the ETI Act.

- Beware the deadlines
    - If all the allowable ETI wasn't used at the end of each six-month reconciliation period (1 March - 31 August and 1 September – 28 February), employers may be refunded the amount, if they are fully tax compliant.
    - A non-compliant employer will have until the end of the next reconciliation cycle to correct any non-compliance and be able to receive the ETI refund. If the employer doesn't become compliant by the end of the next six-month reconciliation period, the ETI refund will be forfeited.

- Beware the possible penalties
    - Penalties equal to 100% of the ETI claimed will apply when an employer claims the ETI for any employee who does not qualify.
    - Penalties imposed will result in under-payment of employees' tax, which could result in possible interest and penalties in terms of the Tax Administration Act.
    - A penalty of R30 000 will be levied for each employee displaced to employ an employee who qualifies.
    - It has been proposed that the ETI Act be amended to impose understatement penalties on reimbursements that are improperly claimed.

- Beware the potential of audits
    - A number of taxpayers have faced time-consuming and costly verifications and audits of their ETI claims.
    - Additional assessments issued by SARS may reverse the ETI initially claimed by employers.
    - Recordkeeping is required by the ETI Act.

- Beware of potential scams
    - Employers should exercise vigilance regarding tax abusive ETI schemes and scams offered by third parties, as the employer would carry all the risk in respect of the tax and labour obligations.

Seek professional assistance to ensure you can navigate all these potential pitfalls and claim this ETI incentive, so you can employ more young people while sharing the cost with government.

When, Why and Whose Jobs You Should Be Outsourcing

> *"If you deprive yourself of outsourcing and your competitors do not, you're putting yourself out of business." (Lee Kuan Yew, Former Prime Minister of Singapore)*

If you are a small business owner it can often feel like you need to do everything yourself in order to keep the wolf from the door. It's easy to feel like everything you can do is money saved. This is, however, misleading and trying to do everything yourself can in fact put your company at a larger risk than if you let other professionals take care of matters for you.

Knowing when, where and which services should be outsourced is going to be a critical step along the pathway to success. Optimizing this process will free up your time to focus on core business areas, while also bringing in fresh thinking and expertise that can invigorate the business, lead to fresh insights and take your company to the next level. So how do you know when it's time to outsource a particular task, and which tasks are those most in need of outsourcing?

Launching a business requires the small business owner to wear many hats. From marketing, to accounting and HR the small business owner needs to learn any number of skills to get their venture off the ground. Eventually though there comes a point where doing everything yourself as owner is hurting the company more than helping it and knowing when to bring help on board can be the difference between success and failure.

If you aren't quite ready to hire employees or if you just need a few hours of help a week as opposed to full time, outsourcing work can become the solution you are looking for. With many professionals working freelance it is easier now than it has ever been to find the right people to pick up the slack and give you a few extra hours in your day to focus on the core of your business.

When is it time to outsource?

Knowing when to outsource is critical. Bringing people on board at the right time can free up hours a week and give you the opportunity to win new clients or refine your product offering. So what are the signs you should be considering outsourcing?

a) **You find you don't have time to do all the work**
Having plenty of work is a blessing but having too much can mean repeated late nights or missed deadlines. Making sure you keep on delivering at your best means you can't afford to be tired, rushing jobs or worse, simply turning work away. If this is a problem that's happening every month then it's definitely time to consider bringing someone on board.

b) **You want to turn away new work**
Turning away work is always a bad idea. Once turned away those clients may never come back whereas getting what they need done could build additional income for life. Whether it’s simply helping them with your core services or taking on new growth areas for your company, always rather outsource some of the work and make sure you can make it work for these new customers.

c) **You get hired for irregular or once off projects**
If you find the work is regularly outstripping your capabilities and capacity it might be time to bring on permanent employees, but when your business is getting once-off projects or work that will only last a short while it can be much safer to outsource work to freelancers or agencies. This way you can meet your needs for those projects and not worry about paying people in the months where you don't have as much work.

d) **There are tasks you hate doing**
You may be surprised to see this on the list, after all surely you have become used to telling yourself to get over it and just plough through? The truth is, work you hate is work you are likely doing badly. Save yourself the time and the pain of doing a bad job by giving it to someone who specialises in that field and is going to get it done well.

The best jobs to outsource

Outsourcing doesn't just refer to those jobs that are directly related to your business. Sometimes it can actually help you to hire a domestic, an au pair or a personal assistant at home to free up a few more hours you can dedicate to the business. Outsourcing business functions though is much more likely to be the right choice when it comes to getting yourself some valuable time as these jobs can generally be trickier, better done by professionals and may, in fact, lead to long term growth of your business as well as simply giving you some breathing room.

a) **Accounting, bookkeeping and payroll**
For those unused to finance, tracking income and expenditure, invoicing clients and filing tax returns can be extremely time consuming. Given that you are running a small business it might be cost-effective to outsource bookkeeping and payroll because you can then pay a set amount that changes as the company grows, rather than paying an employee full time and having the hours vary. This bookkeeper can also be in charge of extra tasks such as document scanning to help keep your receipts and bank statements in order.

At the end of the year handing your taxes over to an accountant is invaluable. Not only will it take an important task off your plate but can often get you a percentage of that spend back in tax savings. Outsourcing some decision-making to an accountant may help as well, as they will be able to run the numbers and advise on whether a new venture, expansion or client is viable. They can also help you work out whether outsourcing or bringing someone in-house is the right solution for you.

b) **Human Resources**

Human Resources isn't quite as simple as hiring and firing. There are so many rules and regulations involved in the running of good HR, not to mention submission of PAYE, UIF, pension contributions and returns etc., that doing it yourself may end in bitter acrimony and high costs.

Hiring a company that specializes in human resources laws and regulations will not only help you stay compliant and up to date but can also streamline the onboarding process of new employees and the hiring process in general. A good HR company or freelancer will additionally handle details such as retirement plans, group health insurance, and other benefits that you offer, saving a huge amount of effort and time.

c) **Marketing and content creation**

Almost everyone believes they can write well enough for a website, blog or LinkedIn update, but there is a lot more that goes into these things than simply filling a page. With SEO, and content tailored for the outlet it's being used on, creating content can be a time-consuming job for those who aren't experts. Developing strategy and deploying it correctly takes a professional and handing this task over to an outsourced freelancer will often pay for itself in the success of your digital marketing.

This is all also true for PR and other marketing. It may seem simple to send off an email detailing your recent projects and successes, but professional PR people will ensure it's read by the right people. With a PR professional you aren't hiring a writer, you are hiring a network of important contacts.

Finally, no business can succeed without advertising and bringing marketing people on board will be essential if you don't want your extremely useful product or service to vanish unnoticed by the public. The good news is that provided you hire the right people, what you spend on advertising will almost certainly come walking back through your door at a later stage in the form of customers.

d) **Graphic design and presentation construction**

Your last job required you to put together a few PowerPoints so now you sit and laboriously put together your pitches and presentations yourself. The truth is, unless you’re a skilled designer yourself, your digital presentations could definitely use a boost, so instead of wasting your time on PowerPoint animations and choosing fonts rather spend a little money to make your pitch look extra good and use the time you’ve just saved to rehearse your presentation.

Is outsourcing "the future of work”?

Outsourcing is increasingly being touted as “the future of work”, and certainly the truth is that it is here to stay. Those who refuse to put the work they can't do perfectly out to the new wave of freelancers and outsourcing agencies are ultimately only hurting their business.

Of course, the ultimate question is whether outsourcing makes commercial sense for your business, given your particular financial situation and business structure. **Chat to your accountant to see where it may be right for you.**

Planning to Cease Being a South African Tax Resident? What You Should Know Before Approaching SARS

> *"Dear IRS, I am writing to you to cancel my subscription. Please remove my name from your mailing list." (Snoopy)*

Another channel has been made available to taxpayers to inform SARS that they are ceasing to be tax residents. While this might make it seem a simple matter to break South African tax residency, the reality is that doing so requires comprehensive understanding of the implications and careful planning, whether for a person, a trust or a company.

Informing SARS that you are ceasing to be a tax resident via any channel could result in unintended consequences, such as an audit or an unexpected tax liability. With increasing numbers of skilled and wealthy South Africans emigrating, the tax and other implications of this option should be well understood before any decisions are made, and SARS is best approached with the assistance of a trusted advisor.

According to some estimates, as many as 1,900 millionaires have left South Africa over the last few years. A New World Wealth Africa report indicates that 4,200 high net-worth individuals left the country over the last 10 years.

Whether due to choice or circumstances, a taxpayer ceasing to be a tax resident of South Africa must declare the change to SARS.

As the number of wealthy and skilled South Africans who are emigrating increases, SARS recently announced that another channel has been made available to taxpayers to inform SARS as above.

You can now also inform SARS through the Registration, Amendments and Verification Form (RAV01) available on eFiling or at a SARS branch, by capturing the date on which you ceased to be a tax resident.

Alternatively, you can inform SARS by capturing the date on the ITR12 tax return, as before.

Informing SARS via any channel could trigger unintended consequences. In addition, to qualify the taxpayer will have to substantiate how the qualifying criteria are met.

Many intricacies

It is not as simple as filling in a form. Numerous factors are taken into account to determine whether a taxpayer has ceased to be a tax resident of South Africa.

There are three bases for qualification for individuals:

1. Cease to be ordinarily resident
2. Cease by way of the physical presence test
3. Cease due to application of a Double Tax Agreement (DTA).

Whether an individual ceases to be a tax resident in South Africa is based on the manner in which such individual has been a tax resident. If the taxpayer has been ordinarily tax resident, the intention to cease will be supported by various objective factors. If a person has ceased to be ordinarily tax resident, it will be from the day such person ceased residence.

An individual, who is resident by virtue of the physical presence test, ceases to be a tax resident when that person has been physically outside the Republic for a continuous period of at least 330 full days. The individual will be deemed to have ceased to be a tax resident from the day such person left South Africa.

An individual who has become a tax resident of another country through the application of a double tax agreement will also cease to be a resident for tax purposes in South Africa.

Companies

A company is deemed to be South African tax resident either if it was incorporated here or if its place of effective management is located locally.

A company's place of effective management may no longer be located in South Africa, for example, when the majority of a company's board of directors move offshore on a permanent basis.

If a company becomes a tax resident of a jurisdiction with which South Africa has a double tax agreement, the company would normally cease to be South Africa tax resident.

Beware the unintended consequences

The intended outcome of informing SARS of breaking tax residency is that the taxpayer is no longer taxed in South Africa on worldwide income, but only on South African sourced income.

It may also have unintended outcomes. Informing SARS via any channel will trigger a case number as well as a request for various documents and substantiations, which taxpayers are obliged by law to provide.

If the declaration is made via the RAV01 form on eFiling, the completed declaration form must be submitted with the relevant supporting documentation. If the declaration is made on the income tax return (ITR12), the supporting documents and information requested will depend on the basis on which you have ceased to be a tax resident.

In many instances, advising SARS that you or your company intend to cease to be a tax resident will trigger an audit.

Potential tax liability

For individuals, ceasing to be a tax resident triggers a deemed disposal of worldwide assets, and exposes the taxpayer to possible capital gains tax.

Depending on the type of assets held and where they are located at the time when an individual breaks tax residence, a deemed disposal for capital gains tax purposes will take place when the person's local tax residency ceased. The individual will be deemed to have disposed of worldwide assets at market value to a South African tax resident, with some exceptions such as certain personal-use assets and immovable property situated in South Africa.

Where a company ceases to be a South African tax resident, a capital gains tax may be triggered, and an additional dividends tax may also arise, among other possible unintended consequences.

Given the complexity of the provisions and potential tax liability, it is recommended that taxpayers rely on professional advice covering not only their South African tax position, but also their tax position in their new country of residence, well before approaching SARS.

A Guide to Accessing Funds That Can Help Your Small Business

> *"All company bosses want a policy on corporate social responsibility. The positive effect is hard to quantify, but the negative consequences of a disaster are enormous" (English economist and academic, Noreena Hertz)*

Small and Medium-Sized Enterprises (SMEs) have financing opportunities some owners may not be aware of, or if they are, may not know how to fully take advantage of them.

There are various schemes available to assist SMEs with grants, business loans and "soft loans" and development programs. These schemes are primarily to support SMEs finance operating costs and expansion projects – however they mostly have an undertone of creating and protecting employment – together with training and skills development.

Stimulating the SME sector is considered as one of the quicker ways to rejuvenating the economy. According to a 2020 survey by McKinsey & Company, SMEs make up over 98% of South African businesses, and employ between 50% and 60% of the workforce.

However, it takes money to run a business and there is a need for assisting and guiding SME owners to secure more funding, particularly given the devastating impact of the Covid-19 pandemic over the past two years.

There are varying reasons why these small businesses need additional capital, determined by differing requirements in the business value chain – including the scope of production, workforce and the nature of the business, among other factors.

Some – but not all - of the funds available in the market are allocated according to specific trades, departments in the production process and demographics of the directorship - usually according to age, race, location and gender.

Here are some examples of the grants and funds available, along with a brief overview of the funding models

- Equipment related financial support. The Department of Trade and Industry's (DTI) Small Enterprise Development Agency (SEDA) Technology Program, provides both "financial and non-financial technology support" - meaning either funds or equipment support for small enterprises.
    - Staff training. The DTI's Black Business Supplier Development Program offers grants in a cost-sharing scheme to black-owned businesses for the purpose of business skills training.
    - Female directors can take advantage of gender-empowerment funding programs like the Business Partners Women in Business Fund, which is aimed at increasing access to finance for female entrepreneurs for them to start, expand or purchase existing businesses.
    - A more narrowed down version of this model of funding is the I'M IN Accelerator Fund, which is for black South African women who have founded technology start-ups. They can apply to be part of this 10-month long acceleration program and possibly access up to R1,5 million in pre-seed capital, mentorship, marketing support and follow-on investment. The business has to be 51% black- and-women owned to qualify.
    - The National Empowerment Fund (NEF) is a black economic empowered driver and funds businesses with a black majority ownership.
    - The DTI funding model is usually segmented according to factors like industry, marketing channels and/or the age of the directorship. However, qualifying small businesses can currently obtain the following loans and grants:
    - The Export Marketing and Investment Assistance Scheme (EMIA) is designed to support the export market and stimulate new foreign direct investment into South Africa. This is closely linked to the Sector Specific Assistance Scheme (SSAS), which is a repayable cost-sharing grant that supports stakeholders in the export market for South African goods. This scheme comprises three sub-programs, namely: Generic Funding, Project Funding, and Project Funding for the Emerging Exporters.

- The Umsobomvu Youth Fund: A Government initiative aimed at creating opportunities for South African youth in entrepreneurship and job creation, helping youth setup, expand and develop their businesses by teaching them essential business skills. Umsobomvu is a Voucher Program not a loan program. The Voucher Program provides support services to both new and existing youth owned businesses

- The Agro-Processing Support Scheme (APSS) is a R1-billion cost-sharing grant fund aimed at boosting SME investments in the agricultural space. Minimum qualifying investment size, including competitiveness improvement cost, will be at least R1 million.

- The Aquaculture Development and Enhancement Program (ADEP) is a cost-sharing incentive program for projects in primary, secondary and ancillary aquaculture (activities in both marine and freshwater).

- The Support Program for Industrial Innovation (SPII) is aimed at funding the innovation and development of technological products in South Africa.

- R&D Tax Incentive is supported by the Treasury and offers a deduction of 150 percent in respect of expenditure on eligible scientific or technological Research and Development (R&D) undertaken by companies in South Africa. In his 2022 Budget Speech, the Minister of Finance announced that the R&D Incentive is under review but that it will be extended in its current form until 31 December 2023.

- The De Beers Fund: At a more localised level, a large diamond mining company also awards grants, for small businesses located in its operating areas. These areas are Kimberley and surrounding areas in the Northern Cape, Viljoenskroon and surrounding areas in the Free State, Musina, as well as the Blouberg Local Municipalities in Limpopo.

- Tshikululu Social Investments: Tshikululu is South Africa's leading social investment fund manager and advisor, working alongside investors and other development partners to achieve sustainable social impact. The organisation manages other companies' CSI funds.

- Over the years, the organisation has managed the likes of the De Beers Fund, Rand Merchant Bank Fund, among others.

- SA SME Fund: Established by members of the CEO Initiative as a collaboration between government, labour and business to address some of the most pressing challenges to the country's economic growth – as an avenue of support for the SME sector. The SA SME Fund invests in repayable funds that support and develop entrepreneurs, typically with an enterprise value of less than a R100m.

- Financiers: These are licensed lenders with their own products and terms of trading, being that they are private entities. However, the terms have to be agreeable with trade regulations, including Fair Practice – which protects the borrower's interests.

  If you need an urgent loan, private financiers might be an alternative to the grants and cost-sharing schemes mentioned above. There are several types of loans that small business owners can apply for, depending on the individual needs of their businesses. The following are the repayable financing products available to SMEs:
  - Purchase order finance is used by a business to complete an existing order.
  - Working capital finance is an option that can boost a small business with much needed cash flow.
  - Bridging finance is a short-term loan that can be used by small businesses to finance their working capital. An example of this is Lula-lend, which positions itself as a good option if your business requires a loan provider and you need urgent funds of between R10 000 and R5 000 000. The company can have the funds in your account within days and repayment is over 3-12 months.
  - Credit cards can be handy for entrepreneurs; however, they require discipline as their interest charges and repayment rates are normally higher.
  - Inventory loans can help your small business keep enough stock in the inventory. It is more suitable for small businesses with tangible products to sell.

Because of the varying types of funds, SME owners are encouraged to consult with financial advisers in order to make the right decisions for their individual businesses' needs, the amount required and the right funding model.

Don't miss out, ask for professional advice about grants and take advantage of the opportunities they afford small businesses.

Your Tax Deadlines for April 2022

- 1 April Start of the 2022/23 Financial Year
- 7 April Monthly Pay-As-You-Earn (PAYE) submissions and payments
- 25 April Value-Added Tax (VAT) manual submissions and payments
- 28 April Excise Duty payments
- 29 April Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments where applicable

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