

COMMENTS ON THE EXTENSION OF THE EMPLOYMENT TAX INCENTIVE AS PART OF THE 2016 DRAFT TAXATION LAWS AMENDMENT BILL (SECOND BATCH)

In 2014 I submitted comments on the Draft Employment Tax Incentive Bill. (That file is attached for reference purposes along with a Mail and Guardian article on the same topic). The two most notable points were that:

1. The evidential basis for proceeding with the policy was weak
2. There was good reason to believe that government would commit significant funds to subsidising firms for jobs that would have been created anyway.

The policy was subsequently implemented, despite these concerns not being addressed.

Despite the desire to now extend the Employment Tax Incentive (ETI) that was implemented, neither the National Treasury nor SARS have provided *any* evidence that the ETI has created new jobs for the target group.

The *Employment Tax Incentive Descriptive Report* (August, 2016) provides some useful information on uptake rates, but this on its own is of little value in deciding whether to extend the policy or not. The critical admission in that Report is that, “It is not possible to use descriptive data to determine whether these supported jobs are new jobs created, jobs that have been saved from being lost or jobs that would have been created anyway”. In other words: the Report is unable to provide any guidance on whether the policy is actually achieving its objective, or whether it is squandering public revenue on a misguided scheme.

The only systematic analysis in the public domain (Ranchod and Finn, 2016) found that in the first 6 months after the policy being implemented there was no discernible impact on youth employment. That study has many limitations but the Treasury and SARS have not provided anything better. If these institutions do not have the internal capacity to produce a credible impact analysis, it would have been appropriate to consult external experts to assist.

It appears irresponsible to extend the ETI on the basis of such wholly inadequate evidence. In the current fiscal environment these funds could certainly be put to good use elsewhere. Furthermore, the Treasury should consider the medium-term consequences of renewing its own policies on the basis of such weak/non-existent evidence. Besides compromising its own credibility, this may set a precedent for other departments in future.

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