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| **Submission by COSATU on** **the Employment Tax Incentive 2016** |
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**Submitted to:****Standing Committee on Finance** **Parliament****Republic of South Africa** |

1. **Introduction**

COSATU appreciates the massive economic, fiscal and budgetary challenges facing government.  COSATU appreciates many of the progressive programmes and policies government has put in place to spur economic growth and create jobs. However COSATU remains deeply concerned that these are insufficient and have not been able to make a dent in our long term unsustainably high level of unemployment (currently estimated at 36%).

Whilst appreciating government’s efforts, COSATU remains deeply concerned about key aspects of its Employment Tax Incentive (ETI). Central to these are COSATU’s objects to labour brokers and outsourcing contractors being allowed to access the ETI. We believe that government needs to hear workers’ frustrations at their taxes being used to subsidise labour brokers and outsourcing.

It has been a particular source of anger for COSATU that government had pleaded a lack of resources and repeatedly delayed the releasing of the Discussion Paper of Retirement Reforms whilst it has been able to allocate R6 billion, much more than it had budgeted for, and moved with great speed and efficiency when providing the ETI for the private sector. A state subsidy that workers see as a social grant for business.

1. **Consultations**

COSATU believes that one of the key obstacles to government and COSATU being able to find common ground and achieve a consensus was government’s refusal to table the ETI at Nedlac for engagement in 2013. This led to the hardening of positions on both sides of this critical policy debate.

COSATU appreciates and welcomed government’s tabling of the ETI at Nedlac in 2016. We believe that if this commitment to engage labour can be deepened and entrenched, many policy divides can be overcome and key government policies enriched and strengthened. COSATU is willing to engage with government on the ETI and other areas where job creation can be supported. COSATU made several proposals (see below) on how it believes workers’ key concerns with regards to the ETI could be alleviated. Unfortunately these were rejected by government during the Nedlac engagements.

COSATU is committed to seeing our ally, the ANC and government succeed. We cannot afford to fail. Our challenges are too great not to.

1. **Labour Broking and Outsourcing**

Central to COSATU and workers’ anger with regards to the ETI is that labour brokers have been able to access it. In other words it has become a state subsidy for labour brokers.

Workers have been battered by increasing levels of outsourcing, the casualisation of what were previously permanent decent jobs in favour of temporary non-secure employment with labour brokers. This is a global phenomenon. It has been devastating for South African workers over the last two decades with more than a million workers being moved from permanent jobs to temporary work under labour brokers.

Adcorp, South Africa’s biggest labour broker by market share, says the labour broking industry has an annual turnover of around R44bn. It says that from 2000 to 2012, the number of permanent jobs declined by 1,9m while the number of temporary jobs increased by 2,6m. The World Bank estimates that almost 10% of South African workers are now employed by labour brokers.

The flood of labour broking, outsourcing and casualisation has devastated workers in all sectors of the economy, from the private sector to universities to the state.

Workers and COSATU demanded that government ban labour broking and outsourcing and that workers be employed directly by the host employer. The 2013 amendment of the Labour Relations Act limiting temporary work to three months in most categories marked a partial but important victory for workers.

The 2014 January 8 Statement by the ANC pledging to end outsourcing in government marked another key progressive commitment by the ANC to workers.

It is against this background, that workers and COSATU are deeply disappointed to now see their taxes becoming a state subsidy for labour brokers. According to government’s research and ETI reports, R211 million of ETI subsidies have gone to 211 labour brokers employing 74, 583 workers.

However it is important to note that is an under estimate. These 211 labour brokers are only those companies that government is aware are labour brokers. Many labour brokers will not admit or advertise that they are temporary service employers. Government’s tax confidentiality laws make determining the actual figure very difficult.

The ETI is not a constitutional right. It is an incentive. It is taxpayers’ money. It should be used to incentivise companies to pursue the creation of decent permanent new jobs. It should be utilised to reward and provide a life line or profit boon for modern slavers and indecent labour brokers.

***COSATU and workers’ simple demand and expectation is for government to amend the Act to prohibit labour broking or outsourced contractors from being able to claim the ETI.***

***All ETI claims must be for new, permanent jobs with the actual employer and not with outsourced contractors or labour brokers.***

1. **Displacements**

COSATU is cautiously optimistic that the displacement figures cited by research to date indicates a displacement and lower hiring rate for older workers in favour of younger workers since the advent of the ETI is estimated to be 1%.

The Act empowers and compels to act and intervene in cases of displacement. This includes fines and barring such companies from accessing the ETI.

However government has not indicated what action, if any at all, it has taken against these companies who have been identified by government’s own commissioned research to be displacing older workers in favour of younger workers.

***COSATU calls upon government to utilise the powers vested in it in this Act to defend workers and fine and bar from further ETI these companies government’s research has identified displacing older workers.***

***COSATU further calls upon Treasury and the Department of Labour to lift the freeze on filling vacant labour inspector posts as a matter of urgency. The freezing of these posts has hindered the Department of Labour (DOL)’s capacity to enforce our progressive labour laws and protect the hard worn rights of workers.***

1. **Further Questions**

Further clarity is needed from government with regards to how will the ETI relate to a national minimum wage that is likely to be above ETI levels?

Clarity is also needed with government’s long term vision and plan for the ETI? How long does it plan to retain it? Has it considered and planned for any possible negative impact upon ETI supported jobs for young workers when the ETI ends in 2019?

What will be the impact of its proposed R20 million cap upon Goldman Sachs’ publicly announced plan to utilise the ETI to create millions of jobs?

1. **COSATU’s Proposals**

In summary, COSATU’s proposals to amend the Act and address workers’ anger and frustration are the following:

* ***Amend Part II of the Act by inserting temporary service providers (labour brokers) and outsourced contractors from eligibility to claim the ETI.***
* ***Require jobs to be new, permanent and directly employed by the host employer to be eligible to access the ETI.***
* ***Act, fine and bar companies who have been identified displacing older workers.***
* ***Fill DOL labour inspector vacancies.***
* ***Capacitate SARS to gather accurate comprehensive information on ETI claimants.***
1. **Conclusion**

COSATU welcomes government availing the resources it has provided to the ETI as a sign of its commitment to job creation. However we remain strongly opposed to its structure and consequences.

COSATU and workers have repeatedly called for the defence of permanent decent jobs and the banning of labour broking and outsourcing. Workers have been decimated by the casualisation of jobs and the rise of labour brokers and outsourcing. Workers and COSATU are enraged that their hard earned taxes have now been accessed by labour brokers and outsourced contractors.

COSATU calls upon its ally, the ANC, and government to amend the Act to address this cry of workers.

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| cid:image005.jpg@01CC26CB.2C4815C0 | Matthew ParksParliamentary CoordinatorTel: 021 461 3835Cell: 082 785 0687Fax: 021 461 4034Email: matthew@cosatu.org.za2nd Floor, 56 Plein StreetCape Town 8000South Africa |