

# Submission on the Employment Tax Incentive

Presentation to the Standing Committee on Finance on the 2021 Draft Tax Bills

Dr Seán Muller

Johannesburg Institute for Advanced Study, University of Johannesburg

31 August 2021

# Submission on the employment tax incentive (ETI)

National Treasury propose a measure to address some abuse of the ETI – this is a distraction from a much bigger problem with the Incentive.

## The real problem

*the ETI is not likely to be achieving its objective in terms of reducing unemployment which means it is instead serving as a subsidy to private companies*

This conclusion is based on extensive analysis and research done on: the original basis for adopting/legislating the ETI; the supposed evidence to support that; the parliamentary process; evidence available since the ETI was implemented.

## Overview of research paper

That analysis is presented in a paper recently published in the journal *Development and Change* (a copy was sent with the written submission).

### **Some key points from that research for Members**

1. The evidence originally used to support the implementation of the ETI was weak or flawed
2. The public and MPs were misled about the strength and relevance of that evidence
3. Similar problems manifested in the renewal and the expansion of the ETI
4. Subsequent evidence, properly interpreted, does not support the claim that the ETI is having any significant effect on (un)employment or is fiscally justified.

## Brief explanation and implications

The underlying problem is in fact quite simple: firms are able to claim the Incentive for workers they would have employed anyway. The result is that the state loses tax revenue but there is no corresponding increase in employment. If the vast majority of claims are of this type, the Incentive will be ineffective but nevertheless costly.

Abuse of the Incentive, including of the kind mentioned in the Draft Tax Bills, simply exacerbates the more fundamental problem.

The NDP seeks to position RSA as a developmental state and the Executive has endorsed 'evidence-based policy' and 'socioeconomic impact assessment'. On the basis of these principles, the ETI should be brought to an end.

**Thank you**

---