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Submission File

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National Treasury
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Dear Madam

SUBMISSION: REVISIONS AND ADDITIONS TO THE 2016 DRAFT TAXATION LAWS AMENDMENT BILL

1. I herewith present our written submissions on the above-mentioned draft Bills on behalf of the SAICA National Tax Committee.

2. Our submissions include a combination of representations, ranging from serious concerns about the impact or effect of certain provisions to simple clarification-suggestions for potentially ambiguous provisions. We have deliberately tried to keep the discussion of our submissions as concise as possible, which does mean that you might require further clarification. In this respect, you are more than welcome to contact us in this regard.

POLICY COMMENTS

General

3. SAICA would like to commend National Treasury for its continued policy of investment in skills development in South Africa.

4. Though, as noted below, many challenges may still exist, we are confident that through collaboration and joint efforts with industry, professions and labour the success of these initiatives can be substantially increased to the benefit of all in South Africa.
Function of SETA’s in allowance

5. The report and the comments received by National Treasury correctly in our view reflect that the SETA’s are a main stumbling block to the efficiency and effectiveness of the incentive.

6. This is also demonstrated in the disparity that functional SETA’s like FASSET tend to create more opportunities for their members and also better skills development standards. Hence, organisations in such environments are able to access the incentive as indicated in the report, though it also talks to the fact that many professional organisations like SAICA are actively operational in the sector to provide support and properly defined educational outcomes.

7. The myriad of challenges facing SETA’s are however not a new problem, but has been identified quite some time ago by the 2013 Ministerial Task Team under the Minister of Higher Education.

8. However, from the National Treasury Review released in September 2016, it is clear that very few, if any, of these challenges have been addressed which results in the section 12H allowance having the same challenges, as it is connected to the SETA’s and will mirror those challenges.

9. In our view the medium term policy question is therefore whether National Treasury should continue to couple the section 12H allowance to SETA’s, rather than just to for example a National Treasury listed specified training areas and minimum level of content whose content must also be accredited by the South African Qualifications Authority under the Quality Council for Trades and Occupation and which disclosure should be done only to SARS to minimise duplication.

10. This ensures that:

- National Treasury has more control over what types of skills are being developed;
- that they are relevant skills to industry;
- are subject to a quality control mechanism i.e. job absorption driven;
- encourages industry to collaborate with National Treasury in defining needs and requirements;
- ensures a single channel of relevant reporting to SARS; and
- lessens the administrative burden on SETA’s and levels the playing field for all employers to access the section 12H allowance.
Minimum Skills standards

11. We note that even though Finance and Accounting represents the most employers benefiting, the per employer benefit in Mining and Personal Services (Security) industries is on average nearly double the monetary amount.

12. This can either be attributable to the amount of employees in the sector qualifying for learnerships or that the learnerships in such sectors are not necessary at the same standard as in other sectors in driving skills transfer, rather than facilitating access to the monetary incentive.

13. This would be something National Treasury should investigate in the medium term.

14. For example if a 6 months training course costing R5 000 is provided homogenously to a 1 000 employees the monetary benefit currently is R12 600 per person or tax expenditure of R12.6 million. Without properly specified training outcomes that focus exclusively on employability as output, this merely incentivises bad behaviour.

15. We agree with the National Treasury Review that the incentive should be funding skills that are sufficient to ensure absorption of trainees into the labour market which will only happen if true skills transfer and development is occurring. This is even more imperative where unskilled and unemployed persons are to be the focus of the incentive.

16. Though it is clear that National Treasury have refined the focus of the incentive to basic and intermediate skills (i.e. NQF level 1-6), which are as also critical, it is important that focus be retained on transferring skills that leads to employability.

17. In our experience professions in the NQF level 7-10 areas, including SAICA, focus nearly exclusively on ensuring that training outcomes results in employability as that ensures success of the learnership such as our current review in CA2025 project. The same principles should apply across the board.

18. It therefore firstly raises the question whether training in NQF 1-3 is sufficiently focusing on employability, i.e. is the labour market demand significantly more for these skills than no certified skills, taking into consideration that apprenticeship as artisan is usually at least NQF 4?

19. It is however in our view not just a matter of levels, the sufficiency of the actual skills outcomes must also be evaluated. For example on a short search we for example see institutions providing 6 weeks plumbing courses with 2 week pre trade courses to qualify for a NQF 4 apprenticeship.
20. The question is whether such a person that trains for 8 weeks can really be seen as qualified (i.e. employable), considering that historically it would have taken 2-3 years as an apprentice to qualify, as arguably that is the time to transfer employable skills, irrespective whether it is for a shop floor worker, artisan or skilled professional.

21. This rationale is supported by the approach followed in Germany, Europe’s most successful manufacturing hub, as to artisans and apprenticeships, which also train for minimum 2-3 years. It is also alluded by the National Treasury Review finding that the absorption rate of persons qualifying at these levels are substantially less.

22. We suggest that National Treasury investigate whether shorter period, less focused training, can in fact transfer the necessary skills that makes people employable (i.e. meeting the market and economy demand) and whether short period low NQF level training outcomes currently actually meet this requirement.

23. We further submit that National Treasury should seek to collaborate with industry, especially where there are no professional organisations, as to what constitutes employable skills and what employable skills are required to drive the current and future economy of the country.

Completion rates

24. We also note with concern that the completion rate of many learnerships, specifically for artisans, is only 41.6% and in certain areas less than 20%.

25. In our view the reasons for this should be investigated as why so view people complete, especially given that the time periods for these are usually not that long (i.e. less than 2 years).

26. Furthermore, in our view increasing the incentive for completion will not assist unless the employability measures are put in place.

Learnership Administration

27. National Treasury’s proposal to request accredited bodies, such as SAICA, to register and possibly administer the registration process needs to be carefully considered as it will have a significant cost implication as the SETA’s are not excluded.

28. Therefore only a portion of the problem is deferred and it would be at great cost to these bodies who would now be burden with the back office function notwithstanding that the SETA’s receive the funding.

29. In our view as noted above, the short term solution is rather better collaboration between industry, professional bodies and the SETA’s under the guidance of National Treasury so that a standard support structure is agreed upon and created and where more accountability is required from SETA’s.
Increased completion allowance

30. For the reasons as discussed above, the increased completion allowance which does not require more focus on employability and allows training periods less than 12 months may be counter-productive.

31. Submission: In our view National Treasury may want to consider to reserve the higher completion allowance for training programs longer than 12 months that are in our view more conducive to providing employable skills.

IT180

32. SARS previously made the completion of the IT180 form compulsory for employers to complete in order to claim the learnership tax incentive, but this has subsequently been removed as a requirement. Per the Explanatory Memorandum it is now proposed to reinstate a compulsory reporting requirement given the discussion between National Treasury and SARS for the appropriate mechanism to collect more information on claims and learners.

33. The reason why industry requested the abolition of the SARS IT180 was that it was duplicating the administration process by requiring reporting to SETA’s and SARS of the same or similar information.

34. This significantly increases the access cost to the incentive and provides just another administrative hurdle on which SARS can disallow the incentive and we therefore do not support the proposal in its current form.

35. This also poses a challenge in loading this data due to the limitation on the size of documents that can be loaded onto the eFiling system. eFiling also limits the number of documents that can be uploaded to 20.

36. Submission: In our view National Treasury should determine what data it requires to properly evaluate effectiveness and identify challenges and make that part of the SETA information required, with the latter responsible for reporting to National Treasury.

37. Submission: National Treasury needs to consider other possible data that it would also like to have, such as a measurement mechanism of the quality of the learnership programmes, reasons why learners do not complete the programme, etc. to ensure that its future analysis is comprehensive taking all factors into account.
As always, we thank National Treasury for the on-going opportunity to participate in the development of the SA tax law.

Yours sincerely

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