

Amendments to Learnership Tax Allowances

The Skills Development Act (1998) and the Skill Development Levies Act (1999) were developed to promote employment, alleviate poverty, enhance global competitiveness and accelerate economic growth in South Africa by addressing the skills shortage through the National Skills Development Strategy I: 2000-2005 and NSDS II: 2005-2010. NSDS II was launched by the Minister of Labour, effective the 1 April 2005. Moreover, the NSDS plays a critical role in the Accelerated Shared Growth Initiative for South Africa (ASGI-SA), which aims at attaining a 6 per cent growth for the economy.

Learnerships were developed to offer both education and work-based training aligned with a South African Qualifications Authority (SAQA) registered qualification. In order to promote the learnership targets in the NSDS, the learnership tax allowance was introduced in 2002 as an enabling mechanism. The tax incentive provides financial benefits to employers regarding the cost of training. The learnership tax allowance had a sunset clause that would expire on the 30 September 2006. The tax incentive has enabled employers to recruit additional learners that were previously unemployed. Since the introduction of the learnership tax incentive, the number of learners have increased drastically, exceeding 100 000. Therefore the learnership allowance will play a critical role in the achievement of the NSDS II targets.

The Minister of Finance in his 2006 Budget Speech announced the extension of the learnership allowance for another five years. Moreover, the allowance amounts have been revised upwards, to pace with inflation adjustments in salaries and wages and an additional allowance has been introduced for people with disabilities.

Learnership Allowance:

In order to qualify for a learnership allowance,

- A learnership must first be registered with the Department of Labour.
- A learnership agreement must then be entered into between a learner, the employer and a training provider, in terms of which the learner is provided with theoretical and/or practical training, which in turn will lead to a qualification that is registered with the South African Qualifications Authority (SAQA).

According to section 12H¹ of the Income Tax Act, an employer is entitled to claim a tax allowance² both when a learner registers on the learnership programme and another one on the successful completion of the programme.

The 2006 Budget Review proposals, set out that the maximum initial tax allowances that increase from R17 500 to R20 000 per year for existing employees and from R25 000 to R30 000 for new employees. Similarly, the maximum allowance upon the completion of the learnership will increase from R25 000 to R30 000 for agreements entered into from 1 March 2006.

The deduction amount in respect of the entering into a learnership agreement is determined for the previously employed learner as the lesser of 70% of the learner's annual remuneration in terms of the employment contract or R20

¹ See section 12H of the Income Tax Act, 58 of 1962 as amended.

² Ibid.

000. For an employee not previously employed by the employer, the deduction amount is the lesser of the learner's annual remuneration in terms of the employment contract or R 30 000. The deduction amount in respect of the completion of the learnership contract is determined in respect of both the previously employed learner and the learner that was not previously employed by the employer as the lesser of the learners' annual remuneration in terms of the employment contract or R 30 000.

	Previous: 2002-2005	Current: 2006
For agreements entered into from 01 March 2006		
Existing employee	R17 5000	R20 000
New Employee	R25 000	R30 000
Completion of learnership: Maximum	R25 000	R30 000

Disability Allowance:

In an effort to promote enrolment of learners with disabilities, given the additional expenses associated with employment of such learners, a more favourable disability allowance will be introduced with effect from 1 July 2006. An employer will be allowed to deduct an initial amount of 150 per cent of the annual salary of an existing disabled learner, up to a maximum of R40 000. For an unemployed disabled learner, an employer will be allowed to deduct 175 per cent of the annual salary, up to a maximum of R50 000. The tax allowance for persons with disabilities upon completion of learnership will be 175 per cent of the employee's annual salary, up to a maximum of R50 000. The details of this deduction will be set out in the Taxation Laws Amendment Bill due to be released in June 2006.

Disability Allowance: Effective date – 01 July 2006		
<u>Existing employee:</u>		
Percentage of annual salary		150%
Maximum		R40 000
<u>New Employee:</u>		
Percentage of annual salary		175 %
Maximum		R50 000
<u>Completion of learnership:</u>		
Percentage of annual salary		175 %
Maximum		R50 000