

## **Covid-19 Wage Support in the Formal Sector**

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[www.covid19economicideas.org](http://www.covid19economicideas.org)

This policy brief proposes automatic wage support in the formal sector channelled through a credit made by South African Revenue Services (SARS). A set of rules would be set to guide the payments. Where firms were operating or not in difficulty due to the lockdown, funds could be clawed back through tax returns.

### **Introduction**

The immediate goal in the Covid19 lockdown must be to ensure that a temporary problem does not become permanent – through needless permanent alienation from work or business, fiscal and/or financial instability, severe destitution, social instability, destruction of sections of economic activity and similar.

Mario Draghi notes that “it is the proper role of the state to deploy its balance sheet to protect citizens and the economy against shocks that the private sector is not responsible for and cannot absorb. ....the key question is not whether but how the state should put its balance sheet to good use” (Draghi 2020).

This is particularly so in a context of high unemployment and inequality, and an economy that was already struggling. It is very unlikely that labour intensive activities in particular can, on their own, carry costs without revenue. Making matters more difficult, is the great lack of working capital, slow payments generally to small and medium sized firms especially by the state, that make bridging such a gap even more unrealistic.

The majority of workers are found in low paid, vulnerable activities. Almost 3 million self-employed and employed workers are in unregistered informal businesses. Approximately 11.3 million workers are in the formal sector, of which a significant number are highly vulnerable. As an indication, the median wage in the formal sector is about R4 608 per month as of Feb 2020, as seen in Table 1. According to the QLFS Q4 2019, 80% of workers have written contracts, but only 54% are registered for PAYE, 29% have medical aid and 62% are registered for UIF.

With unemployment already rising, and reaching about 29% by the narrow definition by Q4 2019, and 38.7% by the broad definition, it is urgent that those who are gainfully employed stay that way. This is to ensure economic continuity but also keeps in mind that each worker, especially and perversely those at the lower earning range, tend to support at least 3-6 others.

When firms lose their revenue or business prospects, vulnerable workers can lose their jobs rapidly. As in many other countries, governments need to act quickly through existing channels and straightforward interventions to offset this risk.

Fast action has been taken by government to leverage existing programmes and channels. This policy brief reflects on these initial actions and makes recommendations with the aim of lifting potential speed and impact. This brief focuses on formal sector activity.

An approach will require a coverage that traverses all groups that may be at risk of a change in state from active to inactive and earning to non-earning. This group has been reviewing coverage for informal

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employees and employers. However, we have since learned there is an initiative in the Presidency specifically focused on informal actors. We might therefore simply seek to dovetail with that project.

## Policy Interventions So Far

### **COVID-19 Temporary Employer/Employee Relief Scheme (C19 TERS) 2020**

The Department of Employment and Labour has introduced a number of measures for wage support through a lockdown. The central approach leverages the Temporary Employer/Employee Relief Scheme (TERS). The TERS has been modified for a Covid-19 response as announced in Dept of Labour Notice 215 of 2020 released on March 25, 2020, to be funded through UIF.

It serves two purposes:

- Wage support if employer shuts temporarily: where an employer that is registered for UIF closes due to Covid-19 for less than 3 months, employees can be paid 38% to 60% of their salary, on a sliding scale. The minimum wage acts as a minimum national floor. The sector minimums are the floor in their respective sectors. This is so, even if the employee earns less than this.
- Wage support as illness benefit: wages will be covered by the UIF if an employee is in quarantine for 14 days due to Covid-19. A letter of confirmation by the employee and employer is the only evidence required. If the quarantine is more than 14 days, then a medical certificate is required.

The payment is made to the firm, which in turn compensates employees. The DoEL requires auditing of payment to ensure was paid to employee.

The Presidency has indicated that R37.5bn may be available for this from the UIF. It is not clear how the funds will be mobilized from the UIF. The UIF has about R18bn in cash and about R40bn in listed equities. Liquidating bond holdings would be counterproductive in adding pressure on the fiscus. Other sources of funding might also be explored but this is not mentioned.

The specifics of the wage support calculation are quite unclear. For example, the Notice says “the salary benefits will be capped to a maximum amount of R17 712 per month, per employee and an employee will be paid in terms of the income replacement rate sliding scale (38% - 60%) as provided in the UI Act. The spreadsheet that is automatically sent to firms applying asks for the sector minimum and the monthly salary but does not offer information on how the benefit would be calculated. The Labour Guide issue by the Department of Employment and Labour indicates that the “benefit will be at a flat rate equal to the minimum wage (R3 500)” <https://www.labourguide.co.za/workshop/1779-corona-virus-easy-aid-uif/file>.

### **Clothing Industry Bargaining Council Agreement**

The Clothing Industry Bargaining Council commits to 80,000 workers being on full pay for period of lockdown, 50% paid by UIF and 50% by employers. This extends to non-parties. It is valid for up to period of 3 months.

### **Disaster Management Tax Relief Bill – to be introduced April 1, 2020**

#### **Expansion of the Employment Tax Incentive (ETI)**

The ETI which was aimed at youth employment promotion has been modified to serve Covid-19 needs.

A tax subsidy can be paid to (tax compliant) employers of up to R500 pm for next 4 months for private sector employees earning below R6500. Treasury anticipates this will help over 4 million workers.

The youth subsidy is also increased over a four month period to R1500 for the first year and R1000 for the second year of employment. The ETI is a subsidy that scales up linearly from zero to the maximum at an earnings level of R2000 a month, and then scales down over the earnings range R4500 to R6500. The NT estimates that the expansion will cost R10bn.

SARS will make the ETI reimbursement monthly rather than twice a year

#### **Deferral of the Payment of Employees’ Tax Liability for tax compliant SMEs**

Tax compliant firms with turnover of R50m or less can delay 20% of their employees' tax liabilities over the next 6 months (April to Sept). A portion of provisional corporate income tax payments also delayed to Sept without penalties. Expected to help 75,000 SMEs.

## COIDA

COIDA has been amended to recognize Covid-19 as a compensable occupational disease if contracted by an employee arising out of and in the course of his or her employment.

- The employer is obliged to pay the first three months compensation and thereafter seek a recoupment from the Compensation Fund or recognised mutual association. There are limits that apply.
- Sick leave entitlements under the BCEA would still apply.
- UIF sick benefits remain a separate entitlement.

## Some reflections

Deferring of tax payment can be helpful but would need to be more substantial in this context. Tax holidays or deferrals can keep desperately needed cash in the hands of firms.

In the context of the Covid-19 crisis, a benefit of R500 might not make a significant difference to whether employers in difficulty retain workers. The ETI could work for its original purpose, which was to reduce the cost of hiring young workers. The extended version of the ETI could be extremely impactful once the lockdown is over and economic activity has resumed especially in sectors that employ young people.

The UIF will experience significant pressure to deliver to its existing mandate. The initial modelling by the Covid-19 Economists Group shows that employment may fall by 1,5 to 2,5 million over 2020. This is at least double or triple the annual claimants the UIF normally handles. In addition, the UIF may be expected to extend its payments for a longer period, putting additional pressure on its funds. The UIF has recently improved its electronic processes so will be in a better position to deliver timeously.

## Motivating for a non-discretionary wage support across the formal sector

It is proposed that a blanket wage support be provided through a lockdown. It can be assumed that every private business, with the exception of essential services, will be affected by this lockdown.

The COVID-19TERS would then migrate to this revised benefit format. The COVID19 ETI Extension will be implemented from April 1, 2020. The ETI payment of R500 per month is not designed to play the role of wage support in the context of a lockdown nor to compensate employers experiencing sharp reductions in revenue.

A large proportion of formal sector workers work in vulnerable conditions. Many employers were already challenged by a weak economy. There is a significant threat of retrenchment, and even full business closure.

A payment across the board has some advantages:

- It is rapid and creates certainty for the firm (to stay open and keep workers on the payroll) and for employees (to encourage them to stay home and gives them faith of returning to some normalcy)
- It is stimulatory as workers in lower tier of labour market will fully spend the amounts, mostly on domestically produced goods.

## The Mechanism for a SARS credit

The UIF may not have the capacity to quickly effect payments across the board to firms. SARS collects the bulk of UIF contributions and has a strong administrative interface with employers. Re-engineering SARS processes to enable tax credits and similar payments to companies could be an immediate priority and done quickly. Re-engineering UIF payments and data bases will be a lengthier project and higher risk, and therefore not suited to a situation where rapid action needed.

It is suggested that SARS pay a credit to firms across the board in respect of workers, according to the same or alternative thresholds proposed in the TERS release of March 25.

Claw back through tax if firm was operating, if it is a firm over a certain size (and has to show sufficient harm)

A set of rules would be framed. As examples:

- Covers firms for period of a lockdown (1-3 months), and possibly longer if significant harm due to Covid-19. (eg international travel and hospitality related)
- Firms must be tax compliant
- Might not be related to UIF registration but this needs to be assessed. Should cover all types of employment type relationships including contractors, e-hailing drivers and similar. Will CSG grant cover domestic workers?
- If SARS finds that payment not made to employees as expected, a material penalty will be imposed
- Firms that were paid but were still in operation and earning revenue, and/or those not materially harmed by the lockdown (with parameters to be set) will have the wage credit clawed back through their tax returns.
- The credits will be paid for those employees earning up to some ceiling.
- Large firms might be required to apply
- An attempt was made to apply a payment similar to that designed for COVID-19TERS. It is calculated on a sliding scale with the floor being 60% of R3500 and the ceiling being 38% of R17,242.

## Estimated Cost

It is estimated that the cost of this programme would be about **R27.284bn** in the first month. The cost could be less in subsequent months if a second lockdown is less severe.

The payment would be made by SARS.

The grant would not be sourced from general revenue. National Treasury would determine the source of funds which may be from the UIF and/or other sources. If legally possible, consideration might be given to SARS retaining UIF collections for a period (instead of transferring to the UIF).

### Notes to costing:

The costing was done using QLFS Q4 remuneration data in Feb 2020 prices, calculated by earnings decile. Remuneration data is provided in Table 1, by earning decile and by sector.

The exercise would naturally need to be done properly with SARS data and more detailed StatSA remuneration data.

Another approach to costing would involve setting a ceiling amount (for example R20bn per month) and designing in a way that enables the most equitable and supportive wage support possible.

## Recommendations

It is recommended that a simple non-discretionary automatic credit be paid by SARS to firms registered for tax (and not only those registered for UIF).

A credit to domestic workers could be directly to their account by the UIF.

It is estimated that the cost could be R27.284bn per month, excluding administrative charges.

The funds should be sourced from the UIF and other sources, and not from the general revenue fund.

## Tables

**Table 1: Monthly remuneration of formally employed by earnings decile and sector**

Percentile earner	Total, excl households	Total, excl agriculture & households	Agriculture, hunting, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas and water supply	Construction	Retail; hotels and restaurants	Transport, storage and communication	Financial, real estate and business services	Community, social and personal services
10	R1 152	R1 094	R1 498	R1 728	R1 498	R1 728	R805	R1 382	R1 152	R1 659	R783
20	R2 304	R2 304	R2 246	R4 032	R2 534	R3 226	R2 074	R2 304	R2 408	R2 880	R1 397
30	R2 995	R3 226	R2 627	R6 912	R3 456	R4 032	R2 995	R2 995	R3 494	R3 571	R2 400
40	R3 802	R4 032	R2 880	R9 101	R4 243	R6 912	R3 686	R3 571	R4 493	R4 320	R3 603
50	R4 608	R5 184	R3 226	R10 368	R5 299	R11 405	R4 068	R4 262	R5 990	R5 184	R5 760
60	R6 489	R6 988	R3 456	R12 096	R6 912	R17 280	R4 992	R5 184	R8 064	R7 488	R9 216
70	R9 272	R10 368	R3 590	R13 824	R9 216	R23 040	R6 912	R6 336	R11 520	R10 368	R14 976
80	R14 976	R16 128	R4 032	R16 128	R13 824	R34 560	R9 216	R9 216	R17 280	R17 280	R19 584
90	R24 192	R25 344	R5 990	R24 192	R24 731	R57 600	R15 437	R17 971	R25 344	R27 456	R27 648

Source: StatsSA Quarterly Labour Force Survey Q4 2017

Notes:

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Figures in Feb 2020 prices

**Table 2: Employment, possible cost of blanket wage support, excluding essential workers**

	Total, excl agriculture & households	Agriculture, hunting, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas and water supply	Construction	Retail; hotels and restaurants	Transport, storage and communication	Financial, real estate and business services	Community, social and personal services
		0%	90%	90%	0%	100%	75%	60%	80%	50%
Cost per sector (R bn)	R 27.284	0	R1.626	R4.451	0	R2.531	R4.648	R1.465	R6.385	R6.178

Source: based on table 1

Notes:

- 50% community, social and personal services with aim of cutting public servants
- 25% of retail workers based on only those that are in food wholesale and retail. Needs to be determined
- No electricity, gas and water supply covered
- Agriculture not included, as meant to be operating
- Some mining is operating. Note that should activate gold mines to take advantage of elevated prices
- Some transport, storage and comms are working. Needs to be determined
- Financial sector not covered? 20% cut out of estimate
- 10% of manufacturing operating to cover PPE, equipment, food and other essentials. To be confirmed
- Min payment is 60% of R3500; max payment is 38% of R17,242
- Q4 employment is always elevated and Q1 employment lower. In aggregate, employment has generally fallen. So it is possible the programme would cost less than estimated here.
- The cost of the subsequent months may be less if a second lockdown is imposed partially.

**Table 3: Employment type**

Formal Sector	11 319 000
Informal Sector	2 937 000
Agriculture and private households	2 138 000
<b>Total</b>	<b>16 394 000</b>

**Table 4: COVID19TERS payments**

<b>TERS</b>		
min payment	R2 100	60% of R 3 500
max payment	R6 552	38% of R17242