

## Data

## Background

- Policy into effect Jan 2014
- Implemented for 3 years, to be extended based on evaluation
- Aim: to incentivize firms to hire young workers
- Concerns about deadweight loss and substitution
- Administered through the tax system (payroll tax deduction)
- Expected: R5 billion in foregone tax revenue to add 178 000 new jobs and subsidize 423 000 jobs for young people

### Eligibility Requirements

- Employee aged 18 to 29
- Earns between R2000 to R6000 per month
- Hired after Oct 1, 2013
- Not for public sector employees

- Anonymised employer-issued income tax forms IRP5 for 2013-2015
- Each observation is a firm-year
- Created balanced panel based on period employed from/ to dates where each unit is a firm-month
- Data problems: start of each tax year marked by sharp decrease in employment...

$$Y_t = \beta_0 + \beta_1 T_t + \beta_2 X_t + \beta_3 T_t X_t + \beta_4 Z_t + \beta_5 Z_t T_t + \beta_6 Z_t X_t + \beta_7 Z_t T_t X_t + \epsilon_t$$

## Theory & Methods

- Comparative Interrupted Time Series
- Model specification:

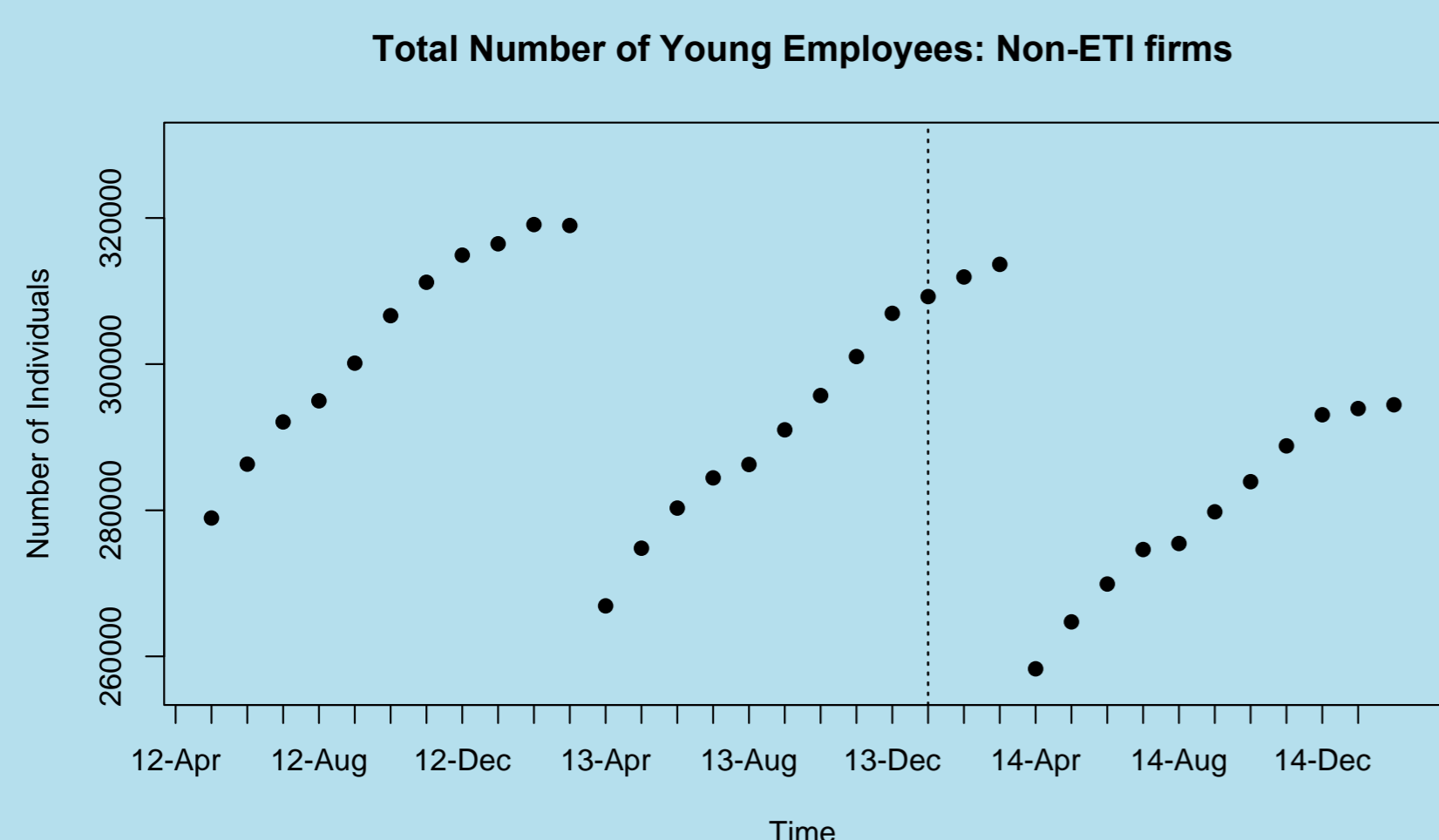
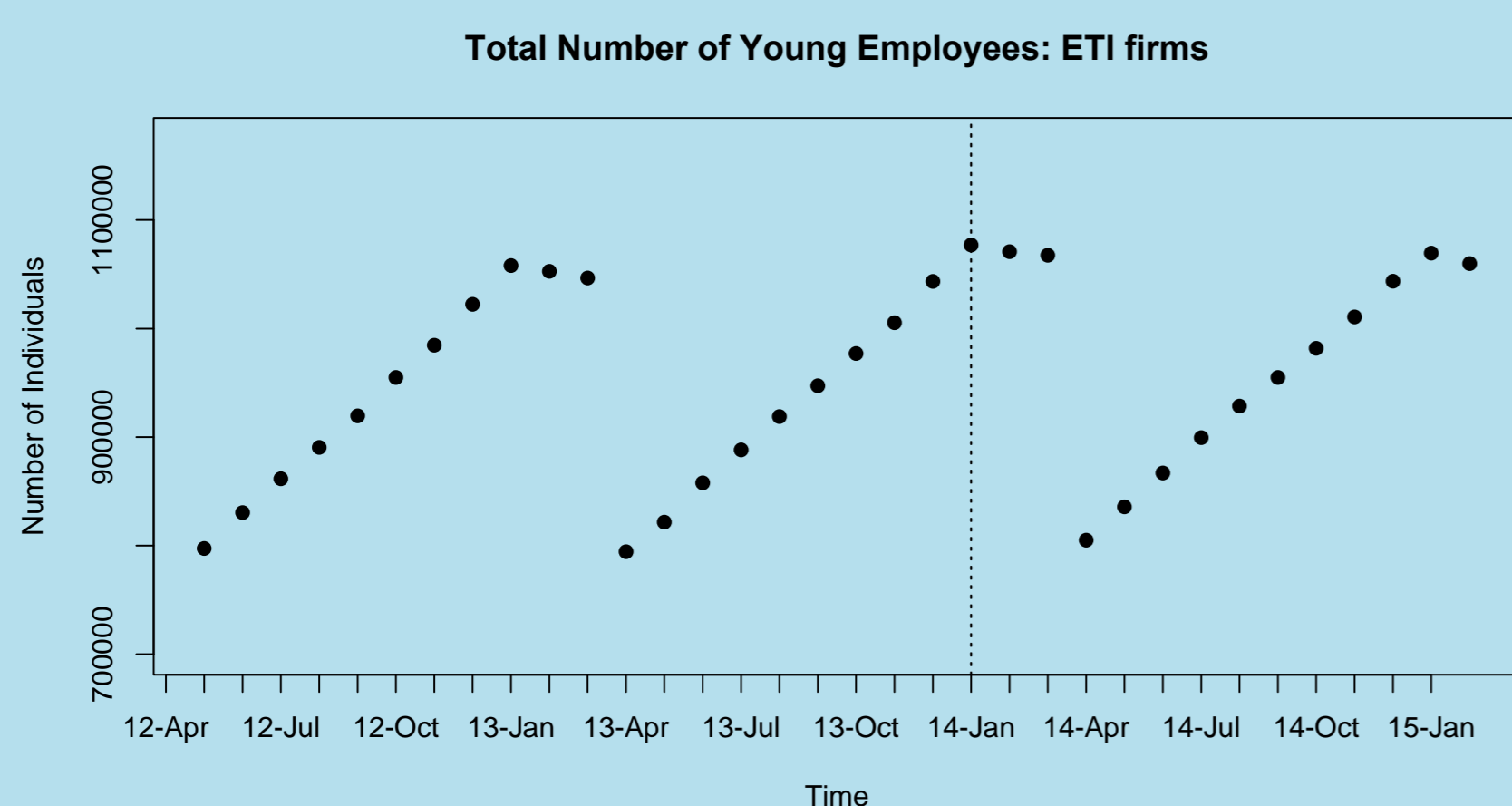
- $T_t$  is time since study began
- $X_t$  is time since intervention
- $Z_t$  is treatment dummy
- Key outcomes: # youth, # employees, % youth, youth hires, older separations
- Idea is to control for
  - ✧ Baseline differences ETI/ non-ETI
  - ✧ Time trend differences ETI/ non-ETI
- Matching to pre-process data for analysis
- Explore heterogeneity
  - ✧ Firm size
  - ✧ Start date
  - ✧ Intensity of use
  - ✧ Duration of use
  - ✧ Percent young/ # employees

# Becoming Youthful? An evaluation of the South African Employment Tax Incentive (ETI) By Tumi Makgetla Yale University

## Key Findings

### Overall:

- No substantial increase in employment of young workers
- Some evidence firms on ETI see workforce become younger
- Employee growth not clearly caused by ETI
- Some firms that start after 1 January see significant effects



	2014	2015
Individuals on ETI	107 007	400 987
Firms using ETI	12 172	25 878
Amount claimed per year	R121,192,570	R1,339,722,028

## Food for Thought

- Firms on the ETI differ greatly from all other firms on average:

- ✧ Faster growing
- ✧ More employees
- ✧ More youthful
- ✧ More turnover over the course of the year

- Not all firms stay on the incentive after they begin to use it – why is that?
- No evidence that older workers more likely to be fired after introduction of the ETI
- Only 318 individuals employed at firms before 1 Oct 2013 and later re-hired at same firm and placed on ETI
- (How) are eligibility requirements being enforced/ false claims followed up?
- Employment for young people declines overall over period of study; overall employment increases but slows.