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UPSKILL • EMPOWER • TRANSFORM

SECTION 12H TAX INCENTIVE:

BOOSTING SKILLS & EMPLOYMENT

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BBBEE LEVEL 2 CONTRIBUTOR

01 About

Section 12H Tax Incentive: Encouraging Skills Development & Employment

The Section 12H Tax Incentive provides employers with additional tax deductions for implementing recognized learnership programs and accredited workplace training. It aims to promote job creation and skills development in a structured environment.

Initially introduced under the Income Tax Act of 1962, the incentive applied to learnership agreements from October 1, 2001, to October 1, 2016. Following a 2016 review, it was extended and revised.

From April 1, 2024, new amendments introduce adjusted incentives based on qualification levels, prioritizing high-demand skills. Employers claiming the incentive must also complete the IT180 form to enhance compliance and reporting.

The Income Tax Act of 1962 has been further modified to extend the Section 12H Tax Incentive by an additional three years, making the new deadline March 31, 2027.

02 Benefits

The Section 12H Tax Incentive provides financial benefits to employers who invest in skills development through learnerships and apprenticeships. It includes two types of tax-deductible allowances, which employers can claim in the year of assessment to reduce their taxable income and encourage workplace training.

COMMENCEMENT ALLOWANCE

A pro-rata tax deduction per learner based on registration duration, NQF Level, and disability status.

COMPLETION ALLOWANCE

A one-time deduction for successful learnership completion, requiring proof from the employer.

COMMENCEMENT ALLOWANCE (ANNUAL ALLOWANCE)

- Employers are entitled to an allowance per learner for any year of assessment in which a learner is registered in a learnership.
- If the learnership agreement does not cover a full 12-month period, the annual allowance is applied on a pro-rata basis per month.
- Any remaining allowance can be claimed in the following year, depending on the number of months completed.
- If the learner does not complete the full 12-month period, the employer may only claim for the completed period during the year of assessment.
- The annual allowance amount depends on the NQF Level of the qualification and whether the learner has a disability.

COMPLETION ALLOWANCE

- Employers are entitled to a completion allowance per learner in the year of assessment in which the learner successfully completes a learnership or apprenticeship.
- This allowance cannot be claimed in the following year if the employer fails to claim it in the year of completion.
- Employers must provide satisfactory evidence of completion, which may include:
  - A confirmation letter from the SETA (Sector Education and Training Authority).
  - A statement of results issued by the training provider.
  - An evaluation report from a registered assessor verifying workplace experience.
- For a learnership agreement equal to or exceeding 24 months, the completion allowance will be multiplied by the number of consecutive 12-month periods within the duration of the learnership agreement.
- The completion allowance is subject to the NQF Level of the qualification and the disability status of the learner.

03 Criteria to Qualify

To claim the Section 12H Tax Incentive, employers must meet specific requirements related to the employer, the learnership agreement, and the learner.

THE EMPLOYER

- Only the “Lead Employer” in the registered learnership agreement can claim the incentive, not the “Host Employer” or any other party.
- The incentive is not linked to the Skills Development Levy (SDL), meaning even companies exempt from paying SDL can claim it.
- A company does not qualify as an employer under Section 12H if the learner has not started employment or does not have a valid employment agreement in place.

THE LEARNERSHIP AGREEMENT

- The registered learnership agreement must comply with the Skills Development Act and be registered with a Sector Education and Training Authority (SETA).
- It must be signed by the learner, employer, and training provider before March 31, 2027.
- If a learnership is not registered from the start, it can still qualify if registered within 12 months after the employer’s year of assessment.
- Employers must avoid duplicating learnership agreements with the same education and training components for the same learner.
- The learnership must be relevant to the employer’s business trade, but the type of trade is not restricted under Section 12H.

THE LEARNER

- The registered learnership agreement must comply with the Skills Development Act and be registered with a Sector Education and Training Authority (SETA).
- It must be signed by the learner, employer, and training provider before March 31, 2027.
- If a learnership is not registered from the start, it can still qualify if registered within 12 months after the employer’s year of assessment.
- Employers must avoid duplicating learnership agreements with the same education and training components for the same learner.
- The learnership must be relevant to the employer’s business trade, but the type of trade is not restricted under Section 12H.

04 Reporting Requirements

- Employers claiming the annual or completion allowance under the Section 12H Tax Incentive must submit relevant learnership information to the SETA in the specified format, manner, and timeframe.
- Additionally, employers must complete the IT180 form and submit it to SARS along with all required supporting documents for review.

SUMMARY OF THE INCENTIVE'S IMPACT

The Section 12H Tax Incentive encourages employers to actively upskill the youth, reducing unemployment, increasing employability, and fostering financial independence. This initiative ultimately helps lessen reliance on government and social grants, contributing to economic growth.

SUPPORT FROM SYNERGY CORPORATE CONSULTING

To support skills development, Synergy Corporate Consulting offers guidance and assistance to businesses looking to implement learnerships within their organizations and qualify for the Section 12H Tax Incentive.