

## **Employment equity reporting on income differentials becomes more onerous**

Under the Employment Equity Act, 1998 (EEA) designated employers are required, amongst other, to submit income differential statements to the Department of Labour either annually or bi-annually<sup>1</sup>. Regulations published in May this year introduced more onerous processes and reporting forms on employers. The new income differential statement (the so-called EEA 4 form) is also lengthier and more cumbersome than its predecessor.

It requires that the total remuneration be calculated against the total number of employees per race and gender in each occupational level and category as defined. Where disparities do exist, explanations need to be given per category and/or level. The calculation of remuneration must include twelve months of a financial year (the so-called reference period) that is in line with the period covered by the EEA2 reporting form that is also submitted to the Department on progress made with the achievement of equity objectives and numerical goals.

According to the explanatory note issued the following must be included and excluded in employees' remuneration for calculation purposes.

### **INCLUDED:**

- Salaries and fees paid to directors;
- Salary payments made to directors, executives and managers;
- Payments for all types of leave which relate to the reference period;
- Commissions paid;
- Employer's contribution to pension, provident, medical aid, sick pay and other funds (e.g. UIF and CC);
- Payments for piecework, incentive or profit sharing schemes;
- Fringe benefits paid in cash such as housing, mortgage and rent subsidies and transport allowance (e.g. monthly petrol allowance);
- Allowances and penalty payments relating to ordinary time hours;
- Performance and other bonuses;
- Value of any salary sacrificed.

### **EXCLUDED:**

- Payments to independent contractors;
- Imputed value of fringe benefits;
- Fringe benefits tax;
- Reimbursement for expenses e.g. travel, entertainment, meals and other expenses;
- Amounts paid from abroad to employees based in SA e.g. embassy employees;
- Severance, terminations and redundancy payments;

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<sup>1</sup> Employment Equity Act 55 of 1998, section 27.

- Overtime pay;
- Payments which do not relate to the reference period.

Recurring direct costs, such as leave, and recurrent contributions, such as those to the unemployment insurance and skills development funds, are interestingly included in the calculation. These costs have been estimated at around 12 percent of the basic wage.<sup>2</sup>

The aim of the income differential statement is to address the so-called apartheid wage gap, which is the notion that the structure of wages in South Africa is skewed as a result of apartheid. Specifically, the ratio of the highest paid to the lowest paid is estimated at a multiple of over 40, which is very high in comparison with other countries.<sup>3</sup>

According to the EEA, where disproportionate income differentials are reflected, employers are obliged to take measures to progressively reduce such differentials. These measures may include collective bargaining, compliance with sectoral determinations issued by the Department and/or skills development initiatives.

It is understood that labour market policy has to achieve the difficult task of both ensuring equitable rights to citizens and facilitating economic efficiency. Unreasonable expectations and undue wage increases can, however, eventually impose a cost on employers (especially small to medium size operations) that in turn could depress labour demand. The level of wages could have a substantial impact on employment, with some studies estimating that in the long run a 1 percent increase in wages is associated with a 0.7 percentage point increase in the unemployment rate<sup>4</sup>.

A balance would also need to be found between increased labour cost and greater labour productivity.

Although the objective is laudable, it remains to be seen whether the provisions on income differentials really benefit the group whom it intends to uplift or whether it rather contributes to increased unemployment.

(Contributor: Dr L Truter)

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<sup>2</sup> M Nowak & LA Ricci *Post-Apartheid South Africa – The First Ten Years* International Monetary Fund 2006.

<sup>3</sup> As above.

<sup>4</sup> As above.