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New UIF Benefit Limits Cause Confusion for Payrolls

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The Minister of Labour announced an amendment to the “scale of benefits” described in the Unemployment Insurance Act, 2001 (Act No. 63 of 2001) on March 17th this year, to be implemented from April 1st. The statement has caused much confusion across the payroll function, affecting employers, payroll departments, payroll consultants and payroll software vendors.

The question on everyone’s lips is: if the benefits have changed, should the contributions payable by employees increase in step with the new targets? In this article, I’ll deal with the problem, its cause and the solution.

The Problem

Firstly, the wording is misleading. The announcement uses the term: “scale of benefits”. However, the figures mentioned are actually the limits of benefits to which UIF applicants are entitled, i.e. they can’t claim amounts above this ceiling. The scale of benefits refers to brackets of income previously earned by a beneficiary and the corresponding percentage of that income they may claim at each level. These brackets might not even be affected, and the articulation of the change could have been clearer.

Secondly, UIF benefits are perceived to be closely associated with UIF contributions. So, payroll practitioners assume that changes to the first will have a direct impact on the latter. To compound the confusion, changes to both have historically been implemented together on 1st April, and the updating of payroll systems is a given. Therefore, many practitioners were led to believe that contributions must be included when, in fact, payroll is not affected at all.

Contributions fall within the ambit of the National Treasury and are governed by the Unemployment Insurance Contributions Act of 2002. Benefits, however, are distributed by the Department of Labour and are regulated by the Unemployment Insurance Act of 2001.

While each law sets brackets against which contributions must be deducted or benefits paid, these tables need not correlate. This can be seen in a 2015 draft bill raised by then Finance Minister, Nhlanhla Nene, which proposed a reduction in UIF contributions. Government Notice 187 of March 2015 assures the reader that “The proposed contributions reduction would not reduce the unemployment insurance benefits payable to beneficiaries.” Although the bill never passed, the notice highlights that contributions ceilings need not match benefits ceilings.

Thirdly, since each function is managed by a different Minister, an amendment by one Minister does not constitute an amendment by the other. By law, each Minister must announce any changes separately by way of government gazette.

Still, amendments by the Minister of Finance regarding UIF contributions must be made in consultation with the Minister of Labour and the UIF Commissioner, and vice versa. This suggests a high level of collaboration and correspondence between the two offices. Surely, at such close quarters, consideration should be given to communicating the status of each law in regards to the other. In other words, the confusion should have been anticipated and addressed as part of the legislative roll-out.

The Source of Confusion

It’s the payroll practitioner’s duty to understand the laws governing their function. However, by the

number of queries received by SAPA from parties across the industry, it's obvious that the change was not communicated effectively enough to clarify its scope and implications.

SAPA representatives contacted the UIF in an attempt to offer our members an official response. Surprisingly, the UIF representatives with whom we corresponded assured us that the amendment was applicable to both contributions and benefits. But when pressed to provide a gazetted announcement by the Minister of Finance, they were unable to do so.

Currently, the matter is under investigation with the UIF and we've received no further information.

It seems obvious that the source of confusion is a lack of coordination between the relevant lawmakers and their departments, and poor communication to the public in general.

What Should You Do?

First, don't jump to any conclusions. Last year it was reported that the UIF had amassed a R99-billion surplus. Therefore, they might be in no hurry to increase contributions until they have to. SARS seems to confirm our thinking, with the existing limits still displayed on their UIF web page at the time of writing.

Next, obey the law. Until the Minister of Finance gazettes any changes to the UIF contribution structure in accordance with the Act, it should be business as usual. Do not update your payroll software's tables or deduct higher contributions from employees because, without official notification, this could prove illegal.

SAPA will continue to pursue this matter and keep its members abreast of developments.

Photo caption: Arlene Leggat, Director at SAPA

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