20 April 2018

SECTION 13 OF THE INCOME TAX ACT 58 OF 1962

Section 13 of the Income Tax Act allows for a tax benefit on residential properties; with conditions.

This incentive allows purchasers of residential units to 'write-off' a percentage of the cost of buildings, or improvements thereof, acquired or built *after 21 October 2008* however various conditions must be met.

1. The taxpayer must own at least 5 residential units. A residential unit refers to a building or self-contained apartment, mainly used for residential accommodation with the exclusion of structures used for business purposes, for example hotels.
2. All units must be in South Africa.
3. Residential units must be new and unused. (For example, buyers of flats that had previously been occupied would not qualify for this incentive.)
4. The units must be used solely for the purpose of trade (i.e. residential letting). This prevents housing claims for personal use.

Basic explanation of the tax benefit:

A 5% depreciation is allowed under the Act for normal residential units. An even greater depreciation of 10% is permitted in the case of low cost accommodation. The Act defines low cost accommodation as a stand-alone unit to the value of up to R300 000 or an apartment to the value of up to R350 000. Furthermore, the owner may not charge a monthly rental rate in excess of 1% of the aforementioned amounts. Note: the additional 5% claim is a bonus for low-cost units and only applies if the normal 5% deduction is allowed. The allowance is claimable until the full cost of the unit is written off.

Cost on which the allowance is based:
The 'total cost' used in the calculation is considered to be the lesser of the actual cost incurred or the market value on the date at which the transaction was concluded. This limitation is in place to prevent taxpayers buying or building a unit at inflated prices from connected parties to obtain a greater tax deduction. ***Furthermore, there will be no deduction permitted if the taxpayer has previously claimed a deduction under another section of the Act.***

Where taxpayers buy the residential unit without erecting or constructing the unit, or 'acquire an improvement to a residential unit', the cost is calculated as follows:
55% of the total cost (acquisition price) where a new unit is acquired, or 30% of the acquisition price where an improvement is acquired.
Taxpayers need to remember that should they dispose of the property, any allowance previously made available will be regarded as recovered or recouped upon disposal. Also, any amount received in excess of the cost of the property will be liable to capital gains tax.

Contact Fincor Professional Accountants for an appointment to discuss this benefit in detail.

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