



MoneyTalk

How to get tax allowances for developing property

And the good news is that they've been extended.

Tax allowances to building in urban development zones have been extended. The allowance was due to expire in 2009 but is set to be extended for a further five years, as announced by Finance Minister Trevor Manuel in the [Budget](#).

How it works:

Section 13quat of the Income Tax Act, grants income tax allowances to owners and lessors of buildings situated in the so-called "urban development zones".

It was created to encourage renewal of our inner cities, the allowances are generally based on the cost of the refurbishment or construction and may be written off against taxable income over a five or a 17 year period, depending on whether the building is refurbished or a new building is constructed, respectively. Various requirements must be met before the allowance will be granted.

However, an interesting twist to the section is that a taxpayer, who purchases a qualifying building or parts of such a building from a developer, may also claim a tax write off of portion of the purchase cost of the building. The amount of the write off depends on whether the building is refurbished or new. Where the building is refurbished, the write off is 6% per annum straight-line for a total of five

years ie, a total write off of 30 % of the purchase cost of the building. Where the building is new, the write off is 11 % for the first year and 2,75% per annum straight line for the following 16 years ie, a total write off of 55% of the purchase cost of the building. Various requirements must be met before the allowance will be granted, one of which is that the developer must not also be claiming a Section 13quat allowance on the building.

This means that if a taxpayer purchasing a qualifying new apartment in such a development for the purpose of renting it out would be able to claim 11% of the cost of the apartment in the first year, in addition to the finance charges and other expenses normally allowed in the production of the rental income. This can greatly benefit the taxpayer's cash flow position. It must, however, be borne in mind that the section 13quat allowance is subject to recoupment if the building or part thereof is sold for more than its tax value.

Copied from a Moneywebs Tax Newsletter article by David Warneke a tax partner at Cameron & Prentice Chartered Accountants

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