

# CAPITAL ALLOWANCES

## COMMERCIAL

1. New and Unused building used to produce income.
2. Cost x 5%
3. Excluding REIT companies
4. Refer to section 13quin

## Residential

1. New and Unused **residential** units in RSA.
2. Taxpayers has at least 5 and cannot be a REIT company.
3. Cost x 5% + 5% if units are **low cost** (refer to sec 1 for definition).
4. Refer to section 13sex

## Buildings

1. Buildings erected, purchased (new / from a taxpayer eligible of applying section 13.
2. Used for trade
3. 5% of cost.
4. Lease assets qualifies excluding the portion on which lease improvement allowance is claimed.

## 12E

1. Small business corporations can elect 12E or 11e based on which ever is more beneficial.
2. **Must** still be a **process of manufacture**. (manufacturing assets)
3. 50% / 30% / 20% (non - manufacturing assets)
4. 100% (manufacturing assets)

## Intellectual property

1. Obtaining patents, designs or trade marks = 100% of cost.
2. Acquiring a patent, design, copyright, similar property > R5,000 then 5% per annum where a design receives an allowance of 10%.
3. Amounts < R5,000 fully deductible

## WEAR AND TEAR

1. On Moveable Assets
2. Used for purpose of trade.
3. Value / Useful life x months used
4. Deducted against income.
5. Refer to BRG7 / Interpretation note 47 for SARS useful lives assigned.

## 12B

1. Used in farming operations
2. In production of bio fuels
3. To generate electricity
4. Including improvements
5. General - 50% / 30% / 20% (Y1 / Y2 / Y3)
6. Solar = 100% of Cost
7. For YoA brought in to use for **first time**.

## 12C

1. Machinery / plant / equipment brought into use for the **first time** (new / unused)
2. Process of Manufacture
3. 40% / 20% / 20% / 20%



### LEASE IMPROVEMENTS

1. Amounts incurred which is enforced by a leasehold agreement which constitutes income for the lessor.
2. Value in agreement or  $FV / \text{Years of use (max 25)} \times \text{months used in YOA}$ .
3. Spend > Agreement - Limited to agreement
4. Spends < Agreement - Limited to amount incurred.

### WHEN

Whenever an asset has been sold for which an allowance was claimed for in the past. Remember the idea of an allowance is that the asset will be used till the end and not sold. Once sold the allowance is considered **recouped** through the selling price.

### Lease Premiums

1. premium paid in terms of a lease agreement and the asset is used in production of income.
2. Premium / years of use (max 25) x Period of use in YOA.
3. Premium = Amount paid separate / in addition to rent.

### GENERAL FORMULA

1. Determine the tax value of the asset:
  - Base Cost - prior allowances granted
2. Proceeds (limited to cost) less tax value.
3. The amount calculated is **included in income**.

### TIO

1. A scrapping allowance for assets that has been alienated / lost / destroyed.
2. Cost - (Amounts received + allowances claimed).
3. The full consideration must accrue to the taxpayer **in the YOA**
- 4.

### DEFERMENT

1. A recoupment can be deferred and recognized over the useful life of a replacement asset.
2. Rules:
  - One asset replaced with another
  - Elected par 65 or 66 of 8th schedule.
  - Proceeds must = / > base cost.

### Tips

1. You can only recoup what you **previously** claimed.
2. Always consider when an **allowance asset / trading stock** is disposed off in a capital gain transaction / donation.

### COMPROMISE OF DEBT

1. Debt benefit arises from debt owned which the creditor now writes off.
2. **Tax Expense** - Recoup Debt benefit.
3. **Trading Stock** - Reduce cost of trading stock then recoup excess.
4. **Allowance Asset** - Reduce base cost and recoup excess.