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**SOUTH AFRICAN REVENUE SERVICE**

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# **GUIDE TO THE URBAN DEVELOPMENT ZONE (UDZ) TAX INCENTIVE (Issue 4)**

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South African Revenue Service



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# Guide to the Urban Development Zone (UDZ) Tax Incentive

## Preface

This guide is a general guide about the urban development zone (UDZ) tax incentive provided for in section 13<sup>quat</sup> of the Income Tax Act 58 of 1962 (the Act). It is not meant to deal extensively with the precise technical and legal aspects associated with the incentive, but is intended merely as a general guide for potential investors.

This guide is not an “official publication” as defined in section 1 of the Tax Administration Act 28 of 2011 and accordingly does not create a practice generally prevailing under section 5 of that Act. It is also not a binding general ruling issued under section 89 of the Tax Administration Act. Should an advance tax ruling be required, visit the SARS website for details of the application procedure.

The guide, amongst others, provides –

- general guidance regarding the application and interpretation of the provisions of the Act that pertain to the UDZ tax incentive;
- an overview of the income tax consequences associated with the disposal of a building on which the tax incentive was previously allowed or the ceasing of a taxpayer to use such a building solely for the purposes of that person’s trade; and
- particulars of municipalities that have demarcated areas for purposes of the UDZ tax incentive, as well as the process of demarcation that was followed.

This guide is based on the legislation as at time of issue.

Should you require additional information in this regard you may –

- visit SARS website at [www.sars.gov.za](http://www.sars.gov.za);
- visit your nearest South African Revenue Service (SARS) branch;
- contact your own tax advisor or practitioner; or
- contact the SARS National Call Centre –
  - if calling locally, on 0800 00 7277; or
  - if calling from abroad, on +27 11 602 2093 (only between 8am and 4pm South African time).

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## Glossary

In this guide unless the context indicates otherwise –

- “**Minister**” means Minister of Finance;
- “**section**” means a section of the Act;
- “**the Act**” means the Income Tax Act 58 of 1962;
- “**UDZ**” means urban development zone;
- “**UDZ building**” means a commercial or residential building that is located within a UDZ;
- “**UDZ incentive**” means the deductible allowance provided for in section 13<sup>quat</sup> for the erection, extension, addition to or improvement of buildings or a part of the buildings, or the acquisition of a building or part of a building, in a UDZ; and
- any word or expression bears the meaning ascribed to it in the Act.

### 1. Introduction and broad overview of the UDZ incentive

In line with many countries, South Africa has a number of urban areas that are impoverished and suffering from extensive urban decay. In order to address these concerns and maintain existing infrastructure, governments internationally have increasingly used tax measures to support efforts aimed at regenerating these urban areas.

In 2003, the Minister of Finance announced a tax incentive (the UDZ incentive) in the form of an accelerated depreciation allowance under section 13<sup>quat</sup> to promote investment in 16 designated inner cities, 15 of which now have demarcated UDZs within its boundaries. The core objectives of the incentive are to address dereliction and dilapidation in South Africa’s largest cities and to promote urban renewal and development by promoting investment by the private sector in the construction or improvement of commercial and residential buildings, including low-cost housing units, situated within demarcated UDZs. The UDZ incentive also intends to encourage investment in highly populated areas, central business districts or inner city environments and areas with existing urban transport infrastructure for trains, buses or taxis.

The allowance, when claimed, reduces the taxable income of a taxpayer. Further, it is not limited to the taxable income of a taxpayer and can create an assessed loss. This deduction was originally only available until 31 March 2014 but has now been extended for a further six years until 31 March 2020. Municipalities will be given the opportunity to apply for extensions to already existing designated zones and to apply for an additional demarcated UDZ in that municipal zone. Only areas which have a specific and necessary need for an extra zone will be granted UDZ status, and will be subject to Ministerial approval.

## 2. Requirements that must be complied with in order to claim the UDZ deduction [section 13quat(2)]

Any person<sup>1</sup> will be eligible to claim the UDZ incentive if the following requirements relating to a building<sup>2</sup> or part of a building are complied with:

- Building requirement
- UDZ requirement
- Trade requirement
- Owner requirement
- Date requirement

In the event that any of the requirements are not met, a taxpayer will not be eligible to claim the UDZ incentive.

### 2.1 Building requirement

A person must have –<sup>3</sup>

- a) erected an entirely new commercial or residential building;
- b) extended, added to or improved an existing commercial or residential building or part of such a building representing a floor area of at least 1 000 m<sup>2</sup>; or
- c) purchased a building or part of a building directly from a developer<sup>4</sup> that –
  - has erected, extended, added to or improved either an entire building or a part of a building representing a floor area of at least 1 000 m<sup>2</sup>;
  - has not previously claimed any UDZ deduction on the building or part of a building; and
  - in the case of the improvement of a building or part of a building, has incurred expenditure on these improvements which is equal to at least 20% of the purchase price paid by the purchaser for the building or part of the building.

The 1 000 m<sup>2</sup> requirement accordingly only applies to cases in which a part of a building is purchased or erected, extended, added to or improved. For example, any improvements made to an existing building, such as the addition of an additional floor, must represent an area of at least 1 000 m<sup>2</sup> before the taxpayer will be entitled to the UDZ incentive on the cost

<sup>1</sup> A “person” is defined in section 1(1) of the Act to include an insolvent estate, the estate of a deceased person, any trust and any portfolio of collective investment scheme other than a portfolio of a collective investment scheme in property. A foreign partnership is excluded from the definition of “person”. The definition by implication includes a company, close corporation and natural person.

<sup>2</sup> The term “building” is not defined in the Act and it bears its normal meaning. The meaning has been considered in a number of court cases from which several general principles have emerged. Normally a building is a substantial structure, consisting of walls, a roof and the necessary accessories (appurtenances). Anything attached to the building of a permanent nature will be considered part of that building only if it is structurally integrated or otherwise permanently and physically integrated into the building in such a manner that it has lost its own separate identity and character. Fences or paving will not form part of the building.

<sup>3</sup> Section 13quat(2).

<sup>4</sup> See 4 for more information on “developers”.

of effecting the improvements. However, the 1 000 m<sup>2</sup> requirement does not have to be complied with if an entire building is purchased or erected, whether stand-alone or as a sectional title unit. This means that if the unit represents an entire building in its own right, then, despite the fact that the floor area is only 850 m<sup>2</sup>, the owner may claim the UDZ incentive provided all other requirements are met.

Moreover, section 13*quat* draws a distinction between an extension, addition and improvement. Since an “addition” and an “extension” are similar in their characteristics, dictionary definitions are useful in order to distinguish between these terms.

An “addition” is defined in the online Oxford Dictionary as –<sup>5</sup>

“the action or process of adding something to something else”.

In the context of section 13*quat*, an addition would accordingly include any development that would result in something being appended to an existing building or part which would effectively change the existing structure of such building. For example, adding additional floors or constructing a new block which attaches to an existing building might be considered to be an addition for purposes of this section.

The online Oxford Dictionary defines an “extension” as –<sup>6</sup>

“a part that is added to something to enlarge or prolong it”.

An example provided is –

“a room or rooms added to an existing building”.

Thus, it can be said that while an addition refers to those developments that are of a more substantial scale, an extension covers those erections that can be classified as structurally minor when compared to an addition. In both instances however, the exterior framework of the building is altered in comparison to the initial framework.

Further, the online Oxford Dictionary defines an “improvement” as –<sup>7</sup>

“a thing that makes something better or is better than something else”.

An improvement is accordingly something that enhances something that is already in existence. Such enhancement can take the form of adding something to an existing part of a building or by replacing an existing part. The replacement of the roof of a building or replacing the interior stairway with an escalator would, for instance, be regarded as an improvement of a building. Improvements to a building or part of the building will, for purposes of section 13*quat*, include any extension or addition to the building which is incidental to that improvement, and which preserves the existing structural or exterior framework of the building. In the event that the structure of the building is altered, this will be regarded as an addition or extension.

<sup>5</sup> [www.oxforddictionaries.com/definition/english/addition](http://www.oxforddictionaries.com/definition/english/addition) [Accessed 2 September 2014].

<sup>6</sup> [www.oxforddictionaries.com/definition/english/extension](http://www.oxforddictionaries.com/definition/english/extension) [Accessed 2 September 2014].

<sup>7</sup> [www.oxforddictionaries.com/definition/english/improvement](http://www.oxforddictionaries.com/definition/english/improvement) [Accessed 2 September 2014].

## 2.2 UDZ requirement

The building or part of the building that was constructed, extended, added to or improved, or purchased from a developer, must be located within a UDZ.<sup>8</sup> Several criteria were taken into account in the demarcation of UDZ areas to ensure that the impact of the tax incentive was maximised in the parts of the cities that were most in need of development.

Each municipality with approved demarcated zones had to prove to the Minister that –<sup>9</sup>

- the demarcated area was located within the boundaries of one of the 15 designated municipalities;
- the area had been demarcated through formal resolution by the municipality;
- the demarcated area was prioritised in the municipality's integrated development plan as a priority area for further investments to promote business or industrial activity or residential settlements to support such activity;
- the contribution from that area was undergoing a sustained real or nominal decline, whereas it previously contributed a significant portion of the aggregate revenue collections of the municipality as measured in the form of property rates or assessed property values; and
- significant fiscal measures had been implemented by the municipality to support the regeneration of that area, including the appropriation of significant funds for developing the area in the annual budget of the municipality, special tariffs for categories of residential, commercial or industrial users or partnership agreements with the business community for the promotion of urban development within that area.

The above requirements are still applicable to new applications for demarcation of UDZs made to the National Treasury. Examples and the method of submitting the proof required can be found in Regulation 219.<sup>10</sup>

The particulars of the areas that have been demarcated as UDZs were published by the Minister in the following *Government Gazettes* and are available on the National Treasury website at [www.treasury.gov.za](http://www.treasury.gov.za):

Municipality	Date of Gazette	Gazette Number	Notice Number
Buffalo City	10 December 2004	27077	1432
City of Cape Town	14 October 2004	26866	1156
City of Cape Town, Maitland	27 February 2013	36195	147
Ekurhuleni	6 June 2005	27656	535
Emalahleni	12 May 2006	28795	416
Emfuleni	10 December 2004	27077	1432

<sup>8</sup> Section 13(2)(a). See **Annexure E** for the definition of “urban development zone”.

<sup>9</sup> Section 13(6).

<sup>10</sup> GG 34113 of 11 March 2011.

Municipality	Date of Gazette	Gazette Number	Notice Number
eThekweni Metro	10 December 2004	27077	1432
Johannesburg Metro	14 October 2004	26866	1156
Mangaung	10 December 2004	27077	1432
Matjhabeng	14 July 2006	29010	669
Mbombela	10 December 2004	27077	1432
Msunduzi	6 June 2005	27656	535
Nelson Mandela Bay	6 June 2005	27656	535
Polokwane	6 June 2005	27656	535
Sol Plaatje	10 December 2004	27077	1432
Tshwane Metro	10 December 2004	27077	1432

### 2.3 Trade requirement

A taxpayer will only qualify for the UDZ incentive if the relevant commercial or residential building or part of the building that has been erected, extended, added to or improved by the taxpayer, or purchased by the taxpayer from a developer, **is situated within a UDZ and is used** by the taxpayer solely for the purposes of trade.<sup>11</sup> Further, the deduction only commences once the UDZ building has been brought into use solely for the purposes of the taxpayer's trade. A UDZ building is considered to have been brought into use when it is actually used by the taxpayer for the first time in order to conduct trading activities. Activities leading up to a taxpayer earning income will also be considered to be trading activities as long as they are conducted with the intention of earning income for that particular trade; for example, advertising an unoccupied apartment for rental purposes. However, should the apartment be used for the taxpayer's own private residential purposes while advertising the property for letting purposes, the taxpayer will only be regarded as having commenced carrying on a trade in relation to the apartment once tenants have been secured and occupation has taken place. There is no one test as to when it can be said that a taxpayer has commenced to carry on a trade and each determination will depend on the specific facts and circumstances.

The courts have interpreted the concept "trade" to be neither exhaustive nor restrictive.<sup>12</sup> It thus includes any activity in which a person risks something with the object of making a profit. For example, the letting of commercial or residential property at market prices, or the carrying on of a manufacturing concern with the objective of making a profit will constitute the carrying on of a trade.

A taxpayer that ceases to trade will no longer be able to claim the UDZ incentive on the property from the year following the year of assessment in which the trading activities cease.

<sup>11</sup> Sections 13quat(2),(3) and (3A).

<sup>12</sup> *Burgess v CIR*, 1993 (4) SA 161; 55 SATC 185 (A) at 197.

## 2.4 Owner requirement

The building or part of the building that was erected, extended, added to or improved must be owned by the person claiming the UDZ incentive. Thus, a person that leases a newly constructed building from another cannot claim the UDZ incentive for any costs incurred in extending, adding to or improving the building as the person is not the owner. There are, however, limited instances in which a lessee that erects a building or carries out improvements to an existing building owned by a qualifying party in a UDZ will be regarded as “owner” of the building or improvements and will therefore meet this requirement (see 7).

Furthermore, with regard to the purchase of a building from a “developer”, the date of commencement of ownership is regarded as being the date that the building is registered in the name of the taxpayer purchasing the building. The date on which all documents are formally and finally signed by all contracting parties must also be taken into consideration (see 2.5.1). For instance, if an agreement to purchase the building or part of the building is entered into between A and B in March 2012 but the transfer of ownership of such building only occurs in August 2012, B will only be regarded as the owner from August. In the event that improvements are made to the building by B before transfer of ownership occurs, that is, during the period March 2012 – August 2012, the costs incurred will not qualify for a deduction under section 13<sup>quat</sup>.

A lessee that erected, extended, added to or improved a building or part of a building on leased property will however be able to qualify for a UDZ incentive on that building or part of that building if the provisions of section 12N apply (see 7).

The UDZ incentive will cease upon the sale of a UDZ building and the taxpayer will no longer qualify for any allowance from the year following the year of assessment in which the building was sold. All UDZ incentive allowances that were previously deducted will then be subject to the recoupment provisions contained in section 8(4)(a). In addition, such taxpayer will be subject to taxation on any capital gain made on the disposal of the UDZ building.

A subsequent purchaser that makes any extensions additions or improvements to the newly purchased building will only be allowed to claim the UDZ incentive on the costs incurred on the extensions, additions or new improvements. The purchaser will not be allowed to claim a deduction on the costs incurred by the previous owner or on the cost incurred in acquiring the building, unless the building is acquired from a developer (see 3 for further details regarding the necessary requirements).

### Example 1 – The UDZ requirements

*Facts:*

- 1) Developer A constructed a new UDZ building for the purpose of conducting a retail business. The cost of this new construction amounted to R200 million (including the cost incurred in demolishing an existing building). Trade commenced on 1 April 2008. On 31 March 2011 Developer A sold the UDZ building to Purchaser B for R308 million.
- 2) Purchaser B added a ramp to the UDZ building and installed an environmentally-friendly waste disposal system which was completed during the 2012 year of assessment. These additions were considered to form part of the structure of the building.

Developer A and Purchaser B have February year-ends.

*Result:*

1) Between 1 April 2008 and 31 March 2011, Developer A claimed 36% of the costs incurred, that is, 20% ( $R200 \text{ million} \times 20\% = R40 \text{ million}$ ) in the first year and 8% ( $R200 \text{ million} \times 8\% = R16 \text{ million}$ ) in each of the following two years. In total, an amount of R72 million was claimed. Note that no apportionment of the deduction is required if it relates to a period less than a full year of assessment.

Upon the sale of the building for R308 million to Purchaser B, Developer A had to account for tax as follows:

	R
Selling price (proceeds)	308 000 000
Less: Recoupment included in gross income	(72 000 000)
Purchase price (base cost)	<u>(200 000 000)</u>
Capital gain	<u>36 000 000</u>

Calculation of the recouped amount

Year 1	40 000 000
Year 2	16 000 000
Year 3	<u>16 000 000</u>
	<u>72 000 000</u>

The R72 million recouped and the taxable capital gain of approximately R24 million ( $R36 \text{ million} \times 66,6\%$ ) had to be included in the taxable income of Developer A for the 2012 year of assessment.

2) Purchaser B could not claim any UDV incentive on the cost incurred by it on acquisition of the UDV building from Developer A, as Developer A had previously claimed a UDV incentive on this building<sup>13</sup>. Purchaser B was however entitled to claim the UDV incentive for the 2012 year of assessment on the cost of the additions made, that is, costs incurred in relation to the installation of the ramp and the new waste disposal system.<sup>14</sup>

## 2.5 Date requirements

### 2.5.1 Commencement date requirement

The erection, extension, addition to or improvement of the building must<sup>15</sup> have commenced:

- on or after the date on which the Minister has published the particulars of the relevant demarcated area within which the building is located in the *Gazette* (refer to **2.2**); and
- in terms of a contract formally and finally signed by all parties<sup>16</sup> on or after that date.

It is also required that the purchase agreement must have been concluded on or after 8 November 2005.

<sup>13</sup> Section 13(2)(d)(ii).

<sup>14</sup> Section 13(3)(a).

<sup>15</sup> Section 13(2)(b) and (d).

<sup>16</sup> As the requirement is that the erection, extension, addition or improvement must have commenced *“in terms of a contract formally and finally signed by all the parties thereto”* on or after the date that the UDV is demarcated, the relevant agreement must meet all the requirements of a valid contract, such as the capacity to contract. It also means that a verbal contract will not suffice. It is not required that the contract be unconditional as at the relevant date, merely that it must be a valid contract and have been signed by all the parties.

No UDZ incentive may be claimed in instances in which the erection, extension, addition to or improvement occurs before the demarcation date as these projects would in all probability have been undertaken in any event.

### **2.5.2 Trade date requirement**

The building or that part of a building must have been brought into use solely for the purposes of the taxpayer's trade on or before 31 March 2020 (see **2.3**).

#### **Example 2 – Date requirements**

*Facts:*

On 30 May 2005 Investment Company X commenced refurbishing its building in a UDZ. The particulars of the demarcation of the area were only published on 6 June 2005. The refurbishment was effected according to a contract formally and finally signed by all parties on 30 April 2005. After the completion of the refurbishment of the building, Investment Company X commenced to use the building for purposes of trade on 30 September 2005.

*Result:*

Investment Company X complied with all the requirements, except for the commencement requirement. As Investment Company X commenced refurbishing the building before the particulars of the demarcation of the area was published on 6 June 2005, it will not qualify for a UDZ incentive on the cost of the refurbishment of the building, despite the fact that part of the cost of the refurbishment was incurred after the demarcation date. The fact that the refurbishment contract was formally and finally signed before the demarcation date does not alter the conclusion that Investment Company X is not entitled to any UDZ incentive for the refurbishment, as the refurbishment commenced before the demarcation date. Had the commencement date requirement been met, Investment Company X could have claimed the UDZ incentive from the date that the building was brought into use for the purposes of Investment Company X's trade, that is, 30 September 2005.

## **3. Costs that are claimable under section 13quat**

For purposes of the UDZ deduction "cost" is defined<sup>17</sup> as –

the costs (other than borrowing or finance costs) actually incurred in erecting or extending, adding to or improving a building or part thereof and includes any costs incurred—

- (a) in demolishing any existing building or part thereof;
- (b) in excavating the land for purposes of that erection, extension, addition or improvement; and
- (c) in respect of structures or works directly adjoining the building or part so erected, extended, added to or improved, for purposes of providing—
  - (i) water, power or parking with respect to that building or part;
  - (ii) drainage or security for that building or part;
  - (iii) means of waste disposal for that building or part; or
  - (iv) access to that building or part, including the frontage thereof;

<sup>17</sup> Section 13quat(1).

The following examples will be regarded as costs incurred in erecting, extending, adding to or improving a building or part of a building for the purposes of the UDZ incentive:

- Construction work
- Architect and approval fees
- Sidewalks
- Parking for the building
- Landscaping as part of the development (including earthworks, greenery and irrigation)
- Drainage
- Security (fences, cameras and surveillance equipment)

The following examples will not be regarded as costs for purposes of the UDZ deduction:

- Purchase price of the land
- Transfer duties
- Borrowing or financing charges
- Transfer and related costs

While it is accepted that under the law of property buildings and the land upon which they are situated are considered to be a single unit, this principle does not automatically apply under the rules of taxation. In ITC 1619,<sup>18</sup> it was stated that the word “building” should be accorded its ordinary meaning and that, according to this meaning, no indication existed “*that the ground upon which the building stood formed a part of it*”. Further, that had the legislature intended otherwise, an inclusion would have been made to give effect to such intention by, for example, specifically referring to “land and buildings”. Importantly, section 13*quat* limits the UDZ incentive to the cost incurred by the taxpayer for the erection, extension, addition to or improvement of a UDZ building, which clearly does not incorporate the cost of any land.

Thus, since there is an absence of the word “land” in section 13*quat*, the costs incurred by the taxpayer that are considered to be “cost” as defined for purposes of section 13*quat* will be confined to those **costs incurred in relation to the erection, extension, addition or improvement of the building only**.

In the case of a purchase of a building or part of a building from a developer, the actual cost will be the price paid for the building itself (see 5). Consequently, in the event that the costs incurred by a taxpayer in acquiring an existing building from a developer is an inclusive amount for both the building and the land, an apportionment has to be made before a section 13*quat* deduction can be claimed on the amount in question.

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<sup>18</sup> 59 SATC 309 at 314 and 315.

#### 4. The position of a developer in the context of section 13*quat*

A “developer” is defined<sup>19</sup> as –

- a person who erects, extends, adds to or improves a building or part of a building—
  - (a) with the purpose of disposing of that building or part thereof immediately after completion of that erection, extension, addition or improvement; and
  - (b) disposes of the building or part of a building within three years after completion of that erection, extension, addition or improvement;

Usually in relation to the development of a new building or improvement of an existing property, a developer generally seeks to immediately sell the property at a profit in order to recover the costs of erecting or improving the building. However, an immediate sale is not always a possibility. Thus, a developer may be compelled into retaining the property and using it for the purposes of its trade until such time as a contract of sale can be concluded.

Under the previous definition of “developer”, for a purchaser to be allowed to claim a section 13*quat* allowance on the cost of a building acquired from a developer, it was required that the building that was constructed or improved had to be disposed of immediately after completion and that it must not have been used in any other manner. These requirements prevented the developer from using it or leasing out its property since using the property as such purpose would have disqualified the purchaser from claiming the UDZ deduction.

As a result of developers being compelled into retaining the developed property and purchasers being prevented from claiming the UDZ incentive on previously leased property by developers, the definition of “developer” as provided under section 13*quat* was amended to make provision for the three year use or rental rule. According to the amended definition, a developer may temporarily use or rent out property that was constructed or improved by it for a period of three years. This rule is applicable from 10 January 2012 and relates to contracts of sale concluded on or after this date. The old definition of “developer” will apply to a contract of sale that is concluded before 10 January 2012 and no deduction will be allowed to the purchaser of the property that was previously used or leased by the developer.

Under the new definition, a purchaser is able to claim a UDZ incentive provided the developer did not claim any section 13*quat* allowance on the cost of the building or part of the building within the usage or rental period. Further, the developer must have constructed the building with the purpose of immediately disposing of it, despite the fact that it may only be disposed of within three years after completion. If the developer does not intend to immediately dispose of the UDZ building after completion, for example, the developer intends to hold on to the property indefinitely but then subsequently decides to dispose of the UDZ building (without having claimed the UDZ incentive), the developer will not be a “developer” as defined and the purchaser will not be entitled to claim the UDZ incentive as the purchaser would not have acquired the UDZ building from a “developer” as defined.

In the event that the developer had used or rented the property for longer than three years after completion, the subsequent purchaser may not claim the UDZ incentive under section 13*quat* (even if the developer did not claim a deduction) as the developer will no longer constitute a “developer” as defined. Generally when a property is located within a UDZ, a section 13*quat* allowance is available to the owner of the property; in this case a

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<sup>19</sup> Section 13*quat*(1).

developer. The deduction will therefore also be available to such a developer in its capacity as an owner, even if the property is used for the purposes of trade or rented out for a period longer than three years after completion of the erection, extension, addition or improvement to the UDZ building.

In the event that neither the developer nor the first purchaser claims the deduction, the next purchaser will not be able to claim the deduction since the property is now being purchased from an owner and not directly from a developer. For this latter purchaser to claim a UDZ deduction, further qualifying work (extension, addition or improvement) must be carried out on the property by such purchaser.

### **Example 3 – The UDZ incentive when claimed by a developer**

#### *Facts:*

Developer X demolished an old building which is located on privately-owned land and erects a new block of flats consisting of 50 units. Erection of the building is completed on 31 March 2009. The building is situated within a UDZ and construction commenced after the publication of the particulars of the demarcation of the area.

- a) After completion, Developer X sold 40 units and concluded lease contracts with tenants for the remaining units. All sale contracts were concluded on 1 April 2009. Some of the purchasers use the units for private residential purposes while others use the units solely for the purposes of their trade.
- b) One-year lease agreements were concluded for units 41, 42, 43 and 44. No UDZ deductions were claimed on these units by Developer X and the units were sold immediately at the end of the lease agreements, that is, 31 March 2010.
- c) Five-year lease agreements were concluded for units 45, 46, 47 48 and 49. Developer X chose to claim the UDZ deduction on these units. On the expiry of the lease agreements, Developer X will sell the units to various purchasers particularly Purchaser Y and Purchaser Z. Purchaser Y, who will be using the property solely for purposes of a fashion design business, will make certain additions to the unit. Purchaser Z will also make certain necessary improvements to the unit in order to aid an elderly mother but will not be using such unit for purposes of trade.
- d) Unit 50 was retained by Developer X for private purposes.

#### *Result:*

- a) The purchasers that acquired their units immediately from Developer X for the purpose of carrying on a trade were entitled to claim the UDZ incentive as they would have acquired the units from a “developer”.
- b) The purchasers of these units did not qualify for the UDZ incentive as the developer did not immediately dispose of the units after completion, but first rented the units out. The developer accordingly did not meet the definition of “developer” applicable at that time (before 10 January 2012). This is irrespective of the fact that the developer did not claim any deduction under section 13<sup>quat</sup> on the units.

Should the rental contract have been entered into on 1 April 2011 and the property disposed of on 31 March 2012, the developer would have met the requirements of the definition applicable from 10 January 2012 as the disposal of the units would have taken place within three years from completion. Additionally, the requirement that no section 13*quat* allowance should have been claimed by the developer would also have been met. Thus, the deemed costs rule would apply (see 5).

c) As the units were acquired by the purchasers on 31 March 2014 and Developer X would have rented out the units for more than three years, Developer X was not regarded as a “developer” as defined under section 13*quat*, but as the owner. Consequently, the purchasers would not have qualified for a section 13*quat* allowance on these units as it was not acquired from a “developer” as defined.

Purchaser Y could claim a UDZ incentive on the costs incurred on the new additions as the unit would be used for trade purposes. Purchaser Z would be using the unit for private purposes (that is, not for purposes of trade), and therefore no deduction under section 13*quat* could be claimed on the improvements made by Purchaser Z.

d) Developer X could not claim any UDZ incentive on unit 50 since the trade requirement has not been complied with.

Developer X would have qualified for the UDZ incentive on the demolition costs as well as the development costs incurred on the units that are let to the tenants since a rental trade would have been conducted.

## 5. Purchases from developers and deemed costs [section 13*quat*(3B)]

A taxpayer may claim a UDZ incentive on the “purchase price” paid to a developer for the acquisition of a UDZ building or part of a UDZ building from a “developer” as defined. Under section 13*quat*(1), “purchase price” in relation to any building or part of the building that is purchased by a taxpayer from a developer means the **lesser of** –

- (a) the actual cost to the taxpayer to purchase that building or part; or
- (b) the cost which a person would have incurred had that person purchased that building or part under a cash transaction concluded at arm’s length on the date on which that taxpayer purchased that building or part;

In the event of a purchase of a building or part of a building from a developer –

- 55% of the purchase price of that building or part of a building, in the case of a new building erected, extended or added to by the developer; and
- 30% of the purchase price of that building or part of a building, in the case of a building improved by the developer,

will be deemed to be costs incurred by the person for the erection, extension, addition to or improvement of the building or part of the building.

These “deemed costs” will be regarded as costs for purposes of the UDZ incentive and no further adjustments will have to be made in this regard. The purchaser of a building or part of a building will thus qualify for a UDZ incentive on the “deemed costs” pertaining to such a building or part of a building.

#### **Example 4 – Deemed costs upon the part-purchase of a building from a developer**

##### *Facts:*

Investor X purchased a new sectional title unit in a security complex from a developer on 2 January 2011 and immediately after purchase brought it into use for purposes of trade. The purchase price amounted to R1,2 million and consisted of the costs pertaining to the land and the building.

##### *Result:*

55% of the purchase price was deemed to be costs incurred by the investor for purposes of the determination of the UDVZ incentive. Provided all the other requirements were complied with, the investor was, therefore, able to claim the UDVZ deduction on 55% of R1,2 million less the cost of the land. As mentioned under 3, in the event that the costs incurred related to both the building and the land, an apportionment had to be made to determine the portion attributable to the building only.

## **6. Amounts that will be allowed as deductions**

Depending on the type of development involved, that is, new, improved or low-cost, the UDVZ incentive allowance is calculated at a different rate. Furthermore, in the process of claiming the UDVZ incentive, no apportionment is necessary if the period to which the deduction relates is less than a full year of assessment.

### **6.1 The erection of a new building or the extension of or addition to any building [section 13(3)(a)]**

The UDVZ incentive will be calculated as follows in the event of a new construction, extension or addition:

- An amount equal to 20% of the cost pertaining to the **erection or extension of or addition to**, the UDVZ building in the *year of assessment during which the building or part of the building is brought into use by the taxpayer* solely for the purposes of that person's trade. In the event that land is purchased on which a building is erected, the UDVZ incentive is only determined on the cost of the erection (excluding the cost of the land). Importantly, the allowance can only be claimed from the year of assessment in which the building or part of the building is brought into use by the taxpayer, not the year of assessment in which the expenditure is incurred or when the building or part of the building is complete.
- An amount equal to 8% of the cost in each of the 10 succeeding years of assessment.

#### **Example 5 – Costs claimable on a new construction**

##### *Facts:*

Investor X constructed a new commercial building within a UDVZ in order to conduct a retail business after having purchased vacant land for R5 million. The cost of the new construction amounted to R100 million. The commercial building was erected in 2011, but only brought into use for the purposes of Investor X's trade in 2013.

*Result:*

Provided all other requirements were complied with, Investor X would have been able to claim 20% of the construction costs in the 2013 year of assessment (that is, R100 million  $\times$  20% = R20 million) when the building was brought into use for purposes of Investor X's trade. Investor X could, after having brought the building into use for purposes of trade, have claimed 8% of the R100 million for each of the next 10 years of assessment (that is, R8 million a year over the next 10 years). The R5 million relating to the purchase price of the land will be disregarded for the purposes of calculating the UDZ incentive. Had Investor X failed to commence claiming the allowance in the 2013 year of assessment, it may request that SARS issue a reduced assessment for the years of assessment in which the allowances should properly have been claimed, provided of course that the applicable prescription periods<sup>20</sup> have not expired.

**Example 6 – Purchase of a new building from a developer**

*Facts:*

Investor X purchased a new commercial building directly from a developer in order to conduct a retail business. The cost of the commercial building including the land cost amounted to R100 million. The contract between the developer and Investor X did not specify the cost of the land separately (compare Example 4).

*Result:*

Investor X purchased the building from a developer. In this instance the costs incurred by Investor X are deemed to be 55% of the total purchase price paid by Investor X (see 5.). Investor X will need to apportion the purchase price of the building between the cost of the land and the cost of the building. The method of apportionment adopted must be fair and reasonable. Assuming the purchase price of R100 million is correctly apportioned as to R80 million for the building and R20 million for the land, and provided all other requirements are complied with, Investor X will be able to claim a total amount of R44 million (R80 million  $\times$  55%) over 11 years. Investor X will be able to claim 20% of the "deemed" construction costs in the first year of assessment (R44 million  $\times$  20% = R8,8 million) when the building is brought into use for purposes of trade. Thereafter, Investor X can claim 8% of the "deemed costs" for each of the next 10 years of assessment (R44 million  $\times$  8% = R3,52 million a year over the next 10 years).

## **6.2 Improvements to an existing building or part of a building** [section 13quat(3)(b)]

The UDZ incentive will be calculated as follows in the case of an improvement to an existing building or part of a building which preserves the existing structural or exterior framework:

- An amount equal to 20% of the cost pertaining to the **improvement** of the *building in the year of assessment during which the part of the building so improved is brought into use* by the taxpayer solely for the purposes of trade. No apportionment is required in case the building is brought into use during the year of assessment.
- An amount equal to 20% of the cost in each of the four succeeding years of assessment.

<sup>20</sup> See section 99 of the Tax Administration Act, 2011.

Improvements to a building or part of the building will include any extension or addition to the building which is incidental to that improvement, and which preserves the existing structural or exterior framework of the building. In the event that the structure of the building is altered, this will be regarded as a new erection, addition or extension. In such cases, a deduction may be allowed in accordance with the rates mentioned in **6.1**.

#### **Example 7 – Improvement costs**

##### *Facts:*

The owner of a 3-storey commercial building located within the boundary of a UDZ decided to install an escalator in the building. The cost pertaining to the installation of the escalator amounted to R20 000. In order to be able to install the escalator, a part of the building's roof had to be extended by half a metre. The cost pertaining to the extension amounted to R6 000.

##### *Result:*

The owner will be able to claim the cost pertaining to the installation of the escalator in equal instalments over five years (that is,  $R20\ 000 \times 20\% = R4\ 000$  a year over a 5-year period) commencing in the year of assessment when the escalator is brought into use for purposes of the owner's trade. The owner will also qualify for a UDZ deduction over five years on the costs pertaining to the extension of the building, as the extension is incidental to that improvement ( $R6\ 000 \times 20\% = R1\ 200$  a year). Total deductions per year will therefore amount to R5 200 ( $R4\ 000 + R1\ 200$ ).

### **6.3 The erection of a new building or the extension of or addition to any building to the extent that it relates to a low-cost residential unit [section 13quat(3A)(a)]**

A “low-cost residential unit” is defined<sup>21</sup> as –

- (a) an apartment qualifying as a residential unit in a building located within the Republic, where—
  - (i) the cost of the apartment does not exceed R350 000; and
  - (ii) the owner of the apartment does not charge a monthly rental in respect of that apartment that exceeds one per cent of the cost; or
- (b) a building qualifying as a residential unit located within the Republic, where—
  - (i) the cost of the building does not exceed R300 000; and
  - (ii) the owner of the building does not charge a monthly rental in respect of that building that exceeds one per cent of the cost contemplated in subparagraph (i) plus a proportionate share of the cost of the land and the bulk infrastructure:

Provided that for the purposes of paragraphs (a)(ii) and (b)(ii), the cost is deemed to be increased by 10 per cent in each year succeeding the year in which the apartment or building is first brought into use;

The UDZ incentive for low-cost residential units is determined on the following basis:

- An amount equal to 25% of the cost pertaining to the **erection or extension of or addition** to a low-cost residential unit *in the year of assessment during which the unit so erected, extended or added to is brought into use by the taxpayer*.

<sup>21</sup> Section 1(1).

- An amount equal to 13% of that cost in each of the five succeeding years of assessment.
- An amount equal to 10% of that cost in the seventh year of assessment.

#### **6.4 Improvements to an existing building or part of a building, to the extent that it relates to a low-cost residential unit [section 13quat(3A)(b)]**

The UDZ incentive for **improvements** to low-cost residential units is determined on the following basis:

- An amount equal to 25% of the cost pertaining to the *improvement* of the low-cost residential unit *in the year of assessment during which the part of the unit so improved is brought into use* by the taxpayer.
- An amount equal to 25% of that cost in each of the three succeeding years of assessment.

#### **Example 8 – Claiming the deduction on low-cost residential units located within a UDZ boundary**

##### *Facts:*

Taxpayer A owns four residential units which are used for purposes of Taxpayer A's rental trade. All these units are located within a UDZ. The costs and rental income associated with these units are as follows:

- Unit A: new unit erected by Taxpayer A, total costs exceed R350 000, rent – R2 300 per month.
- Unit B: new unit erected by Taxpayer A, total costs – R230 000, rent – R2 100 per month.
- Unit C: purchase of an existing unit by Taxpayer A, acquisition cost – R140 000. Improvements made to Unit C are equal to R45 000. Rent – R1 300 per month.

##### *Result:*

Based on the above facts, Taxpayer A qualifies for a UDZ incentive on all the units within the UDZ. However, Taxpayer A will have to claim the deduction at different rates, as illustrated below:

##### *Unit A*

This unit does not qualify as a low-cost residential unit as the cost exceeds the prescribed limit of R350 000. Thus, the more advantageous rates pertaining to low-cost residential units will not apply. Taxpayer A will however be able to claim a UDZ incentive under section 13quat(3)(a) on the unit, namely, 20% of the cost in the first year of assessment (that is, R50 000) and 8% (that is, R20 000) of the cost in the succeeding 10 years of assessment.

#### *Unit B*

This unit qualifies as a low-cost residential unit as the cost does not exceed R350 000 and the rental charged does not exceed 1% of the cost ( $R230\ 000 \times 1\% = R2\ 100$ ). Taxpayer A will be able to claim 25% of the cost of the unit in the first year of assessment (that is, R57 500) when the building is brought into use. Thereafter, Taxpayer A can claim 13% of the cost for each of the next 5 succeeding years of assessment (that is, R29 900 a year for the next 5 years) and 10% of the cost in the 7<sup>th</sup> year of assessment (that is, R23 000).

#### *Unit C*

This unit qualifies as a low-cost residential unit as the costs do not exceed R350 000 and the rental charged does not exceed 1% of the cost ( $R140\ 000 \times 1\% = R1300$ ). Taxpayer A will be able to claim 25% of the improvement costs in the year of assessment that the unit is brought into use (that is,  $R45\ 000 \times 25\% = R11\ 250$ ). Thereafter, Taxpayer A can claim 25% of the costs for the next 3 succeeding years of assessment (that is, R11 250 a year for the next 3 years of assessment). In the event that the rent amounts to more than 1% of the cost, the unit will not be considered as a low-cost residential unit and thus the rates under section 13*quat*(3)(b) will apply.<sup>22</sup>

## **7. Construction of and improvements to buildings located on qualifying third party-owned land**

The leasing of government owned land or buildings is often a necessary consideration as the three spheres of government sometimes lack the funds to undertake the essential improvements required to keep the property in a suitable condition. In an attempt at upgrading infrastructure as well as retaining ownership, the property is thus leased to the public that then effect improvements on the buildings. A similar situation may arise where the land-owner is an exempt entity.

In the event that the land or buildings fall within a UDZ, a section 13*quat* allowance would only have been available to the taxpayer carrying out the improvements *if the taxpayer was the owner of the property* (and all the other requirements of this section are complied with). However, in the event that the property is owned by a third party the “owner requirement” (see **2.4**) of section 13*quat*(2) prevents the lessee from deducting the costs incurred on the improvements effected.

As a result of the introduction of section 12N,<sup>23</sup> depreciation rules now apply to lessees that hold rights of use or occupation of government-owned property, property owned by certain specified exempt entities or property owned by parties to a Public Private Partnership or Independent Power Producer Procurement Programme. Under this section, lessees that make improvements to property owned by qualifying third parties are deemed to be the owners of the property. Consequently, these lessees will be eligible for the specific depreciation allowances provided for under applicable provisions of the Act (including section 13*quat*) as if such lessees owned the property directly, provided the requirements of section 12N are met and the lessees are not specifically excluded by section 12N(3)<sup>24</sup> (for example, the lessee is a person carrying on banking, financial services or insurance business).

<sup>22</sup> See **6.2**.

<sup>23</sup> See **Annexure F**.

<sup>24</sup> See **Annexure F** for all requirements that must be complied with as well as all exclusions.

Importantly, while it is not a requirement of section 12N that the taxpayer must be *obliged* under the relevant contractual arrangement to effect the improvements, it is evident that as the improvements must be effected **in terms of** a Public Private Partnership; an agreement with the relevant sphere of government or exempt entity; or Independent Power Producer Procurement Programme, the improvements must be mandated by the relevant contractual arrangement. This means in effect that if the taxpayer is not mandated under the relevant contractual arrangement to effect the improvements, but nevertheless voluntarily decides to effect the improvements, the taxpayer would not fall within the ambit of section 12N.

In the context of section 13*quat*, this means that a lessee that effects improvements to a UDZ building that is owned by a party contemplated in section 12N, will, as the deemed owner, be able to claim a section 13*quat* allowance on the costs incurred, provided all the requirements of both sections are met.

In the event that a taxpayer completes an improvement on property owned by a qualifying third party, the expenditure incurred by taxpayer is deemed to be the cost of the erection, extension, addition or improvement for purposes of section 13*quat*(2).<sup>25</sup>

#### **Example 9 – Improvements on a government owned building and new erections on government owned land**

##### *Facts:*

- 1) In 2011, Investor Q entered into a lease agreement with a municipality for a municipality-owned building situated within a UDZ was leased to Investor Q for a period of 10 years in order for Investor Q to conduct business-related activities. According to the terms of the lease agreement Investor Q was entitled, but not obliged, to make improvements to the building at own cost. Investor Q decided to effect improvements to the municipality-owned property for an amount of R200 000. This building is located within a UDZ.
- 2) Under a Public Private Partnership contract, Bank A acquired the use of state-owned land located within a UDZ for a predetermined period. Bank A then erected an office block on the land with the intention of using it for its banking business.
- 3) Investor Z entered into an agreement with a provincial government in which Investor Z undertook to erect a multi-purpose building in a UDZ for the use of the public for a minimum value of R20 million. Investor Z will be entitled to 90% of the rentals paid by the public for the use of the building for a period of 10 years. However, due to cost escalations the building cost R22 million on completion.

##### *Result:*

- 1) Under section 13*quat*, in order for Investor Q to have claimed a UDZ incentive, Investor Q had to first meet all the requirements of the section, particularly that the taxpayer claiming the deduction had to be the owner of the building. From the facts of the case, it is clear that the municipality was the owner of the building and not Investor Q. In normal circumstances, the failure to meet this requirement would immediately disqualify Investor Q from claiming the UDZ incentive. However, due to the provisions of section 12N, Investor Q would have been deemed to be the owner of the building, provided all the requirements of section 12N were met. As such, Investor Quinton would have been able to claim a deduction of 20% a year for a total of five years on the R200 000.

<sup>25</sup> Section 13*quat*(2A).

2) Although section 12N deems Bank A to have been the owner of the land, such section does not apply to a taxpayer carrying on any banking, financial services or insurance business. Thus, Bank A would not have been able to claim a section 13*quat* allowance since the deeming provisions of section 12N would not have applied to Bank A.

3) Although Investor Z was obliged to erect a building for R20 million, as the actual cost to Investor Z was R22 million, Investor Z was entitled to claim the section 13*quat* allowance on R22 million.

## **8. Qualification for other deductions on a UDZ building**

The UDZ incentive has been introduced in the form of an accelerated depreciation allowance and does not constitute an additional tax allowance. A taxpayer that claimed a UDZ deduction on a building or part of a building may not claim any other deductions on that building or part of the building.

## **9. Necessary documentation**

Section 13*quat*(4) makes it necessary for the person claiming the deduction to be in possession of certain documentation. As a result of the introduction of the e-Filing system, it is no longer necessary for the mentioned documentation to be submitted with the relevant return of income in which the UDZ deduction is claimed. However, the documentation must be retained for audit purposes for a period of five years.<sup>26</sup> A UDZ allowance which has been claimed as a deduction will be added back in the taxpayer's taxable income should the relevant supporting documentation not be provided upon request.

### **9.1 Documentation in relation to new or improved buildings or purchases from developers**

A UDZ 1 form must be completed for each building or part of a building for which a UDZ deduction is claimed by the taxpayer that erected, extended, added to or improved a building or part of a building. This form is not required in the case of the purchase being a developer.

A UDZ 2 form must be completed for a purchase of a building or part of a building from a developer.

A UDZ 3 certificate is a certificate confirming the particulars mentioned in **2.1**. This certificate must accompany the UDZ 2 form. The purchase price that must be inserted in the UDZ 3 certificate must align with the definition of "purchase price" as provided for under section 13*quat*(1). In the event that the building was improved, the cost of improvements must be equal to at least 20% of the purchase price paid by the taxpayer for the building or part of the building [section 13*quat*(2)(d)(iii)]. Therefore, the cost must be based on the "purchase price" as defined.

The onus is on the person claiming the UDZ incentive to ensure that the information on the UDZ 3 certificate is correct. In the event that the Commissioner has reason to believe that the information provided in the UDZ 3 certificate by the developer is not correct, the Commissioner must disallow the UDZ incentive claimed by the person on the building or part of the building purchased from the developer, unless sufficient information is provided to the Commissioner to prove that the information contained in that certificate is correct.

<sup>26</sup> Section 29 of the Tax Administration Act.

A UDZ 4 form must be completed by developers for each building which is likely to exceed R5 million (see **10.3**). This form must be submitted to **udz4@sars.gov.za**.

All the above forms are available on the SARS website at **www.sars.gov.za**.

## **9.2 Documentation that must be obtained from the municipality**

Taxpayers must obtain a location certificate, issued by the municipality, confirming that the building or part of a building that was constructed, improved or purchased from a developer is located within a UDZ within the boundaries of that municipality.

With effect from 21 October 2008, it is no longer a pre-requisite for a certificate of occupancy to be issued by the municipality. This means that all erections, extensions, additions or improvements that commenced or purchases that took place on or after that date do not require an occupancy certificate. However, if one can be provided it should be retained by the developer for future purposes. A certificate has to be retained for those constructions, improvements and purchases that took place before 21 October 2008.

# **10. Reporting requirements**

The Act requires the Commissioner, municipalities and developers to report regularly on specific aspects relating to the UDZ incentive.

## **10.1 By municipalities [section 13~~quat~~(9)]**

Any municipality that has demarcated an area within its boundaries has to provide an annual report to the Minister and the Commissioner with regard to the UDZ incentive granted. In order to enable a municipality to provide this information annually, it will be required from any person that applies for a location certificate at a municipality to provide certain information to that municipality.

The following information has to be provided by the municipalities to the Minister and the Commissioner on an annual basis:<sup>27</sup>

*a) Reporting requirements for buildings in UDZs:*

- i) On certificates confirming that a building is located within a demarcated UDZ –
  - the name of every person to which the municipality issued such a certificate;
  - the total number of certificates issued to taxpayers by the respective municipality; and
  - the extent to which a building for which a certificate was issued is used for commercial purposes, residential purposes, low-cost residential units or industrial purposes.
- ii) On building plans to erect, extend, add to or improve a building or part of a building in each UDZ within a municipality –
  - the number of building plans approved; and
  - the estimated total cost of the erections, extensions, additions or improvements for which such plans were approved.

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<sup>27</sup> Regulation 219 of GG 34113 of 11 March 2011.

*b) Reporting requirements for the regeneration of UDZs:*

Every municipality must report on the significant fiscal measures that have been implemented by the municipality to support regeneration of each UDZ with such municipality, including –

- the appropriation of significant funds for developing the area in the annual budget of the municipality;
- any other fiscal measures for such development; and
- any non-monetary measures implemented in order to stimulate the regeneration of each zone within the municipality.

This information must be provided for each financial year of a municipality ending –

- on or before 30 June, or by 28 September of that particular financial year, in other words, within three months after the end of such financial year;

The above dates are published annually in the *Gazette* by the Minister and can be found on the National Treasury website. Further, all information provided must correspond with Form A that is annexed to Regulation 219 (see footnote 10).

In the event that a municipality –

- fails to provide such an annual report to the Minister and to the Commissioner; and
- corrective steps are not taken by that municipality within a period specified by the Minister,

the Minister may withdraw the notice in which the particulars of an area demarcated by a municipality were published in the *Gazette*.

The effect of such a withdrawal will be that the area that was demarcated by the municipality will no longer constitute a UDZ and a taxpayer will, therefore, not be able to qualify for a UDZ deduction for any building that was constructed or improved within that area. However, a withdrawal will not take place if the municipality takes corrective steps (that is, submit the annual report or withdraw the incorrect location certificates) within a period specified by the Minister.

## **10.2 By developers [section 13~~quat~~(10A)]**

In addition to the certificate discussed in **9.1**, any developer that erects, extends, adds to or improves a building within an UDZ of which the estimated cost of the erection, extension, addition or improvement is likely to exceed R5 million must –

- inform the Commissioner within 30 days after the commencement of that erection, addition or improvement of the estimated costs of the erection, extension, addition or improvements to the building or part(s) of the building which the developer intends to sell and the estimated selling price of the building or those parts; and
- inform the Commissioner within 30 days after the sale of the building or all anticipated sales of any parts of the building have been concluded of the actual costs incurred on that building or parts of that building and the actual selling price of that building or parts of the building.

### **10.3 By the Commissioner [section 13quat(11)]**

The Commissioner must submit an annual report to the Minister relating to the –

- number of taxpayers that have claimed a UDZ incentive during a specific year;
- total amount of the deductions by taxpayers allowed; and
- total amount of costs which are or will be allowed as a deduction under section 13quat.

## **11. Objections to the disallowance of a UDZ deduction**

A person that claimed a UDZ deduction and is not satisfied with an assessment issued, for example, when an adjustment has been made by the Commissioner to the UDZ incentive claimed in the person's return of income, may object to such an assessment.

The objection must –

- be in the prescribed NOO (Notice of Objection) form;
- state the grounds on which the objection is lodged; and
- reach the Commissioner within a period of 30 business days after the date of the assessment.

Further information regarding the objection and appeal procedure is set out in the *Guide on Tax Dispute Resolution* and is available on the SARS website [www.sars.gov.za](http://www.sars.gov.za).

## **12. SARS officials assisting with the UDZ incentive**

<b>SARS office</b>	<b>Contact person</b>	<b>Telephone number</b>	<b>Email address</b>
East London	Zim Hoza	(043) 7065400	zhoza@sars.gov.za
Cape Town	Andile Tetyana	(021) 4138863	atetyana@sars.gov.za
Vereeniging	Molefi Libaze Susana Ranake	(073) 6457673 (016) 4555308	mlibaze@sars.gov.za sranake@sars.gov.za
Kimberley	Pia Atsma	(053) 8026064	patsma@sars.gov.za
Durban	Prudence Shabalala Yvonne Nel	(031) 3337925 (031) 5383729	Pshabalala1@sars.gov.za ynel@sars.gov.za
Bloemfontein	Jaco de Jager	(051) 5013173	jdejager2@sars.gov.za
Welkom	Francie Kellerman	(057) 9101346	fkellerman@sars.gov.za
Nelspruit	Lorraine de Beer	(013) 7594363	ldebeer@sars.gov.za
East Rand	Phumeza Vumazonke Frik Pretorius	(011) 8625616 (011) 8625610	pvumazonke@sars.gov.za fpretorius@sars.gov.za

## 13. Conclusion

In summary:

- Section 13*quat* provides an accelerated depreciation allowance on the cost of the erection, extension, addition or improvement of any commercial or residential building or a part of a building.
- There are a number of requirements that must be met before the allowance is granted.
- A taxpayer that purchases a building or part of a building directly from a developer will be able to claim a UDZ incentive provided the developer did not claim any section 13*quat* allowance on the cost of the building or part of the building within the usage or rental period. In a situation in which the developer had used or rented the property for longer than three years after completion, the subsequent purchaser may not claim the UDZ incentive (even if the developer did not claim a deduction) as the developer will no longer constitute a “developer” as defined.
- In the event of a purchase of a building or part of a building from a developer –
  - 55% of the purchase price of that building or part of a building, in the case of a new building erected, extended or added to by the developer; and
  - 30% of the purchase price of that building or part of a building, in the case of a building improved by the developer,

will be deemed to be costs incurred by the person for the erection, extension, addition to or improvement of the building or part of the building.

- Depending on the type of development involved, that is, new, improved or low-cost, the UDZ incentive allowance is calculated at a different rate.
- A lessee that effects improvements to a UDZ building that is owned by a party contemplated in section 12N, will, as the deemed owner, be able to claim a section 13*quat* allowance on the costs incurred in erecting, adding to, extending or improving such building.
- Taxpayers claiming the UDZ incentive must be in possession of the necessary UDZ forms, a location certificate and, if applicable, a certificate of occupation.
- Attention must be paid to all the reporting requirements provided under section 13*quat*.

## Annexure A – UDZ 1

		INCOME TAX	UDZ 1																		
<b>Deduction claimed in terms of section 13<sup>quat</sup>:</b> <b>Erection or extension of or addition to or improvement of a building/part of a building within an Urban Development Zone</b>																					
<p><b>Notes:</b></p> <ol style="list-style-type: none"> <li>1. This form must be completed in respect of the erection or extension of, addition to or improvement of any building/part of a building in respect of which a deduction is claimed in terms of section 13<sup>quat</sup> of the Income Tax Act, 1962. It should, however, not be completed in respect of the purchase of a building/part of a building in respect of which a deduction is claimed in terms of this section of the Act. A UDZ2 form must be completed in this regard.</li> <li>2. This form must, together with the following documentation, be retained for audit purposes and must not be submitted with the relevant return of income on which the UDZ allowance is claimed:             <ul style="list-style-type: none"> <li>- A location certificate obtained from the relevant municipality;</li> <li>- A certificate of occupancy obtained from the relevant municipality.</li> </ul>             No UDZ allowance would be allowed if this documentation cannot be provided to the Commissioner of SARS.         </li> </ol>																					
<p><b>Particulars of taxpayer</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Name</td> <td style="width: 60%;"></td> <td style="width: 20%; text-align: right;">Year of assessment</td> </tr> <tr> <td>Income tax reference no.</td> <td style="text-align: center;">[REDACTED]</td> <td style="text-align: right;">[REDACTED]</td> </tr> </table>				Name		Year of assessment	Income tax reference no.	[REDACTED]	[REDACTED]												
Name		Year of assessment																			
Income tax reference no.	[REDACTED]	[REDACTED]																			
<p><b>Particulars of building/part of building</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Number of location certificate issued by municipality</td> <td style="width: 80%; text-align: right;">[REDACTED]</td> </tr> <tr> <td>Relevant municipality in which boundaries building is located</td> <td style="text-align: right;">[REDACTED]</td> </tr> <tr> <td>Total cost of:</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>(a) Erection, extension or addition to building/part of building</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>(b) Improvement of building/part of building</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>Has a certificate of occupancy been issued by the municipality in respect of this building/part of the building?</td> <td style="text-align: right; vertical-align: bottom;"> <input type="checkbox"/> YES      <input type="checkbox"/> NO         </td> </tr> <tr> <td>Date when you became the owner of the building/part of the building</td> <td style="text-align: right;">[REDACTED]</td> </tr> <tr> <td>Date of commencement of erection, extension, addition to or improvement of building/part of building</td> <td style="text-align: right;">[REDACTED]</td> </tr> <tr> <td>Date when contract pertaining to erection, extension, addition to or improvement of building/part of building was formally and finally signed by all parties</td> <td style="text-align: right;">[REDACTED]</td> </tr> </table>				Number of location certificate issued by municipality	[REDACTED]	Relevant municipality in which boundaries building is located	[REDACTED]	Total cost of:	R [REDACTED]	(a) Erection, extension or addition to building/part of building	R [REDACTED]	(b) Improvement of building/part of building	R [REDACTED]	Has a certificate of occupancy been issued by the municipality in respect of this building/part of the building?	<input type="checkbox"/> YES <input type="checkbox"/> NO	Date when you became the owner of the building/part of the building	[REDACTED]	Date of commencement of erection, extension, addition to or improvement of building/part of building	[REDACTED]	Date when contract pertaining to erection, extension, addition to or improvement of building/part of building was formally and finally signed by all parties	[REDACTED]
Number of location certificate issued by municipality	[REDACTED]																				
Relevant municipality in which boundaries building is located	[REDACTED]																				
Total cost of:	R [REDACTED]																				
(a) Erection, extension or addition to building/part of building	R [REDACTED]																				
(b) Improvement of building/part of building	R [REDACTED]																				
Has a certificate of occupancy been issued by the municipality in respect of this building/part of the building?	<input type="checkbox"/> YES <input type="checkbox"/> NO																				
Date when you became the owner of the building/part of the building	[REDACTED]																				
Date of commencement of erection, extension, addition to or improvement of building/part of building	[REDACTED]																				
Date when contract pertaining to erection, extension, addition to or improvement of building/part of building was formally and finally signed by all parties	[REDACTED]																				
<p><b>Particulars relating to deduction claimed</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Erection or extension of or addition to building/part of building</th> <th style="width: 30%;">Improvement of building/part of building</th> </tr> </thead> <tbody> <tr> <td>Deduction(s) claimed during current year of assessment R [REDACTED]</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>Deduction(s) claimed during previous year(s) of assessment R [REDACTED]</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>Deduction(s) that can be claimed in future year(s) of assessment R [REDACTED]</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>Total costs (Total of above 3 amounts) R [REDACTED]</td> <td style="text-align: right;">R [REDACTED]</td> </tr> <tr> <td>Date when building/part of building was brought into use solely for purposes of trade</td> <td style="text-align: right;">[REDACTED]</td> </tr> <tr> <td>Period used solely for purposes of trade: From [REDACTED] to [REDACTED]</td> <td style="text-align: right;">[REDACTED]</td> </tr> <tr> <td colspan="2">If the building/part of the building was not used solely for purposes of trade during the entire year of assessment, please provide the reason(s) therefor</td> </tr> <tr> <td colspan="2">Main business for which building/part of building was used during year of assessment</td> </tr> </tbody> </table>				Erection or extension of or addition to building/part of building	Improvement of building/part of building	Deduction(s) claimed during current year of assessment R [REDACTED]	R [REDACTED]	Deduction(s) claimed during previous year(s) of assessment R [REDACTED]	R [REDACTED]	Deduction(s) that can be claimed in future year(s) of assessment R [REDACTED]	R [REDACTED]	Total costs (Total of above 3 amounts) R [REDACTED]	R [REDACTED]	Date when building/part of building was brought into use solely for purposes of trade	[REDACTED]	Period used solely for purposes of trade: From [REDACTED] to [REDACTED]	[REDACTED]	If the building/part of the building was not used solely for purposes of trade during the entire year of assessment, please provide the reason(s) therefor		Main business for which building/part of building was used during year of assessment	
Erection or extension of or addition to building/part of building	Improvement of building/part of building																				
Deduction(s) claimed during current year of assessment R [REDACTED]	R [REDACTED]																				
Deduction(s) claimed during previous year(s) of assessment R [REDACTED]	R [REDACTED]																				
Deduction(s) that can be claimed in future year(s) of assessment R [REDACTED]	R [REDACTED]																				
Total costs (Total of above 3 amounts) R [REDACTED]	R [REDACTED]																				
Date when building/part of building was brought into use solely for purposes of trade	[REDACTED]																				
Period used solely for purposes of trade: From [REDACTED] to [REDACTED]	[REDACTED]																				
If the building/part of the building was not used solely for purposes of trade during the entire year of assessment, please provide the reason(s) therefor																					
Main business for which building/part of building was used during year of assessment																					
<p><b>Declaration</b></p> <p>I, [REDACTED], hereby certify that the particulars stated are true and correct to the best of my knowledge and belief.</p>																					
Signed at [REDACTED]		on this [REDACTED] day of [REDACTED]	20 [REDACTED]																		

## Annexure B – UDZ 2

		INCOME TAX	UDZ 2						
<b>Deduction claimed in terms of section 13<sup>quat</sup>: Purchase of a building/part of a building within an Urban Development Zone</b>									
<b>Notes:</b> <ol style="list-style-type: none"> <li>This form must be completed in respect of the purchase of a building/part of a building erected, extended, added to or improved by a developer in respect of which a deduction is claimed in terms of section 13<sup>quat</sup> of the Income Tax Act, 1962.</li> <li>This form must, together with the following documentation, be retained for audit purposes and must not be submitted with the relevant return of income on which the UDZ allowance is claimed: <ul style="list-style-type: none"> <li>A location certificate obtained from the relevant municipality;</li> <li>A certificate of occupancy obtained from the relevant municipality;</li> <li>A completed UDZ3</li> </ul> </li> </ol> <p>No UDZ allowance would be allowed if this documentation cannot be provided to the Commissioner of SARS.</p>									
<b>Particulars of taxpayer</b>									
Name <input type="text"/> Income tax reference no. <input type="text"/> Year of assessment <input type="text"/>									
<b>Particulars of building/part of building</b>									
Number of location certificate issued by municipality <input type="text"/>									
Relevant municipality in which boundaries building is located <input type="text"/>									
Total cost (purchase price) of: <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">(a) Building purchased directly from developer that erected, extended or added to the building</td> <td style="width: 10%; text-align: center;">R</td> <td style="width: 50%;"><input type="text"/></td> </tr> <tr> <td>(b) Building purchased directly from developer that improved the building</td> <td style="text-align: center;">R</td> <td><input type="text"/></td> </tr> </table>				(a) Building purchased directly from developer that erected, extended or added to the building	R	<input type="text"/>	(b) Building purchased directly from developer that improved the building	R	<input type="text"/>
(a) Building purchased directly from developer that erected, extended or added to the building	R	<input type="text"/>							
(b) Building purchased directly from developer that improved the building	R	<input type="text"/>							
Has a certificate of occupancy been issued by the municipality to the developer in respect of this building/part of the building? <input type="checkbox"/> YES <input type="checkbox"/> NO									
Deemed costs for purposes of the deduction in respect of the erection or extension of or addition to the building/part of building (55% of the cost in (a) above) <input type="text"/> Deemed costs for purposes of the deduction in respect of the improvement of the building/part of building (30% of the cost in (b) above) <input type="text"/>									
Date when agreement to purchase the building/part of building was concluded <input type="text"/> <span style="float: right;"><input type="text"/> C C Y Y - M M - D D</span>									
<b>Particulars relating to deduction claimed</b>									
Deduction(s) claimed during current year of assessment <input type="text"/> R		<b>Erection or extension of or addition to building/part of building</b>	<b>Improvement of building/part of building</b>						
Deduction(s) claimed during previous year(s) of assessment <input type="text"/> R		<input type="text"/> R	<input type="text"/> R						
Deduction(s) that can be claimed in future year(s) of assessment <input type="text"/> R		<input type="text"/> R	<input type="text"/> R						
Total "deemed costs" (Total of above 3 amounts) <input type="text"/> R		<input type="text"/> R	<input type="text"/> R						
Date when building was brought into use solely for purposes of trade <input type="text"/>		<input type="text"/> C C Y Y - M M - D D	<input type="text"/> C C Y Y - M M - D D						
Period building was used solely for purposes of trade: From <input type="text"/> C C Y Y - M M - D D to <input type="text"/> C C Y Y - M M - D D									
If the building was not used solely for purposes of trade during the entire year of assessment, please provide the reason(s) therefor <input type="text"/>									
Main business or trade for which property was used during year of assessment <input type="text"/>									
<b>Declaration</b>									
I, <input type="text"/> , hereby certify that the particulars stated are true and correct to the best of my knowledge and belief.									
Signed at <input type="text"/>		on this <input type="text"/> day of <input type="text"/>	<b>20</b>						

## Annexure C – UDZ 3

		INCOME TAX	UDZ 3
<b>Developer Certificate</b>			
<b>Notes:</b> <ol style="list-style-type: none"> <li>1. This certificate is a declaration of compliance with the requirements of section 13<sup>qual</sup>(4)(d)(iii) of the Income Tax Act, 1962 and must be completed by the developer.</li> <li>2. This form must, together with the following documentation, be retained for audit purposes and must not be submitted with the relevant return of income on which the UDZ allowance is claimed:           <ul style="list-style-type: none"> <li>- A location certificate obtained from the relevant municipality;</li> <li>- A certificate of occupancy obtained from the relevant municipality.</li> <li>- A completed UDZ2.</li> </ul>           No UDZ allowance would be allowed if this documentation cannot be provided to the Commissioner of SARS.         </li> </ol>			
<b>Particulars of taxpayer</b>			
Name			
Income tax reference no.			
<b>Particulars of building/part of building</b>			
Description of building/part of building as per title deed			
Physical address			
		Postal code	
Purchase price R			
Date when agreement to purchase was concluded		C C Y Y - M M - D D	
If not entire building, which part of building was sold to the taxpayer?			
Date of commencement of erection, extension, addition or improvement of building/part of building		C C Y Y - M M - D D	
Did the erection, extension, addition or improvement cover the:			
<input checked="" type="checkbox"/> A Entire building		<input type="checkbox"/> B If not the entire building, a floor area of at least 1 000m <sup>2</sup>	
<input type="checkbox"/> C Neither (A) nor (B)			
Date when occupancy certificate was issued in respect of the building/part of building		C C Y Y - M M - D D	
If the building/part of the building was improved, was the expenditure incurred by you (the developer) in respect of that improvement equal to at least 20% of the purchase price paid by the above-mentioned taxpayer in respect of the building/part of the building?			
		<input type="checkbox"/> YES <input type="checkbox"/> NO	
<b>Particulars of developer</b>			
Name			
Income tax reference no.			
Postal address			
		Postal code	
Work telephone number		C O D E - N U M B E R	
		Cellphone number N U M B E R	
If the cost of the erection, extension, addition or improvement exceeded R5 million, was a UDZ4 completed and submitted to SARS in respect of the above-mentioned building?			
		<input type="checkbox"/> YES <input type="checkbox"/> NO	
Have you claimed any allowance under section 13 <sup>qual</sup> in respect of this building/part of the building?			
		<input type="checkbox"/> YES <input type="checkbox"/> NO	
<b>Declaration by developer</b>			
I, <span style="border: 1px solid black; padding: 2px;"></span> , the developer (in the case of a company the public officer of the company), hereby confirm that the above-mentioned particulars are true and correct to the best of my knowledge and belief.			
Signed at		on this	
		day of	
		20	

## Annexure D – UDZ 4

	<b>INCOME TAX</b> <b>Developer information</b>	<b>UDZ 4</b>
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**Notes:**

1. This form must be completed by a developer to comply with the reporting obligations as per section 13<sup>quat</sup> (10A) of the Income Tax Act, 1962.
2. This form must be completed with regard to each building in respect of which the cost is likely to exceed R5 million.
3. Part A of this form must be completed and the form submitted to SARS within 30 days after the commencement of the erection or extension of or addition to or improvement of the building or the parts which the developer intends to sell.
4. Part B of this form must be completed and the form submitted to SARS within 30 days after the sale of the building or all anticipated sales of any parts of the building.
5. Forms must be submitted to: Legislative Policy, Private Bag X923, Pretoria, 0001 or sent via e-mail to [udz4@sars.gov.za](mailto:udz4@sars.gov.za)

**Particulars of developer**

Name		
Income tax reference no.		
Postal address		
Work telephone number	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> C O D E	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> N U M B E R
	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> Postal code	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> N U M B E R
Cellphone number		

**Particulars of building/part of building**

Description of building		
Physical address		
Total number of units in the case of a building/part of a building subdivided into units		
	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> Postal code	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/>

**Part A**

Estimated costs of erection or extension of or addition to building or part(s) intended for sale	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> R
Estimated costs of improvement in respect of the building or part(s) intended for sale	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> R
Estimated selling price of building or part(s) intended for sale	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> R
Date of commencement of erection, extension, addition or improvement	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> C C Y Y - M M - D D

**Part B**

Actual costs incurred in respect of the building or part(s) of the building that was sold	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> R
Actual selling price of building or parts of building that was sold	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> R
Date when occupancy certificate was issued by the municipality	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> C C Y Y - M M - D D
Date of sale of building/last part(s) of building intended for sale	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/> C C Y Y - M M - D D
In the case of units sold, total number of units sold	<input style="width: 100%; border: 1px solid #ccc; height: 1.2em; border-radius: 2px; padding: 0 5px;" type="text"/>

## Annexure E – Section 13<sup>quat</sup>

**13<sup>quat</sup>. Deductions in respect of erection or improvement of buildings in urban development zones.**—(1) For the purposes of this section—

“certificate of occupancy” . . . . .

“cost” means the costs (other than borrowing or finance costs) actually incurred in erecting or extending, adding to or improving a building or part thereof and includes any costs incurred—

- (a) in demolishing any existing building or part thereof;
- (b) in excavating the land for purposes of that erection, extension, addition or improvement; and
- (c) in respect of structures or works directly adjoining the building or part so erected, extended, added to or improved, for purposes of providing—
  - (i) water, power or parking with respect to that building or part;
  - (ii) drainage or security for that building or part;
  - (iii) means of waste disposal for that building or part; or
  - (iv) access to that building or part, including the frontage thereof;

“developer” means a person who erects, extends, adds to or improves a building or part of a building—

- (a) with the purpose of disposing of that building or part thereof immediately after completion of that erection, extension, addition or improvement; and
- (b) disposes of the building or part of a building within three years after completion of that erection, extension, addition or improvement;

“purchase price” in relation to any building or part of a building purchased by the taxpayer means the lesser of—

- (a) the actual cost to the taxpayer to purchase that building or part; or
- (b) the cost which a person would have incurred had that person purchased that building or part under a cash transaction concluded at arm’s length on the date on which that taxpayer purchased that building or part;

“urban development zone” means an area demarcated by a municipality in terms of subsection (6), the particulars of which were published in the *Gazette* in terms of subsection (8);

(2) There must be allowed to be deducted from the income of the taxpayer an allowance determined in terms of subsection (3) or (3A), in respect of the cost of the erection, extension, addition or improvement of any commercial or residential building or part of a building which is owned by the taxpayer and is used solely for purposes of that taxpayer’s trade, if—

- (a) that building is situated within an urban development zone;
- (b) the erection, extension, addition or improvement was commenced by the taxpayer or the developer, as the case may be, on or after the date of publication of the notice contemplated in subsection (8) in respect of that urban development zone, in terms of a contract formally and finally signed by all parties thereto on or after that date;
- (c) the erection, extension, addition to or improvement by the taxpayer or developer covers either the entire building or a floor area of at least 1 000 m<sup>2</sup> of that building;
- (d) in the case where the taxpayer purchased that building or part from a developer—
  - (i) the agreement to purchase was concluded on or after 8 November 2005;
  - (ii) that developer has not claimed any allowance under this section in respect of that building or part; and

(iii) if the developer improved the building or part as contemplated in subsection (3)(b) or (3A)(b), that developer has incurred expenditure in respect of those improvements which is equal to at least 20 per cent of the purchase price paid by the taxpayer in respect of that building or part; and

(e) .....

(2A) For the purposes of this section, if a taxpayer completes an improvement as contemplated in section 12N, the expenditure incurred by the taxpayer to complete the improvement shall be deemed to be the cost of the erection, extension, addition or improvement contemplated in subsection (2).

(3) The amount of the allowance contemplated in subsection (2)—

(a) in the case of the erection of any new building or the extension of or addition to any building (other than a building in respect of which paragraph (b) applies), is equal to—

(i) 20 per cent of the cost to the taxpayer of the erection or extension of or addition to that building, which is deductible in the year of assessment during which that building is brought into use by that taxpayer solely for the purposes of that taxpayer's trade; and

(ii) eight per cent of that cost in each of the 10 succeeding years of assessment;

(b) in the case of the improvement of any existing building or part of a building (including any extension or addition which is incidental to that improvement) where the existing structural or exterior framework thereof is preserved, is equal to—

(i) 20 percent of the cost to the taxpayer of the improvement, extension or addition which is deductible in the year of assessment during which the part of the building so improved, extended or added is brought into use by the taxpayer solely for the purposes of that taxpayer's trade; and

(ii) 20 per cent of that cost in each of the four succeeding years of assessment.

(3A) The amount of the allowance contemplated in subsection (2)—

(a) in the case of the erection of any new building or the extension of or addition to any building, to the extent that it relates to a low-cost residential unit, (other than any improvement in respect of which paragraph (b) applies) is equal to—

(i) 25 per cent of the cost to the taxpayer of the erection or extension of or addition to that building, which is deductible in the year of assessment during which that building is brought into use by that taxpayer;

(ii) 13 per cent of that cost in each of the five succeeding years of assessment; and

(iii) 10 per cent of that cost in the year of assessment following the last year contemplated in subparagraph (ii);

(b) in the case of the improvement of any existing building or part of a building, to the extent that it relates to a low-cost residential unit, (including any extension or addition which is incidental to that improvement) where the existing structural or exterior framework thereof is preserved, is equal to—

(i) 25 per cent of the cost to the taxpayer of the improvement, which is deductible in the year of assessment during which the part of the building so improved, is brought into use by the taxpayer; and

(ii) 25 per cent of that cost in each of the three succeeding years of assessment.

(3B) For purposes of subsection (3) or (3A), where the taxpayer purchased a building or part of a building from a developer—

(a) 55 per cent of the purchase price of that building or part of a building, in the case of a new building erected, extended or added to by that developer as contemplated in subsection (3)(a) or (3A)(a); and

(b) 30 per cent of the purchase price of that building or part of a building, in the case of a building improved by that developer as contemplated in subsection (3)(b) or (3A)(b),

is deemed to be costs incurred by that taxpayer in respect of the erection, extension, addition to or improvement of that building or part of a building.

(4) No deduction shall be allowed under this section, unless the taxpayer has obtained or determined the following for submission to the Commissioner in such form and within such time as may be prescribed by the Commissioner—

- (a) a certificate issued by the municipality to the taxpayer confirming that the building is located within an urban development zone within that municipality;
- (b) the total amount of the costs to the taxpayer (other than a taxpayer contemplated in paragraph (d) of the erection, extension, addition or improvement and the extent that those costs relate to any portion of a building;
- (c) particulars as to whether the costs referred to paragraph (b) were incurred in respect of the erection or extension of or addition to a building as contemplated in subsection (3)(a) or the improvement of a building as contemplated in subsection (3)(b); and
- (d) in the case of a taxpayer who purchased the building or part of a building from a developer—
  - (i) the purchase price of that building or part;
  - (ii) the amount of the purchase price deemed to be a cost incurred by the taxpayer in terms of subsection (3A); and
  - (iii) a certificate from the developer in the form prescribed by the Commissioner confirming that the requirements in subsection (2)(b), (c) and (d) have been met.

(5) No deduction shall be allowed under this section in respect of any building or part of a building—

- (a) where that taxpayer ceased to use that building, or part solely for purposes of that taxpayer's trade during any previous year of assessment in or prior to which an allowance contemplated in subsection (2) was claimed;
- (b) which has been disposed of by the taxpayer during any previous year of assessment; or
- (c) which is brought into use by the taxpayer after 31 March 2020.

(6) For the purposes of this section, one area may be demarcated by a municipality where—

- (a) that area is a developed urban location with the municipality of Buffalo City, Cape Town, Ekuthuleni, Emalahleni, Emfuleni, eThekweni, Johannesburg, Mafikeng, Mangaung, Matjhabeng, Mbombela, Msunduzi, Nelson Mandela, Polokwane, Sol Plaatje or Tshwane;
- (b) that area is demarcated through formal resolution by the relevant municipal council;
- (c) that area is prioritised in that municipality's integrated development plan adopted and undertaken in terms of Chapter 5 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) as a priority area for further investments to promote business or industrial activity or residential settlements to support such activity;
- (d) that area proportionately contributes or previously contributed a significant portion of the total revenue collections for all areas located within the current boundaries of that municipality, as measured in the form of—
  - (i) property rates; or
  - (ii) assessed property values,

and where the contribution from that area is undergoing a sustained real or nominal decline; and

- (e) significant fiscal measures have been implemented by that municipality to support the regeneration of that area, including—
  - (i) the appropriation of significant funds for developing the area in the annual budget of the municipality;

- (ii) special tariffs for categories of residential, commercial or industrial users; or
- (iii) partnership arrangements with the business community for the promotion of urban development within that area.

(f) .....

(7)(a) Subject to paragraph (d), the area demarcated in terms of subsection (6) may not exceed—

- (i) where that municipality has a population of not more than 500 000 persons, a total area of 150 hectares; or
- (ii) where that municipality has a population of more than 500 000 persons, 150 hectares plus 20 hectares for each additional 100 000 persons included in that population.

(b) Where that municipality has a population of 2 million persons or more, the municipal council may demarcate two areas in lieu of the one area demarcated in terms of subsection (6) provided that—

- (i) the two areas do not in total exceed the one area contemplated in paragraph (a)(ii); and
- (ii) each area otherwise satisfies the requirements of subsection (6).

(c) For purposes of this subsection, the population of a municipality shall be the population figures as determined by Statistics South Africa in the Census for 2001 and the total population of that municipality must be rounded to the nearest multiple of 100 000.

(d) The area demarcated in terms of subsection (6) may exceed the limits contemplated in paragraph (a) where—

- (i) the municipality proves to the Minister that the excess area is integrally related to the area within the limitation contemplated in paragraph (a);
- (ii) the municipality can prove to the Minister that sound economic reasons exist for demarcating a larger area; and
- (iii) .....
- (iv) the Minister is satisfied that the demarcation of the excess area would fall within Government's affordability constraints.

(8) The Minister must publish by notice in the *Gazette* particulars of an area demarcated by a municipality after that municipality has proved to the Minister that the area so demarcated complies with the provisions of subsection (6).

(9) Every municipality must provide a report annually to the Commissioner and the Minister in respect of each urban development zone located within that municipality containing such information, within such time and in such manner as is prescribed by the Minister.

(10) Where—

- (a) a municipality does not provide an annual report as contemplated in subsection (9) or the Commissioner reports to the Minister that the municipality has issued a certificate contemplated in subsection (4)(a) in respect of a building that is located outside an urban development zone; and
- (b) corrective steps are not taken by that municipality within a period specified by the Minister,

the Minister may withdraw the notice contemplated in subsection (8) for that municipality in respect of contracts formally and finally signed by all parties thereto on or after the date of withdrawal.

(10A) Every developer who erects, extends, adds to or improves any building within an urban development zone must, if the estimated cost of that erection, extension, addition or improvement is likely to exceed R5 million—

- (a) inform the Commissioner within 30 days after commencement of the erection, extension, addition or improvement of the estimated costs thereof in respect of the building or the parts which the developer intends to sell and the estimated selling price of that building or those parts; and

(b) inform the Commissioner within 30 days after sale of the building or all anticipated sales of any parts of the building have been concluded of the actual costs incurred in respect of that building or parts and the actual selling price of that building or parts thereof.

(10B) If the Commissioner has reason to believe that the information provided in the certificate by a developer as contemplated in subsection (4)(d)(iii) is not correct, the Commissioner must disallow any deduction claimed under this section, unless sufficient information is provided to the Commissioner to prove that the information contained in that certificate is correct.

(11) The Commissioner must on an annual basis submit a report to the Minister containing information relating to—

- (a) the number of taxpayers which have during the relevant year claimed an allowance in terms of this section;
- (b) the total amount of the deductions by taxpayers allowed in that year in terms of this section; and
- (c) the total amount of the costs to those taxpayers which are or will be allowable as a deduction in terms of this section.

## Annexure F – Section 12N

### 12N. Deductions in respect of improvements not owned by taxpayer.—(1) If a taxpayer—

- (a) holds a right of use or occupation of land or a building;
- (b) effects an improvement on the land or to the building in terms of—
  - (i) a Public Private Partnership;
  - (ii) an agreement in terms of which the right of use or occupation is granted, if the land or building is owned by—
    - (aa) the government of the Republic in the national, provincial or local sphere; or
    - (bb) any entity of which the receipts and accruals are exempt from tax in terms of section 10(1)(cA) or (f); or
  - (iii) the Independent Power Producer Procurement Programme administered by the Department of Energy;
- (c) incurs expenditure to effect the improvement contemplated in paragraph (b); and
- (d) .....
- (e) uses or occupies the land or building for the production of income or derives income from the land or building,

the taxpayer must, for the purposes of any deduction contemplated in section 11D, 12B, 12D, 12F, 12I, 12S, 13, 13bis, 13ter, 13quat, 13quin, 13sex or 36, and for the purposes of the Eighth Schedule, be deemed to be the owner of the improvement so completed.

(2) (a) When the right of use or occupation terminates, the taxpayer must be deemed to have disposed of the improvement to the owner of the land or building on the later of the date when—

- (i) the right of use or occupation terminated; or
- (ii) the use or occupation ended.

(b) If the right of use or occupation terminates and the taxpayer—

- (i) continues to use or occupy the land or building; or
- (ii) renews the right of use or occupation,

the renewed right of use or occupation must be deemed to be the same right of use or occupation as the right of use or occupation previously held by the taxpayer.

(3) This section does not apply if the taxpayer—

- (a) is a person carrying on any banking, financial services or insurance business; or
- (b) enters into an agreement whereby the right of use or occupation of the land or building is granted to any other person, unless—
  - (i) the land or building is occupied by that other person and that other person is a company that is a member of the same group of companies as that taxpayer in terms of such an agreement;
  - (ii) the cost of maintaining the land or building and of carrying out repairs thereto required in consequence of normal wear and tear is borne by the taxpayer; and
  - (iii) subject to any claim that the taxpayer may have against the other person by reason of the other person's failure to take proper care of the land or building, the risk of destruction or loss of or other disadvantage to the land or building is not assumed by that other person.