

Purchase of Business Park Development - Apportionment Claim

A business park development of two and three storey good quality office buildings acquired in 2001, situated in Bruma.

Type of Claim

Having established that there were no restrictions on the entitlement to claim, a capital allowances claim for wear and tear allowances was prepared as an apportionment of the purchase price under the provisions of Section 11(e) of the Income Tax Act No.58 of 1962.

Facts

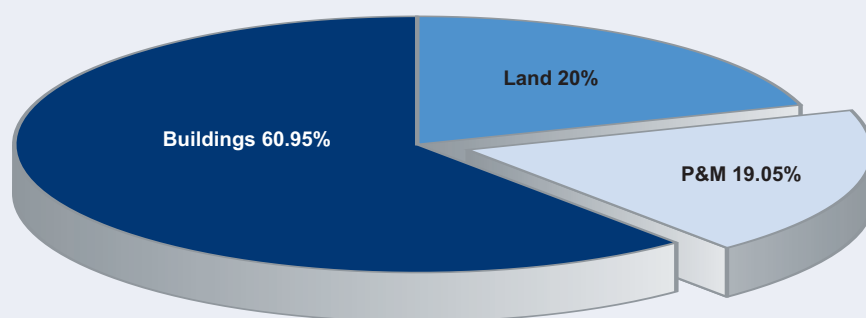
Purchase Price: R21 million

Construction Area: 6,360m²

Site Area: 4,200m²

Description: Office development including two storeys of basement car parking. Generally concrete framed, concrete floors and staircases, brick external walls, aluminium windows and doors, concrete tiled pitched roofs. Raised access floors finished with carpet tiles to offices and ceramic tiles to toilets, plastered and painted walls to offices and ceramic tiles to toilets. Suspended ceilings throughout.

Air conditioning throughout offices via wall and ceiling mounted cassette units. Extract ventilation to toilets. Hot water installation and sanitary ware. Passenger lift, serving three levels. Fire alarm installation and comprehensive emergency lighting.



Capital Allowances Analysis

		Percentage of R21m Purchase Price
Apportionment of expenditure on qualifying machinery and plant	R 4,000,000	19.05%
Apportionment of expenditure on land not eligible for capital allowances	R 4,200,000	20.00%
Apportionment of expenditure on buildings not eligible for capital allowances	R 12,800,000	60.95%

Cash Flow

In this case the wear and tear allowances of **R4,000,000** were available to the taxpayer to offset against tax. The annual writing-down allowance being based upon the nature of the qualifying assets and the appropriate write-off periods in line with Practice Notes 19 and 39 to the Income Tax Act No.58 of 1962.

The following table sets out the availability of these allowances over the first five years that the property is in the taxpayer's ownership, assuming a 29% income tax rate on companies.

	Capital Allowances R	Annual Write-Down R	Tax Relief to a 29% Taxpayer R
Year 1	4,000,000	640,000	185,600
Year 2		640,000	185,600
Year 3		640,000	185,600
Year 4		640,000	185,600
Year 5		640,000	185,600

On the assumption that the property remains in the taxpayer's ownership for the 5 year period, the total tax saved will amount to approximately R928,000.