

Purchase of Strip Mall Shopping Centre - Apportionment Claim

A suburban strip mall type shopping centre, with one national anchor tenant, acquired in 2002, situated in Weltevreden Park.

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

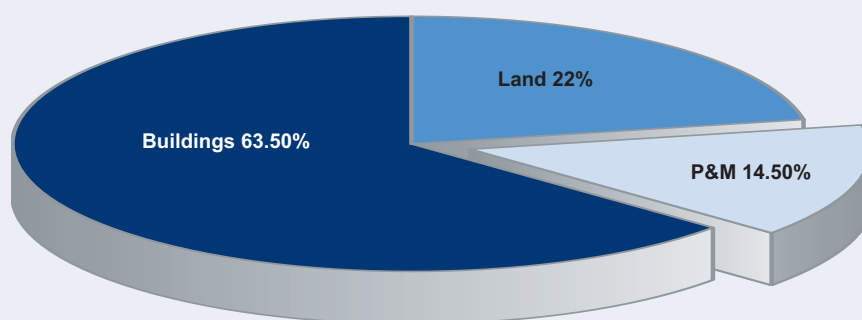
Purchase Price: R40 million

Construction Area: 5,300m²

Site Area: 25,000m²

Description: Single storey development. Generally concrete framed, brick external walls, aluminium windows and doors, concrete tiled pitched roofs. Ceramic floor & wall tiles to public toilets, plastered and painted walls to centre management offices. Suspended ceilings throughout.

Air conditioning throughout offices via ceiling mounted split units. Extract ventilation to toilets. Hot water installation and sanitary ware. Public address system, fire alarm installation and fire fighting equipment.



Capital Allowances Analysis

Percentage of R40m Purchase Price

Apportionment of expenditure on qualifying machinery and plant	R 5,800,000	14.50%
Apportionment of expenditure on land not eligible for capital allowances	R 8,800,000	22.00%
Apportionment of expenditure on buildings not eligible for capital allowances	R 25,400,000	63.50%

Cash Flow

In this case the wear and tear allowances of **R5,800,000** 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	5,800,000	930,000	269,700
Year 2		930,000	269,700
Year 3		930,000	269,700
Year 4		930,000	269,700
Year 5		930,000	269,700

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 R1,348,500.