



Purchase of CBD Shopping Centre - Apportionment Claim

A city centre shopping centre and office development, on five levels with two levels of basement car parking, situated in Pretoria.

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

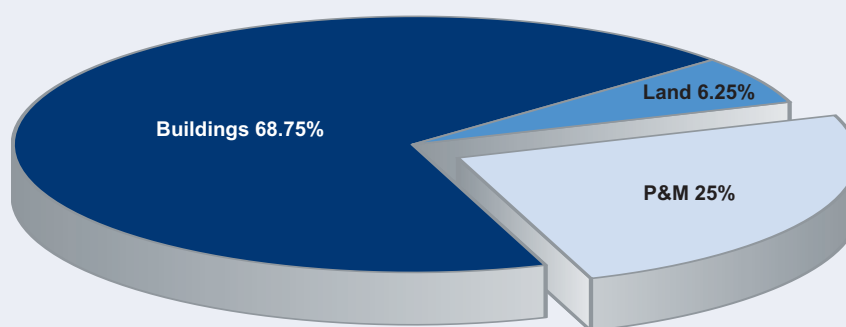
Purchase Price: R80 million

Construction Area: 101,000m²

Site Area: 16,000m²

Description: Reinforced concrete frame, upper floors and staircases, concrete and steel cladding panels to external walls, aluminium shopfronts, windows and doors, waterproofed concrete flat roof. Floor finishes of ceramic tiles, vinyl tiles and carpet, plastered and painted walls. Suspended ceilings throughout.

Central air conditioning system to retail and office areas. Extract ventilation to toilets. Hot water installation and sanitary ware. Public address system, fire alarm installation and fire fighting equipment. Lifts and escalators.



Capital Allowances Analysis

Percentage of R80m
Purchase Price

		Percentage of R80m Purchase Price
Apportionment of expenditure on qualifying machinery and plant	R 20,000,000	25.00%
Apportionment of expenditure on land not eligible for capital allowances	R 5,000,000	6.25%
Apportionment of expenditure on buildings not eligible for capital allowances	R 55,000,000	68.75%

Cash Flow

In this case the wear and tear allowances of R20,000,000 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	20,000,000	3,100,000	899,000
Year 2		3,100,000	899,000
Year 3		3,100,000	899,000
Year 4		3,100,000	899,000
Year 5		3,100,000	899,000

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 R4,495,000.