South African
Institute of
Tax Professionals

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The National Treasury

240 Vermeulen Street

PRETORIA

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The South African Revenue Service

Lehae La SARS, 299 Bronkhorst Street

PRETORIA

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Supplementary Annexure C submissions

Thank you for the opportunity to make submissions for Annexure C of the Budget and to participate in the Annexure C workshops held in December 2016. We would like to raise the following supplementary submissions with you.

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THE ETHICS INSTITUTE

Depreciation of ancillary fixed structures for manufacturing

As discussed in our previous submission and at the workshop, we are seeking to assist the manufacturing sector in terms of unintended anomalies arising in respect of depreciation allowances under section 13. Under that section, buildings are depreciable to the extent of 5 per cent (proviso (b) to subsection (1)). This allowance is roughly in line with standard accounting for impairments (with the flat 5 per cent rate being used for simplicity). As such, this allowance should not be viewed as an incentive (unlike section 12C, which provides for a 40:20:20:20 rate).

At issue for manufacturing companies is the simple ability to claim depreciation allowances for ancillary fixed structures, such as ancillary roads, parking, fences, poles for electronic cabling, storage tanks, outdoor lighting and the like. These inherently permanent structures are ancillary to most manufacturing buildings but are often viewed by certain SARS assessors as outside of section 13. We see no reason why these typical capital expenditures should not be depreciable in line with the tax treatment of manufacturing buildings (and be left in a worse position than ordinary write-offs under accounting).

Technical clarification concerning section 7C for primary residence improvement loans

The exclusion from the section 7C deemed donation treatment of interest foregone on loans used for purposes of funding the acquisition of a primary residence (as defined for these purposes) has been widely welcomed. It has, however, come to our attention that there is some uncertainty whether the wording covers the loan funding of all the capital costs associated with a primary residence. For example, assume a trust acquires a small house on a large property for R1 million and subsequently makes significant additions to the house for R2 million. Query whether the R2 million for the additions will fall within the exclusion.

Failure to treat the additional R2 million as falling within the exclusion would be anomalous because the distinction simply becomes a question of timing. Parties purchasing a R3 million house with all improvements upfront will be in a better position tax wise than parties acquiring a home, followed by improvements.

We accordingly recommend a technical amendment to clarify that the section 7C(5)(d) exclusion should apply to any loan to the extent that the loan funds are used to acquire or improve a primary residence (i.e. are added to the base cost of the primary residence).

We would welcome further engagement.

Yours sincerely

Erika de Villiers

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