



Urban Development Tax Incentive

Emfuleni Local Municipality once again invites all interested investors to apply for the Urban Development Zone Tax Incentive in Vereeniging.

This is an Urban Development Zone intervention initiated by the Minister of Finance back in 2003. Its main objectives are:

- *To respond to the problem of dereliction and dilapidation in South Africa's large cities and*
- *to promote urban renewal and development through private sector investment in the construction and improvement of buildings.*

For now, Emfuleni Local Municipality is using the Urban Development Tax Incentive for VEREENIGING only.

Who is eligible for the incentive?

Any investor (including individuals, companies, close corporations and trusts as well as partners in a partnership) is eligible for the incentive once the following three basic conditions are met:

1. The investor must improve and existing building or erect or construct a new building within the urban development zone. Hence, and investor purchasing a pre-constructed building or improvement is ineligible for the incentive – the investor must add value to the zone.
2. The investor must the improved or new building solely for purposes of the investor's trade. The trade can be of any kind, commercial, industrial or rental of a residential apartment.
For instance an investor constructing a building or lease would qualify for the incentive as well as an investor constructing premises to conduct a retail business.

An investor living in a portion of a newly constructed building while leasing another portion would however be ineligible because the building is not solely used for trade.

If an investor has two separate buildings on the same piece of land, personal use of one building will generally not prevent the incentive from apply to the second building if that second building is used solely for trade.

3. The investor must receive a certificate of occupancy for the building along with a certificate from the municipality confirming the building is located within its urban development zone. These items will be attached to the investor's return when claiming the urban developments allowance.

What is the nature of the Incentive?

The incentive provides investors with a tax write-off for the cost of the improvement of building over time before actual sale. The goal is to favour refurbishment of existing buildings rather than replacement or new buildings and therefore the incentive for improvements is more generous that for new buildings.

Improvements

An investor who refurbishes or improves and existing building will receive a 20% straight-line depreciation write off over a 5-year period once the building is brought into use.

New buildings

Investors erecting a new building (or extending or adding to the expense of a building) receive a 17 year write-off period. This write-off allows for a deduction of 20% for the first year the building is brought into use and annual deductions of 5% for each the following 16 years.

How does the incentive reduce my tax?

If an investor qualifies for the tax incentive, any 5-year or 17-year write-off of costs incurred by the investor is deductible against the entire taxable income of the investor. No ring fencing applies.

Therefore write-offs for one building can be setoff against any other income of the investor, regardless of whether that income relates to the building or the line of business to which that building relates.

Any excess losses that cannot be fully setoff within a year are carried forward indefinitely. These excess losses can be setoff in later years until fully absorbed.

What costs does the allowance cover?

The urban development zone allowance covers all construction costs related to the erection, extention, additional or improvement of buildings. Finance and property

acquisition costs do not fall within the incentive. These deductible costs include a whole range such as water, power, sewage, drainage, security, sidewalks, landscaping etc.

Proposed area

The area concerned is the city centre of Vereeniging and includes all the entrances to the city. See the map for more detail.

For more information contact:

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