

FREQUENTLY ASKED QUESTIONS

Q: What are the boundaries of the Johannesburg Inner City UDZ?



- South boundary – M2 highway
- West boundaries – Park Drive, Krause Street & Clarendon Place
- North boundaries – First & Hoofd Streets, Louis Botha Avenue & Pricilla Street
- East boundaries – De la Rey Street, 1st Street, Albemarie Street & First Street

Q: Which areas fall under the Johannesburg Inner City UDZ?

- Johannesburg CBD, Newtown, Braamfontein, Hillbrow & Joubert Park
- Bertrams, Fairview, Jeppes town, Jeppes town South, Elcedes & Spes Bona
- Berea, Yeoville, Pageview, Vrededorp, Bellevue, Bellevue East & Randview
- Troyeville, Highlands, Lorentzville, Judith's Paarl, New & North Doornfontein
- Marshalltown, City & Suburban, Salisbury Claims, Ferreirasdorp & Droste Park
- Fordsburg, Burgersdorp, City West, Westgate, Selby Ext. 19 & Crown North Ext
- Village Main, Wemmer, Reynolds view, Wolhuter, Benrose, Benrose Ext, Denver Exts 2 & 6

Q: What is the purpose of the UDZ Tax Incentive?

A: To promote urban development and regeneration through accelerated depreciation allowance for UDZ new building constructions or refurbishment of existing buildings.

- ☒ **Refurbishments** – 5-year 20% straight-line depreciation write-off for property refurbishments once the building has been brought to use.

Refurbishments must preserve a substantial part of the building's existing structural or exterior framework. To qualify for this accelerated refurbishment tax write-off, building extensions and additions must be merely incidental to building refurbishments.

Example 1

- An investor purchases a run-down shop in the UDZ for R8 million and refurbishes it for R100 million to conduct retail business.
 - The investor can deduct 20% of the R100 million refurbishment costs over 5 years (R20 million annually) once the building is in use.
 - The R8 million property purchase cost does not qualify for the UDZ tax incentive.
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- ☒ **New Building Constructions** – 17-year write-off period for new UDZ building constructions – 20% in the first year and 5% for the next 16 years from the time the building has been brought to use.

Example 2

- An investor purchases a vacant land for R5 million and constructs a new commercial building for R100 million to conduct a retail business.
- The investor can deduct 20% (R20 million) of the construction costs in the 1st year and 5% (R5 million) for the next 16 years once the building is in use.
- The R5 million land purchase cost does not qualify for the UDZ tax incentive.

Q: What is the definition of an 'Investor' under the UDZ Tax Incentive?

A: A UDZ investor is any individual or legal entity – companies, close corporations, trusts and partners in a partnership – which invests in the construction, refurbishment, procurement or letting of buildings or parts thereof within the UDZ for trade purposes:

- ☒ Developers – investors who construct or refurbish buildings within the UDZ with the intention of letting or on-selling the properties or parts thereof for trade purposes.
- ☒ First purchasers – investors who procure newly constructed or refurbished properties or parts thereof from *bona fide* registered UDZ developers for trade purposes.

Q: What constitutes ‘Costs’ under the UDZ Tax Incentive?

A: Costs other than borrowing or finance costs which are incurred in the construction or refurbishment of UDZ buildings including:

- ☒ Land excavations and demolitions of existing buildings or parts thereof.
- ☒ Costs incurred in relation to permanent structures or works directly adjoining the building construction or refurbishment site, for purposes of providing:
 - Building access, sidewalks, parking and landscaping;
 - Electricity, water, sewerage, drainage and waste disposal;
 - Building security including fences, cameras and surveillance equipment.

Q: Who is eligible for the Johannesburg Inner City UDZ Tax Incentive?

A: Any investor, as detailed above, is eligible for the incentive under the following conditions:

- ☒ All building constructions and refurbishments must fall within the UDZ.
- ☒ All investors must be registered South African Revenue Services (SARS) taxpayers.
- ☒ All building constructions and refurbishments must be solely used for trade purposes – commercial and industrial, including rental of residential property.
- ☒ Developers who construct or refurbish buildings within the UDZ with the intention of on-selling do not qualify for the tax incentive. On-selling of buildings or parts thereof includes forfeiture of the right to claim the incentive.
- ☒ First purchasers can claim UDZ tax write-offs based on a percentage of the purchase price which is deemed to be attributable to developer’s construction or refurbishment costs.
- ☒ A minimum refurbishment requirement of 1000 m² floor space for parts of existing buildings. This requirement does not apply to the refurbishment of entire buildings.

- ☒ Investors who live in a newly constructed or refurbished building while leasing other parts of the building can only claim the UDZ tax write-off for portions of the building that are *used for trade purposes* including rental of residential property.
- ☒ Johannesburg Inner City UDZ building construction and/or refurbishment contracts formally signed by all parties on or after 14th October 2004 – as per Government Gazette No. 26866.
- ☒ City of Johannesburg (CoJ) municipality issued investor UDZ:
 - *Certification of Occupancy* for each building in terms of section 14 (1) of the National Building Regulations and Buildings Standards Act No. 103 of 1997.
 - *Location Certificates* – which confirm that building constructions or refurbishments against which UDZ tax incentives are being claimed, are located within the Johannesburg Inner City UDZ.

Q: What is the impact of the UDZ Tax Incentive on Investor income tax?

A: Write-offs of costs incurred by investors in the construction or refurbishment of UDZ buildings are deductible against the investor's entire taxable income.

Write-off for one building can be offset against any other investor income, regardless of whether the income relates to the building or the line of business to which the building relates.

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

Example 3

- An investor constructs a R100 million commercial building within the UDZ and decides to write-off 30% of the building over 3 years and then sells it for R108 million.
- The net result is that the investor gains R38 million on the sale – R8 million profit on the initial R100 million investment plus 20% (R20 million) tax deduction in the first year and 5% (R5 million) per year for the next 2 years.

Examples 4

- An investor who generates R500 000 income as a doctor, purchases a townhouse within the UDZ, refurbishes it for R50 000 and rents it out on a permanent basis at a net annual profit of R2 000.

The R50 000 UDZ townhouse refurbishment tax write-off is deductible against his entire income not just the R2 000 townhouse rental profit. The townhouse purchase costs fall outside the incentive.

Examples 5

- Company X which is involved in a number of trades, including an IT business, erects a R600 million building for its IT trade, thus qualifying for 20% (R120 million) write-off (capital allowance) in the 1st year and 5% for the next 16 years.

The company does not generate income from the building in the 1st year but generates a net income of R35 million from its overall IT business plus another R50 million from its other businesses in the same year.

The R120 million UDZ tax write-off can be offset against its overall income regardless of whether the income relates to the constructed building or falls within the same line of business.

The company can also utilize the R120 million capital allowance to eliminate all of that year's net income of R85 million. The remaining R35 million capital allowance can be used as an offset against income arising in later years.

Q: What is the impact of on-selling of developed UDZ buildings or parts thereof?

- A:** UDZ investor entitlement to the 5-year urban building refurbishment or the 17-year urban building construction tax write-off is strictly limited to UDZ building ownership and utilization thereof for trade purposes:
- Developers who construct or refurbish buildings within the UDZ with the intention of on-selling do not qualify for the tax incentive. On-selling of buildings or parts thereof on a sectional title basis, necessarily includes forfeiture and transference of the right to claim the incentive to first purchasers.
 - First purchasers can claim UDZ tax write-offs based on a percentage of the purchase price which is deemed to be attributable to developer's construction or refurbishment costs.

Example 6

- A developer constructs or refurbishes a commercial building within the UDZ for R100 million and sells the building or parts thereof for R108 million.
- Net refurbishment result – if a refurbished property or parts thereof are sold within the 5-year UDZ refurbishment tax incentive period , .

Q: What is the impact of on-selling by First Purchasers?

A: First purchasers who on-sell newly constructed or refurbished UDZ buildings or parts thereof:

- Forfeit the UDZ tax incentive benefit
- Has to recoup deductions made under the UDZ tax incentive up to the point of sale.

Q: What procedures must be followed to claim the Johannesburg Inner City UDZ Tax Incentive?

A: Investors who wish to claim the tax incentive must:

- Apply to the CoJ municipality for a UDZ *registration certificate*
- Apply for a *location certificate* which proves that the building is located within the Johannesburg Inner City UDZ and provide anticipated:
 - Building construction or refurbishment costs
 - Post-construction or refurbishment job creation
- Apply for a UDZ *occupancy certificate* which is issued by the municipality in terms of the National Building Regulations and Building Standards Act of 1997, on completion of building construction or refurbishment.

Q: How do investors claim the UDZ Tax Incentive?

A: To claim the incentive, taxpayers must submit the following information together with their annual tax returns to the South African Revenue Services (SARS):

- Occupancy and location certificates* for each building construction or refurbishment.
- Total actual and estimated costs incurred in building construction of refurbishment
- Breakdown of construction and refurbishment costs if both the 5-year refurbishment and the 17-year construction write-offs are being claimed.