



Section 13^{sex}

South African Income Tax Act

A Comprehensive Guide for Property Investors

by House of Realtors

Introduction to Section 13Sex

Understanding the Tax Incentive for Property Investors

□ What is Section 13Sex?

A tax incentive provision allowing property investors to claim annual allowances on residential units used for trade purposes.

% Key Benefits

- 5% annual allowance on property cost
- Up to 10% for low-cost housing
- 20-year benefit period

□ Historical Timeline

Pre-2008

Multiple tax provisions for residential buildings

2008-Present

Streamlined framework for residential property investment

October 21, 2008

Introduction of Section 13Sex

Future

Continued support for property sector growth

□ *Note: This section replaced various provisions including sections 11(f), 13ter, and paragraph 12(5) of the First Schedule*

Eligibility Requirements

Key Criteria for Section 13Sex Tax Benefits

Core Requirements

- Minimum Portfolio:**
Own at least 5 residential units in South Africa
- Acquisition Date:**
On or after October 21, 2008
- Location:**
Within South Africa

Property Requirements

- New and Unused:**
Property must be new or newly improved
- Legal Ownership:**
Must be legally owned, not leased
- Residential Nature:**
Must be residential units (excludes hotels)

Usage Requirements

- Trade Purpose Only:**
Must be used solely for trade (e.g., rental)
- No Personal Use:**
Personal or mixed-use not permitted

Important Notes

- No apportionment allowed for partial trade use
- Benefits apply to both new builds and improvements
- Special provisions for low-cost housing units

Calculating the Allowance

Understanding the Tax Benefit Calculation

Basic Calculation Method

Step 1: Determine Cost Basis

- New Units: 55% of purchase price
- Improvements: 30% of cost

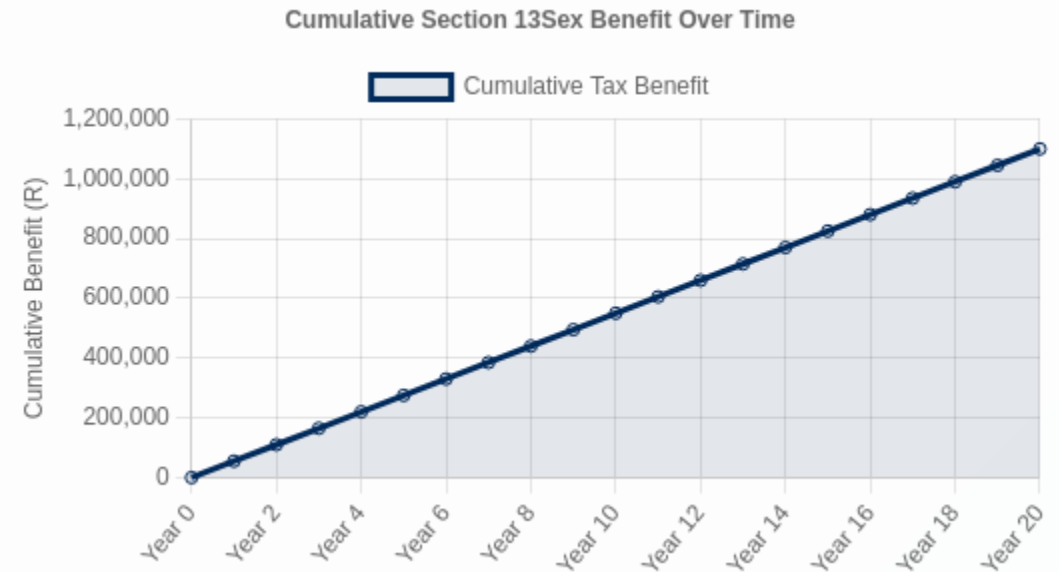
Step 2: Apply Annual Rate

- % Standard: 5% per year
- % Low-cost units: 10% per year

Practical Example

Purchase Price: R2,000,000
Cost Basis: R1,100,000 (55%)
Annual Allowance: R55,000 (5%)
20-Year Total: R1,100,000

20-Year Benefit Visualization



- Consistent annual deduction over 20 years
- No apportionment for partial years
- Full cost recovery achieved after 20 years

Low-Cost Residential Units

Enhanced Benefits for Affordable Housing

Qualifying Criteria

Apartments

- Cost must not exceed R350,000
- % Monthly rental cannot exceed 1% of cost

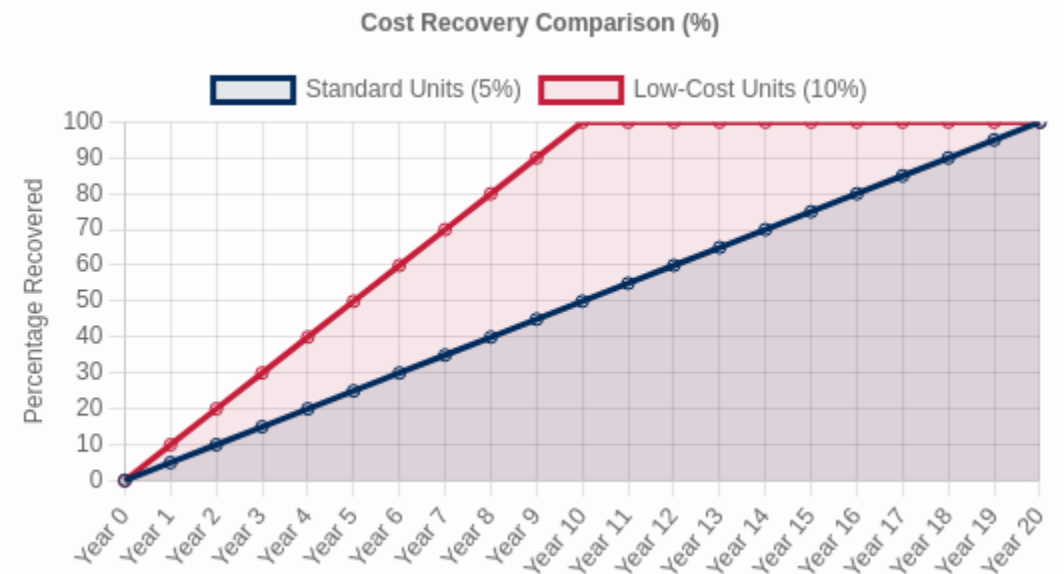
Stand-alone Buildings

- Cost must not exceed R300,000
- % Monthly rental cannot exceed 1% of total cost

★ Enhanced Benefits

- Additional 5% annual allowance
- Total 10% annual deduction
- Faster cost recovery (10 years)

Benefit Comparison



Key Insights

- Double the annual tax benefit
- 50% faster cost recovery period
- Enhanced cash flow benefits

Application to Different Entities

Tax Benefits Across Various Business Structures

Individuals

- Reduces personal taxable income
- Maximum rate benefit at 45%
- Subject to personal tax brackets

Example: R1M property = R27,500 annual tax saving at 45% bracket

Companies

- Flat 28% corporate tax rate
- Simplified tax calculation
- Group structure benefits

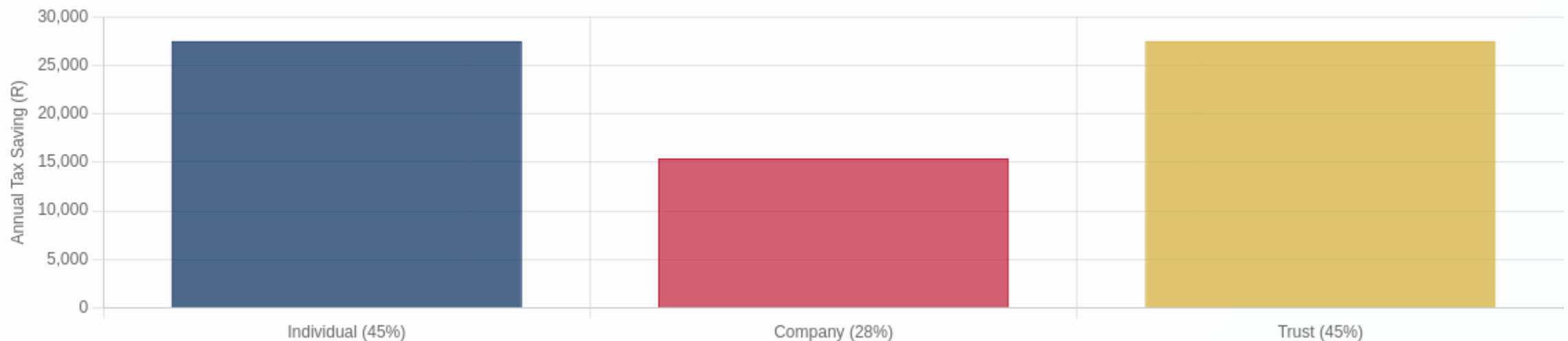
Example: R1M property = R15,400 annual tax saving at 28%

Trusts

- 45% trust tax rate
- Flexible distribution options
- ★ Estate planning benefits

Example: R1M property = R27,500 annual tax saving at 45%

Tax Savings Comparison



Tax Planning Strategies

Maximizing Section 13Sex Benefits

Entity Structure

- ✓ Choose optimal entity type (Individual/Company/Trust)
- ✓ Consider group structure benefits
- ✓ Plan for succession and estate duty

Portfolio Management

- ✓ Maintain minimum 5-unit threshold
- ✓ Strategic timing of acquisitions
- ✓ Balance portfolio mix

Cost Management

- ✓ Optimize purchase price allocation
- ✓ Plan improvements strategically
- ✓ Document all qualifying costs

Key Considerations

Do's

- 📄 Maintain detailed cost records
- 📄 Regular portfolio review
- 📄 Consult tax professionals

Don'ts

- Mix personal and business use
- Ignore recoupment implications
- Neglect compliance requirements

Always consult with qualified tax and legal professionals for specific advice related to your situation.

Important Notice

Disclaimer & Contact Information



Disclaimer

The accuracy of this information is not guaranteed by House of Realtors, its staff, Directors or any affiliated entities. Consult tax and legal professionals before making any investment decisions with respect to the information herein contained.

Additional Considerations:

- Tax laws are subject to change
- Individual circumstances may vary
- Professional advice is recommended

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