

The Urban Development Zone Tax Incentive

WHAT IS IT?

The Cape Town UDZ tax incentive is a SARS administered tax incentive encouraging residential and commercial development in certain specified areas in Cape Town, in which 1onALBERT will be located. The tax incentive offers property owners a tax deduction against taxable income over eleven years and could act as a deferment of tax payable until the unit is sold.

HOW DOES IT WORK?

The purchaser of a redeveloped residential unit located in the UDZ will be able to claim an income tax allowance. 55% of the purchase price is deductible. The tax allowance is claimed over eleven years at a rate of 20% in the first year and 8% in the succeeding ten years. The tax allowance is recouped on the sale of the apartment for an amount greater than or equal to cost, which can be deferred for as long as the owner holds the property.

EXAMPLE:

On a residential unit with a cost of R2 million, the purchaser is entitled to claim a tax allowance of 55% of the cost of the unit, which equals R1 100 000 over eleven years.

The R1 100 000 tax allowance is claimed over eleven years at a rate of 20% in the first year and 8% in the succeeding ten years which results in an annual income tax deduction of R220 000 in the first year and R88 000 in the subsequent ten years.

DISCLAIMER

Please note that the UDZ tax incentive contains a number of requirements which must be met in order to claim the tax allowance. The examples detailed above are of a generic nature and may not apply in certain instances. The developer and its affiliates do not provide tax advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax advice. You should consult your own tax advisors before engaging in any transaction.