URBAN DEVELOPMENT ZONES

Keith Engel
Chief Director: Legal Tax Design
National Treasury
Objectives

- To regenerate blighted urban areas
- To prevent the permanent loss of sunken capital
- To reduce urban sprawl
- To indirectly promote integration of diverse groups
Listed Zones

- Buffalo City
- Cape Town
- Ekurhuleni
- Emalahleni
- Emfuleni
- eThekwini
- Jo’burg Metro
- Mangaung

- Matjhabeng
- Mbombela
- Msunduzi
- Nelson Mandela Metro
- Polokwane
- Sol Plaatje
- Tswane
- [Mafikeng]
The erection of new buildings (plus extensions or additions of a 1000 m² minimum) are depreciable:
- At 20% for the first year
- At 5% for each of the following 16 years

Improvements of existing structures are:
- At 20% for each of 5 years

Without this incentive, buildings used in trade are generally depreciable at 0%-5%.
Parties purchasing the building from a developer receive the following depreciation rate:
- 55% x 20%/5% for new buildings
- 30% x 20% for improvements

1st purchasers cannot use the incentive if developers already used the incentive.

Note: Developers who plan to sell the site shortly after construction receive little tax benefit because of the basic recoupment rules (see final slide).
Trade & Ownership Requirements

- **Trade Requirement:**
  - Only the portion used solely for trade is eligible for the incentive (i.e. has a profit objective)
  - The incentive begins as the building is brought into use

- **Ownership Requirement:**
  - The incentive is allowed only for owners
  - Lessees do not receive the incentive (but can deduct the lease payment if the lease is for trade)
Eligible/Ineligible UDZ Costs

**Eligible**
- Demolition
- Excavation
- Adjoining water, power & parking
- Adjoining drainage and security
- Adjoining waste disposal
- Adjoining frontage access (e.g. sidewalks)
- Other construction (e.g. architect & landscape)

**Ineligible**
- Land
- Transfer duty
- Transfer fees
- Borrowing & financing (may be deductible under other provisions)
- Repairs (may be deductible under other provisions)
Owner-Builder Return Documentation

- Municipal certificate confirming UDZ location
- Municipal certificate of occupancy
- Calculation of costs
1st Purchaser Return Documentation

- UDZ 3 certificate from the developer confirming that:
  - The developer incurred costs equal to at least 20% of the purchase price
  - The developer has not utilised the UDZ incentive
  - The developer constructed the entire building or an area of at least 1000 m²
  - The building is located in a UDZ area & certificate of occupancy

- Calculation of costs and 55%/30% ratio
Trade Cessation or Sale

- UDZ building cessation of trade
  - UDZ depreciation terminates in the following taxable year
- UDZ building sale
  - UDZ depreciation terminates in the following taxable year
  - Ordinary revenue for prior depreciation to the extent the sale gain reflects recoupment
31 March 2009 Cut-Off Date