Addendum to Clause 12 of the Second Batch for Comment – Revenue Laws Amendment Bill, 2005

It is proposed for the purposes of the formula that proceeds from the sale of the asset be reduced by the selling costs which will result in a more equitable allocation of gains and losses. The use of the word "reduced" in the proposed subparagraph (5) means that the proceeds cannot be reduced below zero to become a negative figure. Furthermore, the reduction of proceeds applies solely for the purposes of applying the proceeds formula. Selling expenses will continue to be treated as post-valuation date expenditure for the purposes of the kink tests in paragraphs 26 and 27, and for the purposes of determining a capital gain or loss under paragraph 25.

Alternative approach

An alternative to the proposed subparagraph (5) is an amendment to the formulae used in paragraph 30.

$$Y = B + \frac{[(P - S - B) \times N]}{T + N}$$

$$P = (R - S) \times \frac{B}{A - S + B}$$

$$Y = B + \frac{[(P_1 - S - B_1) \times N]}{T + N}$$

$$P_1 = (R_1 - S) \times \frac{B_1}{A_1 - S + B_1}$$

Where "S" represents expenditure contemplated in paragraph 20(1)(c)(i) to (iv), incurred directly for the purposes of disposing of that asset, limited to the amount from which it is deducted in the relevant formula.

This has the advantage of retaining a consistent definition of proceeds and base cost, with the disadvantage of more complex formulae. Comment on the alternative approach is requested.