

URBAN DEVELOPMENT ZONES:

*This **draft legislation** is released for public information. The amendments contained in this draft are merely proposals which are **subject to change and final approval by the Minister of Finance**. Early comments on this draft will be considered for possible inclusion in a revised draft Bill.*

It is the intention to release the revised draft Bill in the first seven days of October, prior to the commencement of the informal Parliamentary process.

There will be an opportunity to comment on the revised draft Bill, either directly to the National Treasury and SARS or during the public hearings in the Parliamentary Committees in mid-October 2003.

Due to time constraints, it will not be possible to respond individually to comments received. However, receipt of comments will be acknowledged and fully considered by the National Treasury and SARS.

Comments may be submitted to either:

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Insertion of section 13quat in Act 58 of 1962

. The following section is hereby inserted in the Income Tax Act, 1962, after section 13bis:

“Deductions in respect of erection or improvement of buildings in urban development zones

13quat. (1) For the purposes of this section—
'certificate of occupancy' means a certificate contemplated in section 14(1) of the National Building Regulations and Building Standards Act, 1977 (Act No. 103 of 1977);

'cost' means the costs (other than borrowing or finance costs) actually incurred to erect or extend, add to or improve a building and includes any costs incurred—

- (a) in demolishing any existing building or part thereof; and
- (b) in respect of structures or works directly adjoining the building so erected, extended, added or improved, for purposes of providing—
 - (i) water, power or parking with respect to that building;
 - (ii) drainage or security for that building;
 - (iii) means of waste disposal for that building; or
 - (iv) access to that building, including the frontage thereof;

'demarcated area' means an area demarcated by a local authority in terms of subsection (7);

(2) There shall be allowed to be deducted from the income of the taxpayer an allowance (to be known as the urban development zones allowance) determined in terms of subsection (3), in respect of the cost of the erection, extension, addition or improvement of any commercial or residential building within a demarcated area—

- (a) which was commenced by the taxpayer on or after **(date of tabling)** in terms of a contract formally and finally signed by all parties thereto on or after that date; and
- (b) in respect of which a certificate of occupancy has been granted.

(3) The amount of the allowance contemplated in subsection (2)—

- (a) in the case of the erection of any new building or the extension of or addition to any building (other than a building in respect of which paragraph (b) applies), is equal to—
 - (i) 20 per cent of the cost to the taxpayer to erect that building, which is deductible in the year of assessment during which that building is brought into use by that taxpayer for the purposes of that taxpayer's trade; and
 - (ii) five per cent of that cost in each of the 16 succeeding years of assessment; or

(b) in the case of the improvement of any existing building or part of a building (including any extension or addition which is incidental to that improvement) where the existing structural or exterior framework thereof is preserved, is equal to—

- (i) 20 percent of the cost to the taxpayer of the extension, addition or improvement, which is deductible in the year of assessment during which the part of the building so extended, added or improved is brought into use by the taxpayer for the purposes of that taxpayer's trade; and
- (ii) 20 per cent of that cost in each of the four succeeding years of assessment.

(5) No deduction shall be allowed under this section, unless the taxpayer has together with the tax return for the year of assessment in which the deduction is claimed under subsection (4)(a)(i) or (b)(i), provided to the Commissioner—

- (a) a certificate from the local authority confirming that the building is located within a demarcated area of that local authority;
- (b) the total amount of the costs to the taxpayer of the erection, extension, addition or improvement and the extent that those costs relate to any portion of the building in respect of which a certificate of occupancy has been granted;
- (c) particulars as to whether the costs were incurred in respect of the erection of a building as contemplated in subsection (3)(a) or the extension, addition or improvement of a building as contemplated in subsection (3)(b).

(6) No deduction shall be allowed under this section in respect of any building which has been disposed of by the taxpayer during any previous year of assessment.

(7) For the purposes of this section, the municipal councils for the municipal areas of Buffalo City, Cape Town, Ekurhuleni, Emalahleni, Ethikwini, Johannesburg, Mafikeng, Mangaung, Matjabeng, Mbombela, Msunduzi, Nelson Mandela, Polokwane, Sol Plaatjie and Tshwane must each designate by notice in the *Gazette* a single inner city district within its municipal boundaries—

- (a) which is consistent with that municipality's integrated development plan adopted and undertaken in terms of Chapter 5 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);
- (b) which constitutes a priority area within the economic development strategy for the municipal council which is developed in terms of section 26(c) of the Local Government: Municipal Systems Act, 2000;
- (c) where formal partnership arrangements between the municipal council and its business community have been implemented by way of any contract to promote urban development within that inner city district;
- (d) which proportionately contributes or previously contributed the largest portion of the total receipts of the relevant municipality in the form of rates and taxes and where the contribution from that district is declining; and
- (e) where additional measures have been implemented by the municipal council to support the regeneration of that district, including any capital or operational expenditure or special tariffs for categories of residential, commercial or industrial users.

(8) A municipal council may publish the notice as contemplated in subsection (7) only after that council has proved to the Minister that the area it intends to demarcate complies with the provisions of subsection (7).

(9) The Commissioner must on an annual basis submit a report to the Minister containing information relating to—

- (a) the number of taxpayers which have during the relevant year become entitled to claim an allowance in terms of this section;
- (b) the total amount of the costs to those taxpayers which is or will be allowable as a deduction in terms of this section; and
- (c) the total amount of the deductions by taxpayers allowed in that year in terms of this section.”.