

INTERPRETATION NOTE: NO. 47 (Issue 4)

DATE: 24 March 2020

ACT : INCOME TAX ACT 58 OF 1962
SECTION : SECTION 11(e)
SUBJECT : WEAR-AND-TEAR OR DEPRECIATION ALLOWANCE

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Preamble

In this Note unless the context indicates otherwise –

- “**allowance**” means the wear-and-tear or depreciation allowance granted under section 11(e);
- “**Schedule**” means a Schedule to the Act;
- “**qualifying assets**” mean machinery, plant, implements, utensils and articles qualifying for the allowance;
- “**section**” means a section of the Act;
- “**Tax Administration Act**” means the Tax Administration Act 28 of 2011;
- “**the Act**” means the Income Tax Act 58 of 1962;
- “**Value-Added Tax Act**” means the Value-Added Tax Act 89 of 1991; and
- any other word or expression bears the meaning ascribed to it in the Act.

All guides, interpretation notes and rulings referred to in this Note are available on the SARS website at www.sars.gov.za. Unless indicated otherwise, the latest issue of these documents should be consulted.

1. Purpose

This Note provides guidance on the circumstances in which the wear-and-tear or depreciation allowance in section 11(e) may be claimed as a deduction.

This Note also provides guidance on the application and interpretation of section 11(e) in relation to the determination of –

- the “value” of a qualifying asset on which the allowance is based; and
- the acceptable write-off period of a qualifying asset.

The **Annexure** contains a schedule of write-off periods for various qualifying assets which are acceptable to SARS.

This Note is a binding general ruling made under section 89 of the Tax Administration Act on section 11(e) in so far as it relates to the determination –

- of the value of an asset for purposes of section 11(e); and
- the amount that will qualify as an allowance.

This ruling applies to any qualifying asset brought into use on or after 24 March 2020.¹

2. Background

Section 11(a) allows a deduction for expenditure and losses actually incurred in the production of income, provided such expenditure and losses are not of a capital nature.

Over many years South African courts have developed or adopted a number of principles for determining whether expenditure is of a capital or revenue nature.²

Although capital expenditure may be incurred in the production of income and in carrying on a trade, it is nevertheless excluded from deduction under the general deduction formula in section 11(a). The Act addresses this issue by granting a deduction for specific types of capital expenditure incurred in carrying on a trade, usually in the form of an allowance spread over a number of years based on the cost or value of an asset. Section 11(e) is one such specific provision and provides for an allowance on the value of any machinery, plant, implements, utensils and articles used by the taxpayer as owner in the carrying on of a trade.

3. The law

Section 11(e)

11. General deductions allowed in determination of taxable income.—For the purpose of determining the taxable income derived by any person from carrying on any trade, there shall be allowed as deductions from the income of such person so derived—

- (e) save as provided in paragraph 12(2) of the First Schedule, such sum as the Commissioner may think just and reasonable as representing the amount by which the value of any machinery, plant, implements, utensils and articles (other than machinery, plant, implements, utensils and articles in respect of which a deduction may be granted under section 12B, 12C, 12DA, 12E(1), 12U or 37B) owned by the taxpayer or acquired by the taxpayer as purchaser in terms of an agreement contemplated in paragraph (a) of the definition of “instalment credit agreement” in section 1 of the Value-Added Tax Act and used by the taxpayer for the purpose of his or her trade has been diminished by reason of wear and tear or depreciation during the year of assessment: Provided that—

- (i)

¹ Binding General Ruling (Income Tax) 7 “Wear and Tear or Depreciation Allowance (Issue 3).

² See the *Comprehensive Guide to Capital Gains Tax* in Chapter 2 for commentary on these principles, many of which were adopted from the United Kingdom and other Commonwealth countries.

- (iA) no allowance may be made in respect of any machinery, plant, implement, utensil or article the ownership of which is retained by the taxpayer as a seller in terms of an agreement contemplated in paragraph (a) of the definition of "instalment credit agreement" in section 1 of the Value-Added Tax Act;
- (ii) in no case shall any allowance be made for the depreciation of buildings or other structures or works of a permanent nature;
- (iiA) where any machinery, implement, utensil or article qualifying for an allowance under this paragraph is mounted on or affixed to any concrete or other foundation or supporting structure and—
 - (aa) the foundation or supporting structure is designed for such machinery, implement, utensil or article and constructed in such manner that it is or should be regarded as being integrated with the machinery, implement, utensil or article; and
 - (bb) the useful life of the foundation or supporting structure is or will be limited to the useful life of the machinery, implement, utensil or article mounted thereon or affixed thereto,

the said foundation or supporting structure shall for the purposes of this paragraph not be deemed to be a structure or work of a permanent nature but shall for the purposes of this Act be deemed to be a part of the machinery, implement, utensil or article mounted thereon or affixed thereto;
- (iii)
- (iiiA) no allowance shall be made under this paragraph in respect of any machinery, implement, utensil or article of which the cost has been allowed as a deduction from the taxpayer's income under the provisions of section 24D;
- (iv)
- (v) the value of any machinery, implements, utensils or articles used by the taxpayer for the purposes of his trade shall be increased by the amount of any expenditure (other than expenditure referred to in paragraph (a)) which is incurred by the taxpayer in moving such machinery, implements, utensils or articles from one location to another;
- (vi)
- (vii) where the value of any such machinery, implements, utensils and articles acquired by the taxpayer on or after 15 March 1984 is for the purposes of this paragraph to be determined having regard to the cost of such machinery, implements, utensils and articles, such cost shall be deemed to be the cost which a person would, if he had acquired such machinery, implements, utensils and articles under a cash transaction concluded at arm's length on the date on which the transaction for the acquisition of such machinery, implements, utensils and articles was in fact concluded, have incurred in respect of the direct cost of the acquisition of such machinery, implements, utensils and articles, including the direct cost of the installation or erection thereof; and
- (viii)

- (ix) where any such machinery, plant, implement, utensil or article was used by the taxpayer during any previous year of assessment or years of assessment for the purposes of any trade carried on by such taxpayer, the receipts and accruals of which were not included in the income of such taxpayer during such year or years the period in use of such asset during such previous year or years shall be taken into account in determining the amount by which the value of such machinery, plant, implement, utensil or article has been diminished;

4. Application of the law

4.1 General principles

4.1.1 Qualifying assets

Section 11(e) provides for the deduction of a wear-and-tear allowance on qualifying assets used for the purposes of trade which are –

- owned by the taxpayer; or
- acquired by the taxpayer as purchaser under an “instalment credit agreement” as defined in paragraph (a) of the definition of that term in section 1(1) of the Value-Added Tax Act.

Paragraph (a) of the definition of “instalment credit agreement” in section 1(1) of the Value-Added Tax Act reads as follows:

“[I]nstalment credit agreement” means any agreement entered into on or after the commencement date whereby any goods consisting of corporeal movable goods or of any machinery or plant, whether movable or immovable—

(a) are supplied under a sale under which—

- (i) the goods are sold by the seller to the purchaser against payment by the purchaser to the seller of a stated or determinable sum of money at a stated or determinable future date or in whole or in part in instalments over a period in the future; and
- (ii) such sum of money includes finance charges stipulated in the agreement of sale; and
- (iii) the aggregate of the amounts payable by the purchaser to the seller under such agreement exceeds the cash value of the supply; and
- (iv) (aa) the purchaser does not become the owner of those goods merely by virtue of the delivery to or the use, possession or enjoyment by him thereof; or
- (bb) the seller is entitled to the return of those goods if the purchaser fails to comply with any term of that agreement; or

The “commencement date” referred to in the definition of “instalment credit agreement” is 30 September 1991.

4.1.2 Non-qualifying assets

No allowance will be allowed on non-qualifying assets. These assets are –

- assets used by a person carrying on farming activities, which constitute assets contemplated in paragraph 12(1) of the First Schedule;³
- assets for which a deduction may be granted under section 12B, 12C, 12DA, 12E(1),⁴ 12U or 37B.⁵ The exclusion of these assets applies even if a higher allowance would otherwise have resulted under section 11(e). No deduction is permissible under section 11(e) for assets of a “small business corporation”⁶ (SBC) for which an allowance is granted under section 12E(1). However, for assets referred to in section 12E(1A), the SBC may elect to be granted either the 50:30:20 allowance under section 12E(1A) or the allowance under section 11(e);
- assets which are not owned by the person seeking to claim the allowance (except assets purchased under an “instalment credit agreement” as contemplated in paragraph (a) of the definition of “instalment credit agreement” in section 1(1) of the Value-Added Tax Act);⁷
- assets the ownership of which is retained by the taxpayer seeking to claim the allowance as a seller under an “instalment credit agreement” as contemplated in paragraph (a) of the definition of “instalment credit agreement” in section 1(1) of the Value-Added Tax Act;⁸
- buildings or other structures or works of a permanent nature;⁹ and
- assets of which the cost has been allowed as a deduction from the taxpayer’s income under section 24D (expenditure on a National Key Point or specified important place or area).¹⁰

Section 23B(1) and (2), which address the claiming of deductions under more than one provision of the Act, must also be borne in mind.

Buildings or other structures or works of a permanent nature

The allowance is not claimable on buildings or other structures or works of a permanent nature.¹¹ There is an exception for qualifying foundations or supporting structures (see **4.2.2**).¹²

In ITC 1313 the court accepted that “permanent” did not mean “everlasting”.¹³

³ Under the opening words of section 11(e) read with paragraph 12(2) of the First Schedule.

⁴ The reference to section 12E was replaced with section 12E(1) by the Taxation Laws Amendment Act 7 of 2010 in order to limit the scope of application of this paragraph only to sub-section (1) of section 12E and not to the entire section 12E.

⁵ Under the opening words of section 11(e).

⁶ As defined in section 12E(4)(a).

⁷ Under the opening words of section 11(e).

⁸ Paragraph (iA) of the proviso to section 11(e).

⁹ Paragraph (ii) of the proviso to section 11(e).

¹⁰ Paragraph (iiiA) of the proviso to section 11(e).

¹¹ Paragraph (ii) of the proviso to section 11(e).

¹² Paragraph (iiA) of the proviso to section 11(e).

¹³ (1980) 42 SATC 197 (R) at 201.

In *Macdonald Ltd v Radin NO & the Potchefstroom Dairies & Industries Co Ltd*¹⁴ the court considered the question whether an article, originally movable, has become immovable through annexation by human agency to realty. Innes CJ stated the following:¹⁵

“As was pointed out in *Olivier v Haarhof* (T.S., 1906, p. 497) each case must depend on its own facts; but the elements to be considered are the nature of the particular article, the degree and manner of its annexation, and the intention of the person annexing it. The thing must be in its nature capable of acceding to realty, there must be some effective attachment (whether by mere weight or by physical connection) and there must be an intention that it should remain permanently attached. The importance of the first two factors is self-evident from the very nature of the inquiry. But the importance of intention is for practical purposes greater still; for in many instances it is the determining element.”

Set out below are assets which have been held by the courts to comprise buildings or other structures or works of a permanent nature:

- Buildings on leased land required to be removed by lessee on termination of lease¹⁶
- Fencing¹⁷
- Partition erected to protect taxpayer’s stock of manufactured goods¹⁸
- Radiators, heaters and steam-pipes forming part of installations for heating and sterilization in a building used as a nursing home¹⁹
- Rails and sleepers of a railway²⁰
- Railway siding²¹
- Weirs²²
- Wood and iron buildings constructed of old material attached to the soil²³

In *SIR v Charkay Properties (Pty)Ltd*²⁴ the court held that a lessor was entitled to the allowance under section 11(e) on demountable partitions installed in an office building in lieu of interior walls. Trollip JA, in holding that the demountable partitions were not structures or works of a permanent nature, stated that –²⁵

“before an article attached to a building of a permanent nature can be said to form part of it for the purposes of proviso(ii) to s 11(e) of the Act, it must have been structurally integrated or otherwise physically incorporated into the building permanently in such a way that it has lost its own, separate identity and character; the question whether or not that has occurred is one of fact”.

¹⁴ 1915 AD 454.

¹⁵ At 466.

¹⁶ ITC 722 (1951) 17 SATC 490 (C).

¹⁷ ITC 225 (1931) 6 SATC 158 (U).

¹⁸ ITC 773 (1953) 19 SATC 308 (C).

¹⁹ ITC 866 (1958) 22 SATC 397 (T).

²⁰ *The Rhodesia Railways Ltd & others v COT (Southern Rhodesia)* 1925 AD 438, 1 SATC 133.

²¹ ITC 271 (1933) 7 SATC 170 (U).

²² *Koffyfontein Estates Ltd v COT* 1917 TPD 259.

²³ ITC 370 (1936) 9 SATC 313 (U).

²⁴ 1976 (4) SA 872 (A), 38 SATC 159.

²⁵ At SATC 169.

The court also made the following *obiter* comment regarding the type of building covered by the proviso:²⁶

“As a building can sometimes be a movable or temporary structure (*Pettersen v Sorvaag* 1955(3) SA 624 (AD); *Le Sueur’s case*(*supra*) at 717B-D, I think that ‘buildings’ in the proviso, like ‘structures or works’, is also confined to buildings of a permanent nature (9 SATC 313/4).”

In *COT v C*²⁷ the Zimbabwe Appellate Division also concluded that based on the facts of the case demountable partitions in question were “articles” and not structures or works of a permanent nature.

In ITC 1313²⁸ The Rhodesia Special Court had to consider whether carports erected at two airports were structures or works of a permanent nature. The carports, some of which had stood for eight or nine years, were designed and intended to be removable and could be quickly and easily dismantled for erection elsewhere or for storage. Considering the nature of the article and the appellants’ intention, the court found that the carports were not structures or works of a permanent nature.

4.1.3 Improvements to existing assets

A distinction must be drawn between the cost of repairs qualifying for immediate deduction under section 11(d) and improvements. This distinction is addressed in Interpretation Note 74 “Deduction and recoupment of expenditure incurred on repairs”.

In ITC 491²⁹ it was held that in the ordinary sense of the word, “repairs” means replacement or renewal of something that has become defaced or worn out or worn down by use or possibly by wear-and-tear.

In ITC 617³⁰ the court noted that repair is restoration by renewal or replacement of subsidiary parts of the whole. Renewal as distinguished from repair is reconstruction of the entirety, meaning by the entirety not necessarily the whole but substantially the whole subject matter under discussion. The facts and circumstances of each case must be taken into account in determining whether a particular expense constitutes a repair qualifying for immediate deduction under section 11(d) or an improvement qualifying for a deduction over a period under section 11(e).

Expenditure on improvements to an asset must generally be written off over the remaining useful life of the asset. However, it may happen that the improvements are of such a nature that they result in the useful life of the asset being extended. In these circumstances any remaining pre-existing tax value plus the cost of the improvements must be written off over the remaining extended useful life of the asset.

4.1.4 Amount allowable

The amount of the allowance will be the amount that the Commissioner regards as just and reasonable (see 4.2.1).

²⁶ At SATC 167.

²⁷ 1981 (2) SA 298 (ZA), 43 SATC 9.

²⁸ (1980) 42 SATC 197 (R).

²⁹ (1941) 12 SATC 77 (U).

³⁰ (1946) 14 SATC 474 (U).

4.1.5 Use requirement

The allowance is deductible only to the extent that the qualifying asset is *used* by a taxpayer for purposes of his or her trade. The asset will be written off over its useful life.

An asset held in reserve or as a replacement in the event of a breakdown is not considered to be “used” but rather “held” and accordingly will not qualify for the allowance until such time as it is brought into use by the taxpayer.

*Lexico.com*³¹ defines “use” to mean –

“[t]ake, hold, or deploy (something) as a means of accomplishing or achieving something; employ; take or consume”.

Thus, in order for the use requirement to be met, the taxpayer must have deployed, applied or operated the asset in the manner or for the purpose for which it was acquired. For example, in the textile industry, sewing machines cannot be said to have been used for purposes of the taxpayer’s trade until such time as they are used to sew material together, since that is the purpose for which they were acquired. Merely assembling the machines without using them to sew will not suffice for purposes of fulfilling the “used” requirement.

4.1.6 Apportionment

The allowance for a qualifying asset that has not been used for the purposes of trade throughout the year of assessment must be apportioned. Apportionment will apply, for example, to an asset acquired and brought into use during the year of assessment or an asset disposed of during the year of assessment (see **4.3.8**). Similarly, the allowance will be unavailable once an asset has been decommissioned or mothballed, since it will have ceased to be “used” by the taxpayer.

4.2 Value of a qualifying asset for purposes of section 11(e)

4.2.1 General rule

Although the word “value” is not defined in section 11(e), it has always been the policy of SARS, unless otherwise prescribed, to regard the value of a qualifying asset for purposes of determining the amount of the allowance as the taxpayer’s cost of acquisition of the asset, that is, the cash cost excluding finance charges. The revaluation of an asset would, for example, have no effect on the value of the asset for purposes of determining the amount of the allowance.³² Examples of exceptions to this general rule are assets acquired by the taxpayer by donation, inheritance from a person dying before 1 March 2016, distribution *in specie* or from a connected person at a non-arm’s length price.

Under paragraph (vii) of the proviso to section 11(e), the acquisition cost of a qualifying asset is deemed to be the cost which a person would, if that person had acquired the qualifying asset under a cash transaction concluded at arm’s length on the date on which the transaction for the acquisition of that asset was in fact concluded, have incurred in respect of the direct cost of the acquisition of that asset, including the direct

³¹ www.lexico.com/definition/use [Accessed 17 March 2020].

³² In ITC 1546 (1992) 54 SATC 477 (C) a lessor acquired second-hand furniture and fittings at a bargain price from the liquidator of its lessee. The lessor attempted to claim the wear-and-tear allowance on a revalued amount, based on paragraph (vii) of the proviso to section 11(e). The lessor’s claim was rejected by the court which held that the allowance was properly claimable on the cost of the articles.

cost of its installation or erection. This deemed cost is referred to in this Note as the market value of the asset.

Under section 23C(1), any value-added tax payable (input tax) on acquisition of an asset must be excluded from the cost for purposes of calculating the allowance if the taxpayer is –

- a registered vendor; and
- is or was entitled under section 16(3) of the Value-Added Tax Act to a deduction of “input tax” as defined in section 1(1) of that Act.

The cost pertaining to the acquisition of an asset could, therefore, include –

- the original purchase price (excluding input tax to which the vendor is or was entitled, or including input tax if the vendor was not entitled to a deduction or the taxpayer was not a registered vendor);
- the shipping or delivery charges relating to the delivery of the asset; and
- the costs directly relating to the installation or erection of the asset.

Interest and finance charges must be excluded from the cost of the qualifying asset.

Section 24M(2) provides that if a person acquires an asset and the consideration includes an amount which cannot be quantified in the year of acquisition, so much of the consideration as cannot be quantified must be deemed not to have been incurred in the year of acquisition and instead deemed to be incurred only in the subsequent year of assessment in which it is quantifiable. If the asset is a depreciable asset, the person is given a “catch up” allowance in respect of the expenditure deemed to have been incurred in the subsequent year of assessment when it becomes quantifiable. The “catch up” allowance is equal to the sum of all allowances that the person would have been entitled to in any previous year had the expenditure been incurred in the year of acquisition.

4.2.2 Foundations and supporting structures

Under paragraph (iiA) of the proviso to section 11(e) any concrete or other foundation or supporting structure on which a qualifying asset is mounted or to which it is affixed is not regarded as a structure or work of a permanent nature, but is treated as part of that qualifying asset provided that –

- the foundation or supporting structure is designed for the asset and constructed in such manner that it is or should be regarded as being integrated with the asset; and
- the useful life of the foundation or supporting structure is or will be limited to the useful life of the asset mounted on it or affixed to it.

4.2.3 Moving costs

Paragraph (v) of the proviso to section 11(e) provides that the value of the qualifying asset must be increased by the amount of any expenditure incurred by the taxpayer in moving the asset from one location to another. Moving costs must thus be written off over the remaining estimated useful life of the asset. For example, if the asset is being written off over five years and moving costs are incurred in year 4, those costs will be allowed as a deduction in years 4 and 5. If the asset has been written off in full, the moving costs will be allowable in the year of assessment in which they are incurred.

4.2.4 Qualifying assets acquired by donation, inheritance, distribution *in specie* or at a non-arm's length price from a connected person

The allowance on a qualifying asset acquired by a taxpayer by donation, inheritance from a person dying before 1 March 2016, distribution *in specie* or at a non-arm's length price from a connected person is based on the market value of the asset. This market value is determined under paragraph (vii) of the proviso to section 11(e) (see 4.2.1).

Taxpayers must ensure that they have the necessary information or documentation readily available when requested by SARS to substantiate the arm's length price of an asset and the inclusion of any amount in the determination of the value of an asset.

The cost of an asset acquired from a deceased person or a deceased estate on or after 1 March 2016 is determined under section 9HA and section 25.

4.2.5 Limitation of allowance granted on a qualifying asset previously held by a connected person (section 23J)

Section 23J was inserted into the Act by section 38 of the Revenue Laws Amendment Act 35 of 2007, and replaced the connected person rule that was previously provided for under paragraph (viii) of the proviso to section 11(e). Section 23J was subsequently repealed by section 48 of the Taxation Laws Amendment Act 22 of 2012 with effect from 1 January 2013 in respect of depreciable assets acquired on or after that date.

For an explanation on how section 23J was applied before its repeal, see Issue 3 of this Note (2 November 2012).

4.2.6 Leased assets

The allowance granted to a lessor must be based on the cost of the asset less any residual value, as specified in the lease agreement. Many lease agreements, particularly those involving vehicles, provide for a residual value. This residual value is what the lessor expects the asset to be worth at the end of the lease. At the end of the lease the lessor will usually sell the asset to recover the residual. A lessee who has not returned an asset to the lessor in good condition or who has exceeded the agreed usage criteria (for example, a restriction of 100 000 kilometres over 54 months in the case of a vehicle), must often reimburse the lessor for a decline in the residual value. In this way the value of the asset at the end of the lease is assured. Section 11(e) permits a deduction for the amount by which the value of an asset has been diminished by reason of wear and tear or depreciation during the year of assessment. Since the portion of the cost of the asset representing the residual value is guaranteed (that is, it is not subject to diminution in value), there is no justification for granting the allowance on that portion of the cost.

An asset with a cost of R100 leased with an agreed residual of R20, means that the value by which the asset is expected to depreciate over the period of the lease is R80. It is for this reason that lessors are required to reduce the cost of their leased assets by the residual value for the purposes of determining the allowance.

Should any initial amount paid by the lessee not form part of the income of the lessor for income tax purposes, it must be excluded from the lessor's cost of acquisition of the asset.

At the termination of the lease agreement the residual value is the value of the asset for income tax purposes and any further write-off or recoupment will depend on how the asset is dealt with. As far as the lessee is concerned, the recoupment provisions of section 8(5) will apply.

See also **4.3.3(a)** on the relationship between the write-off periods under the **Annexure** and the lease period.

4.2.7 Limitations of allowances to lessors of certain assets

Section 23A limits the capital allowances claimable by a lessor on “affected assets” under various capital allowance provisions including section 11(e). The sum of the deductions allowable on affected assets in a year of assessment under the targeted allowance provisions cannot exceed the taxable income derived during the year of assessment from “rental income”. The terms “affected asset” and “rental income” are defined in section 23A(1). The taxable income is determined before the deduction of the capital allowances.

For detailed commentary on section 23A, see Interpretation Note 53 “Limitation of Allowances Granted to Lessors of Affected Assets”.

Under section 23G the lessor in a sale and leaseback arrangement as defined in section 23G(1) is denied an allowance under, amongst others, section 11(e) if the receipts or accruals of the lessee or sub-lessee in that arrangement do not constitute income.

4.2.8 Qualifying assets acquired in a foreign currency

Section 25D provides that if any expenditure is incurred by a taxpayer in any currency other than the currency of the Republic of South Africa, it must be translated to rand by applying the spot rate on the date on which the expenditure was so incurred.

A natural person or trust (other than a trust which carries on a trade) may, however, elect that all amounts of expenditure incurred in a foreign currency be translated into rand by applying the average exchange rate for the relevant year of assessment [section 25D(3)].

Special rules apply when the expenditure is attributable to that taxpayer’s permanent establishment outside the Republic and when the taxpayer is a headquarter company, domestic treasury management company or international shipping company. See Interpretation Note 63 “Rules for the Translation of Amounts Measured in Foreign Currencies other than Exchange Differences Governed by Section 24I and the Eighth Schedule” for a detailed discussion on this topic.

4.3 Policies on the determination of the amount of the allowance

4.3.1 Withdrawal of permission to use the debtor accounting system

This policy has been withdrawn for any asset let under an agreement entered into during any year of assessment commencing on or after 1 March 2010. For an explanation on how this policy was implemented see Issue 3 of this Note dated 2 November 2012.

4.3.2 Methods for determining the allowance

In determining the allowance, taxpayers may elect between –

- the diminishing-value method (under this method the allowance for a year of assessment is calculated on the remaining value (also known as the income tax value), that is, the cost of the qualifying asset less an allowance for the previous years of assessment); or
- the straight-line method (under this method the allowance is claimed in equal instalments over the expected useful life of the asset).

It is unnecessary for a taxpayer to notify the Commissioner when changing the method for determining the allowance. Taxpayers must ensure that they have the necessary records supporting the write-off of all assets readily available, should these be requested by the Commissioner.

4.3.3 Write-off periods

Under the diminishing-value method, the allowance must be determined on the income tax value of a qualifying asset during each year of assessment in which the asset is used for the purposes of trade. A taxpayer using the diminishing-value method that wishes to adopt the straight-line method must write off the income tax value of existing assets in equal instalments over their remaining estimated useful lives.

Example 1 – Change from the diminishing-value method to the straight-line method

Facts:

A taxpayer purchased an asset having an estimated useful life of five years at the beginning of year 1 at a cost of R5 400. For the first two years the taxpayer claimed the allowance using the diminishing-value method. At the beginning of year 3 the taxpayer changed to the straight-line method. Determine the wear-and-tear allowance for each of the five years.

Result:

	R
Original cost	5 400
Less: Allowance for year (R5 400 × 20%)	<u>(1 080)</u>
Income tax value at end of year 1	4 320
Less: Allowance for year 2 (R4 320 × 20%)	<u>(864)</u>
Income tax value at end of year 2	<u>3 456</u>

Under the straight-line method, for years 3 to 5 the income tax value at the end of year 2 is written off in three equal instalments, that is, R3 456 / 3 = R1 152 a year.

Under the straight-line method the cost of an asset must be written off in equal annual instalments over its estimated useful life.

(a) Qualifying assets for which write-off periods have been listed in the Annexure

The **Annexure** contains a schedule of write-off periods that are acceptable to the Commissioner for assets that are written off on the straight-line method. These write-off periods are acceptable for assets that are used for purposes of trade, including a trade of leasing, and apply to any asset brought into use on or after 24 March 2020. The assets listed in the **Annexure** are of general application and not intended for specific industries.

Any application to write off an asset over a shorter period than that reflected in the **Annexure** must be fully motivated and submitted to the SARS Branch office where the taxpayer is on register for income tax purposes. The application must be lodged before submission of the return of income in which the allowance is to be claimed. Factors which may result in an asset having a shorter useful life than the write-off period specified in the **Annexure** could include the environment in which the asset operates and the intensity with which the asset is used. The factors which must be considered and proven when submitting the application to write off an asset earlier than the period provided in the **Annexure** are set out in paragraph (b) below.

An asset which is let for a period exceeding that prescribed in the **Annexure** must be written off over the period of the lease. In contrast, an asset let for a period shorter than that reflected in the **Annexure** must be written off over the period reflected in the **Annexure** unless a shorter period can be motivated as described in the preceding paragraph.

(b) Qualifying assets for which write-off periods have not been listed in the Annexure

The period of write-off of any asset not included in the **Annexure** must be determined by its expected useful life.

The following factors must be taken into account in determining the expected life of an asset:

- How long the taxpayer expects the asset to last.
- How the taxpayer expects to use the asset.
- Whether the asset is likely to become obsolete.
- Whether the effective life of the asset is limited to the life of a particular project.

The kind of information that could be useful in determining the expected useful life of an asset includes –

- manufacturer's specifications;
- independent engineering information;
- the taxpayer's own past experience with similar assets;
- the accounting write-off period; and
- the past experience of other users of similar assets.

If an asset is not included in the **Annexure**, taxpayers must ensure that they have the necessary information or documentation pertaining to the period of write-off readily available when requested by the Commissioner upon assessment or audit of the case as evidence of a reasonable write-off period for the asset in question.

A request to include the write-off period of an asset which does not appear in the Annexure may be sent by e-mail to **CITOpinions@sars.gov.za**. In order to be included in the schedule, the asset must not be unique or be used in a unique manner.

4.3.4 Used qualifying assets

A used or second-hand asset must be written off over its expected useful life, taking into account its condition. Simply because a second-hand asset is older than the write-off periods in the Annexure does not mean that it can be written off in full in the year of acquisition.

Example 2 – Write-off period of second-hand asset

Facts:

X acquired a four-year old delivery vehicle for use in X's business. The vehicle was in good condition and had done only 20 000 km. X estimated that the vehicle should last another three years.

Result:

According to the **Annexure**, delivery vehicles must be written off over four years. However, the vehicle is already four years old at the date of acquisition and taking its condition into account, its estimated useful life on acquisition is 3 years. The vehicle should therefore be written off over three years.

4.3.5 "Small" items

The cost of "small" items such as loose tools may be written off in full in the year of assessment in which they are acquired and brought into use. A "small" item in this context is one which normally functions in its own right, does not form part of a set and is acquired at a cost of less than R7 000 per item. The amount of R7 000 applies to any qualifying asset acquired on or after 1 March 2009.

A table and six chairs which plainly form part of a set can, for example, not be divided into individual independent items costing less than the specified amount. The cost of such a set amounting to R7 000 or more cannot be written off in full during the year of assessment in which the set was acquired and brought into use.

Also, the "small items" write-off does not apply to assets acquired by lessors for the purpose of letting.³³ Thus lessors that let small items such as DVDs, clothing, machinery, pallets or gas cylinders must depreciate these assets over their useful lives.

³³ Interpretation Note 47 dated 28 July 2009 did not prevent lessors from claiming the small items write-off of R7 000 for years of assessment commencing on or after 1 January 2009. Interpretation Note 47 (Issue 2) dated 11 November 2009 confirms that the small items write-off no longer applies to lessors and this modification took effect on the date of issue of that Note and applies to any asset acquired on or after that date.

4.3.6 Qualifying assets previously used to produce amounts that were not included in the taxpayer's income

Paragraph (ix) of the proviso to section 11(e) applies if –

- a qualifying asset was used by the taxpayer during any previous year of assessment or years of assessment for the purposes of any trade carried on by that taxpayer, and
- the receipts and accruals of that trade were not included in the taxpayer's income during that year or years.

This situation could occur, for example, when –

- an asset was used by a public benefit organisation (PBO) in a previous year of assessment during which its receipts and accruals were fully exempt from income tax, and the PBO became taxable on its trading activities in the current year of assessment because its income from such activities exceeded the threshold in section 10(1)(cN);
- an asset was used before the introduction of the residence basis of taxation for purposes of a foreign trade; or
- an asset was used in a “micro business” contemplated in the Sixth Schedule and the taxpayer became subject to normal tax because the turnover of the micro business exceeded the maximum threshold for such a business.

In these circumstances the Commissioner must take into account the period of use of the relevant qualifying asset during that previous year or years in determining the amount by which its value has been diminished.

Example 3 – Asset used to produce exempt income in previous years of assessment

Facts:

A taxpayer acquired a motor vehicle with an expected useful life of five years at a cost of R100 000. During the first three years, the vehicle was used by the taxpayer for trade purposes to generate exempt income. As from the commencement of year 4 the taxpayer's trade generated taxable income.

Result:

The allowance will be allowed only during the remaining two years of assessment (years 4 and 5) in which the asset was used for purposes of generating taxable income. The taxpayer will therefore be entitled to claim an allowance of only $R100\ 000 / 5 = R20\ 000$ a year during years 4 and 5.

4.3.7 Qualifying assets used for both private and business purposes

The allowance must be apportioned if an asset is used for private and business purposes, since the deduction is allowable only to the extent that the asset was used for the purposes of trade.

4.3.8 Qualifying asset not used for the whole year of assessment

The allowance must be apportioned for an asset that has not been used for the purposes of trade throughout the year of assessment. This situation could occur, for example, if the asset is –

- acquired and brought into use during a year of assessment;
- disposed of during the year of assessment; or
- used by a natural person in carrying on a trade in his or her own name and that person became insolvent or died during the year of assessment.

The allowance must be apportioned regardless of whether the straight-line method or diminishing-value method is used.

Sequestration

Before sequestration

Under section 25C the estate of a person before sequestration and that person's insolvent estate are deemed to be one and the same person for purposes of determining the amount of any allowance or deduction to which the insolvent estate may be entitled. The natural person before sequestration will therefore be entitled to only a *pro rata* share of the allowance, that is, the allowance calculated from the commencement of the year of assessment or date of commencement during the year of assessment up to and including the day before the date of sequestration.

On or after sequestration

An insolvent estate that continues to trade in the year of assessment in which sequestration commences will be entitled to a *pro rata* share of the allowance, that is, the allowance calculated from the date of sequestration until the end of the year of assessment or until the date of disposal of the asset if earlier. For further information, see Interpretation Note 8 "Insolvent Estates of Natural Persons".

Death

The comments here apply to persons dying on or after 1 March 2016.

A deceased person who used an asset for the purposes of trade is entitled to a *pro rata* portion of the allowance calculated from the commencement of the year of assessment up to and including the date of death.³⁴ Depending on the facts, a deceased estate or an heir or legatee that continues to use the asset in an income-producing trade will be able to claim a *pro-rata* portion of the allowance from the date on which the asset was acquired.

The amount of expenditure deemed to be incurred by the deceased estate when it acquires an asset from the deceased person and the amount of expenditure that an heir or legatee is deemed to have incurred upon acquiring an asset from the deceased estate is determined under section 9HA and section 25. Special rules within those sections apply if the disposal is to a surviving spouse.

³⁴ Under section 66(13)(a) a person who dies is required to submit a return of income for the period commencing on the first day of the relevant year of assessment and ending on the date of death.

4.3.9 Qualifying assets not yet brought into use for purposes of trade

A taxpayer that acquires an asset in one year of assessment and brings it into use for the purposes of trade in a subsequent year of assessment will be entitled to claim the wear-and-tear allowance only from the date on which the asset is brought into use in that subsequent year of assessment.

4.3.10 Personal-use assets commencing to be used for trade purposes

A person who acquires an asset for personal use and later deploys it in a trade will be entitled to an allowance based on the lower of cost and market value determined at the time the asset is first used in the trade. While the section 11(e) allowance is generally based on cost, it is unacceptable to use the original cost when the asset has been diminished in value as a result of personal use.³⁵ The expected useful life of the asset must be determined at the time it is brought into use in the trade having regard to its condition and it must be written off over that period.

If the asset was originally acquired for no consideration (for example, by donation or distribution *in specie*) or for a non-arm's length price from a connected person, it must be depreciated based on the lower of the original market value at the date of acquisition and the market value at the time it is brought into use in the taxpayer's trade.

Example 4 – Personal-use asset used for purposes of trade

Facts:

On 1 March of year 1 X acquired a passenger vehicle for personal use at a cost of R1 million. On 1 March of year 4 X commenced to use the vehicle wholly for the purposes of trade. The market value of the vehicle at that time was R600 000 and it was estimated to have a remaining useful life of three years.

Result:

According to the **Annexure**, passenger cars must be written off over five years. However, the Annexure does not apply in this instance and the vehicle must be written off over its remaining expected useful life of three years based on a reduced amount of R600 000.

5. Record-keeping

Section 29(1) of the Tax Administration Act provides that a person must keep the records, books of account or documents that –

- enable the person to observe the requirements of a tax Act;
- are specifically required under a tax Act or by the Commissioner by public notice; and
- enable SARS to be satisfied that the person has observed these requirements.

³⁵ Section 23(g).

The records should be retained by the person for a period of five years from the date of submission of the return.³⁶

Records of qualifying assets must be kept until the assets are disposed of and not merely until they are fully written off. Such records would include those relating to the original cost and accumulated allowances claimed. Such records will be required in order to determine any future recoupment of allowances under section 8(4)(a) and any capital gain on disposal of the assets.

Section 30(1) of the Tax Administration Act provides that the records referred to in section 29 must be kept or retained in –

- their original form in an orderly fashion and in a safe place;
- the form, including electronic form, as may be prescribed by the Commissioner in a public notice;³⁷ or
- a form specifically authorised by a senior SARS official.

These records should be available for inspection purposes by a SARS official to verify compliance with the requirements as explained above, or for purposes of an inspection, audit or investigation.³⁸

Records which are relevant to an audit or investigation or an objection or appeal must be retained until the audit or investigation is concluded or until the assessment or the decision becomes final in the case of an objection or appeal (in this case the five year retention period referred to above may be exceeded).³⁹

The following information and documentation for any qualifying asset on which an allowance was claimed must be available:

- The date of acquisition, the date on which it was brought into use and if disposed of, the date on which it was disposed of.
- The value of the asset as discussed in **4.2**.
- The write-off period of the asset and any information or documentation used in determining its write-off period (see **4.3.3**).
- The income tax value of the asset at the end of the immediately preceding year of assessment (any asset written off in full must be brought into account at a residual value of R1 for record purposes).
- If the asset is disposed of or scrapped, the price realised on disposal or scrapping of the asset, as well as the income tax value at the end of the immediately preceding year of assessment.

³⁶ Section 29(3)(a) of the Tax Administration Act.

³⁷ See GN 787 in GG 35733 of 1 October 2012.

³⁸ Section 31 of the Tax Administration Act.

³⁹ Section 32 of the Tax Administration Act.

6. Objection and appeal

A person claiming an allowance in a return of income and who is not satisfied with an adjustment to the allowance made by the Commissioner may object to the assessment.⁴⁰

A person entitled to object to an assessment must lodge an objection in the manner, under the terms, and within the period prescribed in the rules made by the Minister of Finance. The rules include the following:

- The prescribed form must be completed.
- The objection must be in writing, specifying in detail the grounds on which it is made.
- The objection must reach the Commissioner within a period of 30 business days after the date of the assessment.

Further information on the objection and appeal procedure is available in the *Dispute Resolution Guide: Guide On The Rules Promulgated In Terms Of Section 103 Of The Tax Administration Act, 2011* and Interpretation Note 15 “Exercise Of Discretion In Case Of Late Objection Or Appeal”.

SOUTH AFRICAN REVENUE SERVICE

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⁴⁰ Section 104(3) of the Tax Administration Act.

Annexure– Schedule of write-off periods acceptable to SARS

Asset	Proposed write-off period (in years)
Adding machines	6
<i>Air conditioners:</i>	
Window type	6
Mobile	5
Room unit	10
<i>Air conditioning assets (excluding pipes, ducting and vents):</i>	
Air handling units	20
Cooling towers	15
Condensing sets	15
<i>Chillers:</i>	
Absorption type	25
Centrifugal	20
Aircraft: Light passenger or commercial helicopters	4
Arc welding equipment	6
Artefacts	25
Balers	6
Battery chargers	5
Bicycles	4
Boilers	4
Bulldozers	3
Bumping flaking	4
Carports	5
Cash registers	5
Cell phone antennae	6
Cell phone masts	10
Cellular telephones	2

Asset	Proposed write-off period (in years)
Cheque writing machines	6
Cinema equipment	5
Cold drink dispensers	6
Communication systems	5
Compressors	4
<i>Computers</i>	
Main frame / servers	5
Personal	3
<i>Computer tablet and similar devices</i>	2
<i>Computer software (main frames)</i>	
Purchased	3
Self-developed	5
Computer software (personal computers)	2
Concrete mixers (portable)	4
Concrete transit mixers	3
Containers (large metal type used for transporting freight)	10
Crop sprayers	6
Curtains	5
Debarking equipment	4
Delivery vehicles	4
Demountable partitions	6
Dental and doctors equipment	5
Dictaphones	3
Drilling equipment (water)	5
Drills	6
Electric saws	6
Electrostatic copiers	6

Asset	Proposed write-off period (in years)
Engraving equipment	5
Escalators	20
Excavators	4
Fax machines	3
Fertiliser spreaders	6
Firearms	6
Fire extinguishers (loose units)	5
Fire detection systems	3
Fishing vessels	12
Fitted carpets	6
Food bins	4
Food-conveying systems	4
Fork-lift trucks	4
Front-end loaders	4
Furniture and fittings	6
Gantry cranes	6
Garden irrigation equipment (movable)	5
Gas cutting equipment	6
Gas heaters and cookers	6
Gearboxes	4
Gear shapers	6
Generators (portable)	5
Generators (standby)	15
Graders	4
Grinding machines	6
Guillotines	6
<i>Gymnasium equipment:</i>	
Cardiovascular equipment	2

Asset	Proposed write-off period (in years)
Health testing equipment	5
Weights and strength equipment	4
Spinning equipment	1
Other	10
Hairdressers' equipment	5
Harvesters	6
Heat dryers	6
Heating equipment	6
Hot water systems	5
Incubators	6
Ironing and pressing equipment	6
Kitchen equipment	6
Knitting machines	6
Laboratory research equipment	5
Lathes	6
Laundromat equipment	5
Law reports: Sets (Legal practitioners)	5
Lift installations (goods/passengers)	12
Magnetic Resonance Imaging Scanners	5
Medical theatre equipment	6
Milling machines	6
Mobile caravans	5
Mobile cranes	4
Mobile refrigeration units	4
Motors	4
Motorcycles	4
Motorised chainsaws	4
Motorised concrete mixers	3

Asset	Proposed write-off period (in years)
Motor mowers	5
Musical instruments	5
Navigation systems	10
Neon signs and advertising boards	10
Office equipment – electronic	3
Office equipment – mechanical	5
Oxygen concentrators	3
Ovens and heating devices	6
Ovens for heating food	6
Packaging and related equipment	4
Paintings (valuable)	25
Pallets	4
Passenger cars	5
Patterns, tooling and dies	3
Pellet mills	4
Perforating equipment	6
Photocopying equipment	5
Photographic equipment	6
Planers	6
Pleasure craft etc.	12
Ploughs	6
Portable safes	25
Power tools (hand-operated)	5
Power supply	5
Public address systems	5
Pumps	4
Race horses	4
Radar systems	5

Asset	Proposed write-off period (in years)
Radio communication equipment	5
Refrigerated milk-tankers	4
Refrigeration equipment	6
Refrigerators	6
Runway lights	5
Sanders	6
Scales	5
Security systems (removable)	5
Seed separators	6
Sewing machines	6
Shakers	4
Shop fittings	6
Solar energy units	5
Special patterns and tooling	2
Spin dryers	6
Spot welding equipment	6
Staff training equipment	5
Surge bins	4
<i>Surveyors:</i>	
Instruments	10
Field equipment	5
Tape-recorders	5
Telephone equipment	5
Television and advertising films	4
Television sets, video machines and decoders	6
Textbooks	3
Tractors	4
Trailers	5

Asset	Proposed write-off period (in years)
Traxcavators	4
Trolleys	3
Trucks (heavy duty)	3
Trucks (other)	4
Truck-mounted cranes	4
Typewriters	6
Vending machines (including video game machines)	6
Video cassettes	2
Warehouse racking	10
Washing machines	5
Water distillation and purification plant	12
Water tankers	4
Water tanks	6
Weighbridges (movable parts)	10
Wire line rods	1
Workshop equipment	5
X-ray equipment	5