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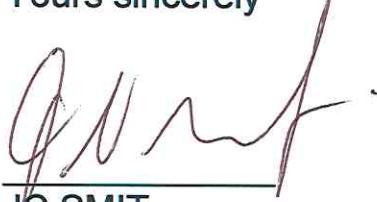
Attention : Veronica Bushney

Dear Madam

**RE: A BRIEF PRACTICAL APPROACH TO CALCULATION OF CAPITAL GAINS TAX**

Attached hereto a brief practical approach to calculation of capital gains tax, which you can forward to agents to assist them to make capital gains tax calculations.

Yours sincerely



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JC SMIT

# **BRIEF PRACTICAL APPROACH TO CALCULATION OF CAPITAL GAINS TAX**

Capital gains is enacted in the eighth schedule of the Income Tax Act 58 of 1962. It came into operation on the 1<sup>st</sup> of October 2001. It applies to a residents worldwide assets and to non-residents immoveable property or assets of a permanent establishment situated in South Africa.

## Assets exempt from capital gains tax.

Cars; motorbikes, boats, yachts, racehorses, greyhounds, clocks, shotguns, retirement benefits, personal use assets, and payments in respect of long-term insurance policies.

## Capital gain or loss

The difference between the proceeds and the base cost.

## Activation

Capital gains tax is triggered on the disposal, abandonment, scrappings, loss, donation, sale, expropriation and vesting of a trust asset in a beneficiary. The proceeds of a disposal is the amount received or accrued from the disposal. (selling price of property).

## Base cost

Expenditure which is included in the base cost is as follows:

Acquisition cost (purchase price);

Disposal cost (estate agents commission on sale of property);

Transfer cost (attorneys transfer cost when property was purchased);

Transfer duty and similar costs (transfer duty paid when the property was transferred into the name of the tax payer);

Remuneration or advises, (consultant or agents, town planning agents, engineering costs) and

Cost of moving an asset and improvements (adding a room or upgrading an asset example, installing a fireplace or air conditioner and transportation of asset).

Interest, rates, taxes, municipal service fees and maintenance are excluded from the base cost.

### Apportionment methods for an asset acquired before 1 October 2001

- Valuation as at 1 October 2001
- 20% of the proceeds
- Time apportionment base cost

Example: If an asset cost R220 000 on 1 October 1998 and was sold on 30 September 2022 for R450 000, as CGT was implemented on 1 October 2001, the base cost is:

Selling price	R450 000
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Purchase price	R220 000
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Capital gain for the period of 24 years	R230 000
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Capital gain per year R230 000 divided by 24 years = R9 583-33 per year	
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Base cost at 1 October 1998	
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Purchase price	R220 000
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3 years x R9583-22	<u>R 28 750</u>
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Base cost at 30 September 2022	R248 750
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When determining the number of years to be included in the time apportionment calculation, a part of the year is treated as a full year.

## Exclusions

Exclusions are as follow:

Natural persons R40 000-00 per year;

Natural persons in the year of death R300 000-00;

Primary residence owned by natural person used for domestic residential purposes where the proceeds do not exceed R2 000 000-00 the exclusion is the amount of the proceeds; Primary residence where the proceeds exceed R2 000 000-00 the exclusion is R2 000 000-00 and

2<sup>nd</sup> property R40 000-00.

## Inclusion rate

Inclusion rates is the percentage of the capital gain that is included (added to the taxpayer's taxable income).

The rates are as follows:

Individual 40% of the capital gain;

Companies 80% of the capital gain and

trusts 80% of the capital gain.

It has the effect that the taxpayer is only partially taxed on the amount of the capital gain.

## Income Tax Rates

Trust 45% (flat rate)

Companies 27% (flat rate)

Individuals scaled up to 45% thereafter flat rate.

<b>Taxable income</b>	<b>Rates of tax</b>
R 0 – R 237 100	18% of each R1
R 237 101 – R 370 500	R42 678 + 26% of the amount over R237 100

R 370 501 – R 512 800	R77 362 + 31% of the amount over R370 500
R 512 801 – R 673 000	R121 475 + 36% of the amount over R512 800
R 673 001 – R 857 900	R179 147 + 39% of the amount over R673 000
R 857 901 – R1 817 000	R251 258 + 41% of the amount over R857 900
R1 817 001 +	R 644 489 + 45% of the amount over R1 817 000

The net capital gain is multiplied with 45% in the case of trusts and companies and in the case of an individual with his personal tax rate which if his income is between 0 – R1 817 001-00 between 18% and 45% and his income is above R1 817 000-00 then 45%. It is the tax rate that is paid on the capital gain.

### Calculation

Particulars	Calculation
Proceeds of sale (selling price)	R
Less base cost (purchase price)	-R
Disposal cost (estate agents commission)	-R
Transfer duty (cost of transfer duty paid to state)	-R
Attorneys transfer fees	-R
Consultants or agents (town planners, engineers etc.)	-R
Cost of improvements (building costs)	-R
Transportation cost (transport of assets or materials)	-R
<b>TOTAL CAPITAL GAIN</b>	

Less exclusions R40 000 per year natural persons	-R
Particulars	Calculation
R300 000 natural person in the year of death (estate of deceased)	-R
Exclusion primary residence full selling price where the proceeds not exceed R2 000 000	-R
Exclusion where proceeds exceed R2 000 000 exclusion is R2 000 000	-R
Capital gain before inclusion rate	R
Inclusion rate 40% of gain in case of company 80% of the gain in case of a trust 40% of gain in case of an individual (percentage x the amount of the gain)	-R
TOTAL Capital gain after inclusion rate	R
Income tax rate applicable to capital gain after inclusion rate. Trust 45%, company 45%, individual 18% - 45% (tax rate x the capital gain after the inclusion rate)	R
<b>TOTAL CAPITAL GAINS TAX PAYABLE TO RECEIVER OF REVENUE</b>	R

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