

Budget changes 'positive for commercial property'

The latest Budget changes will positively affect smaller commercial property deals, which will be a boost to entry level investors, according to Auction Alliance CEO Rael Levitt.

"The transfer duty exemption and a new sliding scale rate will now apply to non-natural persons such as close corporations, companies and trusts.

"The transfer duty rate for those purchasing property into companies was 10% and the savings will be material for properties up to R1.5 million," says Levitt.

"There will be a significant effect as it is no longer more expensive from a transfer duty perspective to purchase property in a company or a trust as opposed to in a natural person's name," he adds.

The effect of the proposed change in the transfer duty rate on the purchase of a property with a price of R1.8 million, for example, will be a saving of R28,000 if the buyer is a natural person.

If the buyer is a non-natural person, the saving in transfer duty would be R83,000.

"This is a material difference," Levitt says.

Input tax

Regarding changes to notional input tax, it is not clear what the effect would be if a non-vendor seller of a property purchased a property from a non-vendor and did not incur VAT on the purchase.

"The non-vendor seller would then not have a VAT-inclusive acquisition price.

"What is clear, however, is that property owners would have to be in a position to provide evidence of the costs incurred relating to improvements to their properties and must provide this to the buyer (if the buyer is a vendor) to enable the buyer to calculate the amount that may be claimed as a notional input tax deduction."

Levitt says the change may negatively impact the value of properties where the municipal values have not been updated for a number of years, as well as properties owned for an extended period where the purchase price is substantially lower than the current selling price or market value.

"The notional input tax recovered by the purchaser may now potentially be less than the transfer duty paid upon transfer,"

explains Levitt.

"One must not forget that the property speculator market in SA is growing aggressively, with distressed properties being sold at below current market values.

"This growing sector will get a boost with these latest changes to transfer duty on companies as many of these traders operate through formal entities."

Hefty transfer duties off-putting

Levitt says that one of the greatest inhibitors to property speculation is large transfer duty charges, which make up a large percentage of the sales prices.

For house speculators - those who are buying and selling through auctions - the latest change is "brilliant news".

"The 10% standard charge on companies was a major cost that has now fallen away.

"We expect to see a large increase in property speculators and traders at our auctions, particularly for properties below R1.5 million, as buyers can now bid higher because the input costs have softened," Levitt adds.

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