

# Tax Alert

25 September 2009

## Interpretation Note 47 – Wear & Tear (s11(e) ITA)

The new Interpretation Note 47 ('IN47') offers guidance on claiming the so-called wear & tear allowance in s11(e) of the Income Tax Act. IN47 replaces the previous Practice Notes 15, 19 and 39 regarding s11(e).

IN47 has the status of a Binding General Ruling to the extent that it relates to the determination of the value of an asset and the determination of the amount that will qualify as an allowance, and applies in respect of any asset brought into use during tax years commencing on or after 1 March 2009.

In summary there does not appear to be any substantial departure from the way SARS applied s11(e) in the past, although several matters are now more clearly explained. Some of the noteworthy points (this is not a comprehensive summary) in IN47 are :

- Contains an "Annexure A" which sets out acceptable write-off periods.
- Specifies that any asset which is not listed in Annexure A must (subject to SARS discretion) be written off over the "expected life" of the asset – and lists factors and information to take into account when determining an appropriate period, such as expected duration of use, intended use, likelihood of obsolescence, and whether the effective life is limited to a particular project..
- Permits 'small' items – costing R7,000 or less – to be written off in full in the first year of use (effective for assets acquired from 1 March 2009). A draft updated issue of the IN confirms that this concession does not apply to assets acquired for purpose of letting.



- Reconfirms the 'use' requirement – i.e. that the asset must actually be brought into use for purposes of trade (not merely 'held') in order for the allowance to be claimed.
- Confirms that the allowance must be reduced proportionately when an asset is used for private and business purposes.
- Explains and gives examples on the s23J allowance-limitation, which deals with assets previously owned by a connected person.
- Offers expanded explanations on dealing with leased assets and residual values. The allowance granted to lessors is cost less residual value as specified in the lease agreement.
- Still requires taxpayers to retain supporting records of all asset write-offs, although these do not have to be submitted to SARS (i.e. must be retained in case of queries).

- Requires that the “condition” of used or second-hand assets must be taken into account in determining the appropriate write-off period.
- SARS may increase the write-off period of an existing asset where the useful life has been extended to an appreciable extent due to extraordinary repairs.
- Small Business Corporations may elect either for the s12E(1A) 50:30:20 allowance or for the s11(e) allowance.

The Annexure repeats most of the same write-off periods seen in the old Practice Notes, although certain periods are adjusted, some asset-categories are expanded, and several new categories are added to the list. For example :

- **Air conditioners:** Whereas Practice Note 19 provided for only one category (“window type” –

six years), IN47 now also includes categories for “mobile” (5 years) and “room unit” (10 years).

- **Office equipment:** Whereas this general catch-all category was not included at all in the old practice notes, IN47 allows 3-year (“electronic”) or 5-year (“mechanical”) write-off periods. (Specific items like computer hardware and fax machines, etc. have still been retained in the previous format.)
- Other new additions to the schedule include carports, escalators, firearms, standby generators, warehouse racking, and several others. (This is not a comprehensive list.)

The complete IN is available on the SARS website ([www.sars.gov.za](http://www.sars.gov.za) – under “Legal & Policy”) or from any of the PwC contacts listed here.

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