Capital Gains Tax (CGT)

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What is Capital Gains Tax?

Capital Gains Tax (CGT) applies to the disposal of any capital asset of a resident on or after the valuation date, which was on 1 October 2001, when Capital Gains Tax was introduced in South Africa. It is a tax levied on the profit that an individual or business makes when they sell an asset (property, shares, and any other qualifying assets) at a higher price than they originally paid for it.

The tax is calculated based on the difference between the selling price and the purchase price, and it is only applied when the asset is sold.

The gain is calculated as the disposal value (in respect of property, the sales price) less the base cost.

Rates and Calculation

Type of Tax Payer	Effective Rate
Individuals	0-18%
Trusts (Normal)	36% 36%
Companies and Close Corporations	21.6%

How do you calculate the base cost of property?

Property Purchased on or after 1 October 2001:
The base cost is the purchase price/value as at the date of disposal plus the **expenditure**.

Property purchase before 1 October 2001:
The base cost is the value of the asset as at 1 October 2001 as determined by using either a CGT valuation or one of the formula's provided by SARS, whichever is the most beneficial to the owner plus expenditure.

The following expenditure can be included in calculating the base cost:

1. The cost of any improvements to the property (this does not include the cost ofrepairs or maintenance).
2. The costs of acquiring the property, including the purchase price, transfer costs,transfer duty and professional fees e.g. attorney's fees and fees paid to a surveyor,advertising costs (incl. agents commission) and architects remuneration.

Who is liable to pay?

All residents who realise a gain on the disposal of a capital asset is liable to CGT, including non-residents who sell immovable property.

A disposal refers to an event, act, forbearance, or operation of law, which results in the variation, transfer, or extinction of an asset.

Including: sale, donation, expropriation, conversion, grant, cession, exchange or any other alienation or transfer of ownership.

Primary Residence Exemption

There is a complete exclusion of CGT on the disposal of a primary residencewhere the gross proceeds are less than R 2 000 000.00.

For a primary residence where the gross proceeds are R 2 000 000.00 or more, the first R 2 000 000.00 of any gain made is excluded from CGT.

Capital or Revenue?

An important distinction to make, is whether the gain of an asset is of a capital or revenue nature. The reason for this is that the tax on capital gains is less than the tax on income.

So if a property was purchased to intentionally generate a profit, the nature of this purchase was revenue. If the property was purchased as a financial investment or second home, it would be capital in nature and therefore CGT would apply.

Proof of the capital nature acquisition may need to be provided, if required, many years after the sale of the property, so it is very important to keep your documents safe.

Capital Gains Tax is a complicated tax and can seem quite daunting. However we have an expert team of tax consultants that can assist and guide you through the process.

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