Luxury property market could have tough year ahead

The budget Speech in February touched on several aspects of property-related taxation, and many property owners may still be anxious about how these changes will affect the profitability or the returns of their fixed assets.

"The changes in capital gains tax (CGT) and transfer duties really only affect the upper end of the market, but for the average owner of a single primary residence, the costs of buying and selling property will stay pretty much the same," says Calum Wedge, financial director for the Rawson Property Group.

"Transfer duty has remained completely unchanged for all properties priced under R10 million. A new tier has been added to the schedule for properties over R10m, which are now subject to 13 percent transfer duty as opposed to the previous 11 percent, but this will mainly affect the luxury and commercial markets."

He says that since primary residences are exempt from capital gains tax, those increases are also irrelevant to most property owners, only affecting companies, trusts, and individuals with more than one property in their name.

"It's a neat and convenient way to tax the wealthy without affecting most middle class and the poor people," he says.

It's worth noting that those who are liable for CGT will be taking a fairly significant hit, however - even if only in the event of a sale.

"Individual CGT has been increased from 33.3 percent to 40 percent, with the annual exclusion raised from R30 000 to R40 000 (death exclusion remains unchanged), resulting in a 19.71 percent increase in the maximum effective CGT rate.

Legal entities like trusts and companies have dramatic numbers, with the previous 66.6 percent inclusion rate rocketing to 80 percent, increasing the maximum effective rate by a hefty 20.43 percent.

"The CGT changes weren't completely unexpected," says Wedge, "but may still be a nasty surprise for sellers who have just finalised a sale and expect transfer to take place during the course of this year. If you are in that position, it may still be possible to include the sale in the 2015 financial year at the 2015 CGT rates, though."

Apart from the new transfer duty tier and CGT increases, Wedge says there was little of note in the budget for property owners this year.

"There were mentions of potential changes to estate duty and donations tax mechanisms which could affect trusts in the future, but nothing on that has been promulgated yet. The only other interesting point was the voluntary disclosure programme that allows non-compliant tax payers to declare any offshore assets with minimal penalties. This could be useful for owners of undeclared international properties, who risk severe repercussions if SARS discovers those assets."

All in all, it seems the 2016 Budget has changed very little for the average property owner. The luxury and commercial markets, on the other hand, could be facing a tough year.

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