***BEL 300 Study notes***

**STUDY UNIT 3: CGT (PART 6: ROLL-OVERS)**

1. **INTRODUCTION**

* Allowed To **defer** the recognition of **capital gain** until a **future date**

Know par #’s

* **3 possibilities:**

1. Involuntary disposals – par 65
2. Reinvestment in replacement assets – par 66
3. Transfer between spouses – par 67
4. **INVOLUNTARY DISPOSAL – PAR 65**

* ELECTION by TP
* ANY asset (NOT financial instrument) = destroyed; lost; stolen; expropriated
* Compensation / proceeds (insurance CO; Municipality etc; scrapyard etc) ≥ BC {Must make profit}
* FULL PROCEEDS re-invested in replacement asset

Both may be extended by 6 months

* Conclude contract within 12 months
* Bring into use within 3 years of disposal

**HOW DOES THE GAIN GET TAXED?**

|  |  |
| --- | --- |
| **NON-DEPRECIABLE ASSET** | **DEPRECIABLE ASSET** |
| When replacement asset is sold | CG X Capital allowance in CURRENT year  TOTAL capital allowances |

* **WHEN replacement asset is disposed of:**
* Disregarded CG NOT yet taken into acct = MUST BE TAKEN INTO ACCT

\*\*\* NB: DOES **NOT** apply if a **PUA** is acquired as the **replacement asset**

**EXAMPLE 1 + 2 Slides**

1. **REINVESTMENT IN REPLACEMENT ASSETS**

* Election by TP
* Asset qualified for capital allowance
* Proceeds ≥ BC
* Full proceeds must be re-invested in replacement asset
* Replacement asset MUST qualify for Capital Allowance
* Conclude contract w/in 12 months
* Bring into use w/in 3 years of disposal

**HOW IS GAIN TAXED??**

CG X Capital allowance in CURRENT year

TOTAL capital allowances

* **WHEN replacement asset is disposed of:**
* Disregarded CG NOT yet taken into acct = MUST BE TAKEN INTO ACCT

1. **RECOUPMENT DEFERRAL: s8(4)(e)**

* Deferral of recoupments
* Remember! TP ELECTS whether par 65/66 should be applied – thus whether the CG must be spread
* If either par 65/66 is elected – s8(4)(e) will apply AND the recoupment spread on the same basis
* Par 66 = N/A to land/buildings (NB!!!)

***Example 3: slides***

1. **TRANSFER BETWEEN SPOUSES – PAR 67**

* ***Wife donates / sells an asset to husband***

|  |  |
| --- | --- |
| **WIFE’S POSITION** | **HUSBAND’S POSITION** |
| * Deemed disposal @ BC – no gain * Proceeds = BC | * Deemed to have acquired (A) on same date as wife * For same expenditure (amount) * Used asset in same way wife used |

* EFFECT = CGT DEFERRED
* As thought the husband purchased the (A) initially
* Receiving spouse must be SA RESIDENT

***Example 4 + 5: Slides***