



housing  
impact  
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south africa

## VAT ON AFFORDABLE HOUSING UNITS

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**OLD MUTUAL**  
Investment Group

Alternative  
Investments

# New Build Rental or Sale Units - VAT issues

- ❑ **VAT is payable by the purchasers of all new housing units and by the investors in new residential rental housing units.**
- ❖ No Transfer Duty is payable on sales of existing homes under R600,000
- ❖ VAT on the sale of a NEW affordable home under R500,000 adds  $\pm 12\%$  to the purchase price
- ❖ VAT is included in the developer/investor's cost per unit for residential investment rental stock adding  $\pm 12\%$  to the cost.

# New Build Rental or Sale - VAT issues

- VAT is a regressive tax
- Concomitant revenues raised from additional new development activity will largely compensate the Treasury - Social Impact Assessments; Direct, Indirect and Induced Impacts - During and Post Construction.
- Additional temporary and permanent jobs will be created as a result of the development activity.
- A grant or subsidy for qualifying purchasers equivalent to the VAT portion ( $\pm 10\%$ ) could be administered via a deposit into the purchaser's bond with the banks/financial institutions providing the mortgage finance.

# New Build Rental or Sale - VAT issues



<b><u>Indicative Development Selling Costs - 2011</u></b>	<b><u>Elemental cost</u></b>	<b><u>R/sqm top structure</u></b>
		<b>46.00</b>
<b>Total stands (Average 200 - 250m<sup>2</sup>)</b>		
<b>Land selling price</b>	<b>R 145,000</b>	
<b>House selling price</b>	<b>R 228,000</b>	
<b>Total selling price</b>	<b>R 373,000</b>	<b>R 8,109</b>
<b>VAT included in the selling price</b>	<b>R 45,807</b>	<b>12.28%</b>
<b>Household income</b>	<b>R 12,170 pm</b>	
<b>Bond payment - 100% 20 yr bond @ Prime + 1%</b>	<b>R 3,651 pm</b>	
<b>Additional bond payment required for VAT element</b>	<b>R 448 pm</b>	
<b>Additional income required for bond qualification</b>	<b>R 1,495 pm</b>	

## Way Forward

- Task team to engage with Treasury to minimise the VAT impact in -
  - new build affordable residential housing developments for sale under the Transfer Duty thresholds
  - Public Private initiative to increase the stock of well located affordable rental housing units