

Practice Note: No. 8 – 30 December 1988
Income Tax — Deduction in respect of finance charges in terms of section 11(bb) of the
Income Tax Act, 1962 (the act)

1. Section 11(bB) of the Act, as originally inserted in the Act by section 11(1)(a) of the Income Tax Act, 1984, with effect from 15 March 1984, grants a deduction in respect of finance charges incurred by a taxpayer in respect of the acquisition, installation, erection or construction of any machinery, plant, aircraft, implement, utensil or article used by him for the purposes of his trade. The section was introduced into the Act for the following two reasons. In the first instance to prohibit the capitalization of finance charges for the purpose of calculating certain allowances and secondly to ensure that the deduction in respect of finance charges is spread over the period for which they are calculated or payable.
2. In terms of an amendment introduced with effect from 13 February 1988 by section 8(1)(a) of the Income Tax Act, 1988, the provisions of section 11(bB) have been extended to trades such as mining, shipping and farming and specifically also to livestock.
3. As the provisions are only applicable to livestock with effect from 13 February 1988, it was necessary to delete the reference to the date 15 March 1984, in section 11(bB) of the Act.
4. The intention with the insertion of the words “(other than any finance charge in respect of which any deduction or allowance has been or may be granted to the taxpayer under this Act in any year of assessment)” was to make section 11(bB) inapplicable to finance charges incurred before the section came into operation, in other words finance charges incurred in respect of the acquisition of any machinery, plant, aircraft, implement, utensil or article before 15 March 1984 and the acquisition of any livestock before 13 February 1988.
5. It is alleged that the present wording of section 11(bB) has the effect that if finance charges are deductible in terms of a different section of the Act, eg section 11(a), such costs would be deductible in terms of that section and not in terms of section 11(bB).
6. Inland Revenue does not agree with this interpretation of section 11(bB), but will continue to interpret the section as explained in paragraphs 1 to 4 above. Consequently, the provisions of the relevant section will apply in respect of all finance charges incurred on or after the dates referred to in paragraph 4 above.
7. If necessary it will be recommended to the Minister of Finance that the Act be amended with effect from the date of this Practice Note, in order to remove any uncertainty in this regard.