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SELF-FINANCE PROJECTS THROUGH SELLING YOUR HOUSE, TAX-FREE: By Jonathan Hore

The financial system has taught us that we always need to get money from a bank or other financial institution and unfortunately, there is little information on how we can self-finance projects. It is undeniable that third party finance has its own risks and this is the reason why you see so many assets being repossessed with almost every newspaper edition having an, 'In the matter between…' advert. I am not saying that you shouldn't go to a bank but I intend to show you that you can self-finance projects through selling your house or one of your houses without paying a thebe in tax. In this article, words importing the masculine shall be deemed to include the feminine.

Selling your house

When someone owns an immovable property and later sells the same, they are potentially liable to a tax called Capital Gains Tax, which we shall call CGT henceforth. This tax is paid on the capital appreciation recognised from the time of purchase until the time of disposal of the asset in question. An individual who purchases an immovable property or a house at say P500 000 and sells it at P2.5m, makes a potential capital gain of P2m. The P2m is further reduced by an inflation allowance and direct selling costs such as legal fees. But let me introduce you to a scenario where you can pay nil tax even when you dispose of a taxable asset. I will do this by analysing tax on houses called Principal Private Residence (PPR).

Enter PPR

The Income Tax Act prescribes that any person who sells a PPR after having owned it for 5 years does not have to pay CGT. Further, such person does not need to reinvest the proceeds from the disposal of the first PPR into another PPR. Bluntly, one can sell their PPR and squander all their money and still never worry about the taxman. But what is a PPR in the first place? A PPR is an individual's main or sole house. In other words, if that person has one house, the PPR is that one house. However, if they have more than one house, it is the main house which they consider their immediate place of residence. There is no requirement that the taxpayer must have stayed in that house for the period they own it. In addition, you can sell one house after every 5 years and still not pay taxes. Those who own more than one house may therefore take advantage of this tax exemption and raise finance without going to a bank. Even someone who owns one house may sell the house, purchase and develop a new plot and use the excess cash to self-finance projects.

Why self-financing?

First of all, getting money from a third party comes at a cost which you must be prepared to bear, especially if one is obtaining an unsecured loan. Secondly, some of the loan repayment periods are way too long which makes you make some gross assumptions regarding the economy, your employer and your health. Further, you may have heard that the borrower is slave to the lender and getting into onerous loan arrangements may make you a subject of a financier for way too long. Lastly, unless the loans are productive, much of the individual finance goes towards day-to-day spending, which dents your net worth.
So, if you can, why not go for self-financing by looking around the options that are availed to you? When you self-finance, you don't worry about the economy, retrenchments, the bank or your health.

Conclusion

You can utilise the PPR exemption as an option for self-financing and enjoy financial freedom and liberty. After all, the legislature made it apparent that when you sell the PPR, you don’t pay any thebe in tax provided the 5-year condition is met. If that was remarkable, give Yours Truly some credit like, ‘Kudos, Yours Truly!’ Don’t be jealous; come on!

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax WhatsApp group or know about our 8 Tax e-books, send me a text on the cell number below.