

Costs as above	R32 040
Wear and tear (20% x R114 000)	<u>22 800</u>
Total cost	R54 840
Less deemed private portion in terms of practice note 24 - R100 000 x 2,5% x 12 months	<u>(30 000)</u>
Section 11(a) deduction	<u>R24 840</u>

5.6.20 WARRANTIES OR GUARANTEES

If a taxpayer gives a warranty on the sale of goods or rendering a service, no deduction can be made in respect of anticipated future expenditure arising as a result of the warranty (s 23(e)). When the taxpayer incurs expenditure under the warranty, such expenditure is deductible, even though the income has already been earned (see *COT v Cathcart*, 1965 HC Southern Rhodesia), provided that it is incurred in the carrying on of a trade and is not excessive.

5.7 DEFERRAL OF DEDUCTIONS - SECTION 23H

Section 23H is aimed at deferring the deduction of certain expenditure where all or portion of the goods, services, or benefits flowing from the expenditure will only be enjoyed at after the year-end. The section applies to allowances and deductions dealt with under section 11(a), (c) or (d) or section 28(2)(a) and (c). Basically the section provides that the deduction may only be claimed when the goods or services (in respect of which the expenditure is incurred) are supplied or rendered. In the case of services or benefits, the deduction has to be spread over the number of months the service will be rendered or the benefit enjoyed. Where an apportionment on a monthly basis is considered by the Commissioner not to be a fair apportionment, he may direct that an apportionment be made in a way that appears fair and reasonable to him (s 23H(2)). This discretion is subject to objection and appeal.

The provisions of the section do not apply

- ◆ where *all* the goods or services (which would be subject to the section) are supplied within six months of the year end or the benefits are enjoyed within the same period; or
- ◆ where the aggregate of all amounts subject to the section does not exceed R50 000; or
- ◆ to any expenditure to which the provisions of section 24I, 24J, 24K or 24L apply; or
- ◆ to expenditure actually paid in respect of any liability imposed by legislation.

Example - Prepaid expenditure

A taxpayer with a February year end incurs a tax-deductible expense of R180 000 on 15 February 2008 for services to be rendered to him for the period 15 February 2008 to 31 July 2008. Also, on the 1st of January 2008 he paid his business insurance premium of R24 000 for the 2008 calendar year. The section 11(a) deductions which he may claim for the year of assessment ended 29 February 2008 are as follows:

29 February 2008

Service cost (R180 000 x 1/7)	R25 714
(Even though this relates to a period ending within 6 months of the year end, it has to be spread, because not <i>all</i> the goods and services are rendered within 6 months of the year end, and the Act does not apply only to the extent to which the goods and services are supplied within 6 months of the year end)	
Insurance premiums incurred (R24 000 x 2/12)	4 000

Where a taxpayer shows, during a year of assessment that the goods will not be received, or the service will not be rendered in the future, or that the benefit will not be enjoyed in the future, the expenditure already paid will be allowed as a deduction in that year of assessment to the extent that it has not already been deducted.