

The Section 13sex Tax Deduction Explained

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INTRODUCTION

Section 13sex of the Income Tax Act 58 of 1962 offers a tax incentive to property investors and developers, as a means of addressing the shortage of accommodation in South Africa, provided that certain requirements are met.

REQUIREMENTS

To qualify for the tax break, the following requirements must be met:

1. A minimum of 5 residential units must be owned;
2. The units must be situated in South Africa;
3. The units must be unused and new or recently renovated;
4. The units must solely be used for residential use.

DEFINITIONS

Residential Unit – a building or self-contained apartment primarily used for residential accommodation of a temporary or permanent nature.

Unused – the new unit or improved unit must not have been used by any other person before the date of acquisition.

THE ALLOWANCE

An allowance of 5% per year on the cost of the residential unit (excluding the land if full-title ownership), or on the improvement cost, may be claimed over a period of 20 years.

Should the residential unit qualify as a low-cost residential unit, an additional 5% per year may be claimed.

WHAT IS A LOW-COST RESIDENTIAL UNIT?

To qualify as a low-cost residential unit, the following requirements must be met.

1. If the unit is a standalone building, the cost of the building must not exceed R300 000, the monthly rental must not exceed 1% of the building cost, plus a proportionate share of the cost of the land and bulk infrastructure.
2. If the unit is an apartment, the cost of the apartment must not exceed R350 000, and the monthly rental must not exceed 1% of the apartment cost.

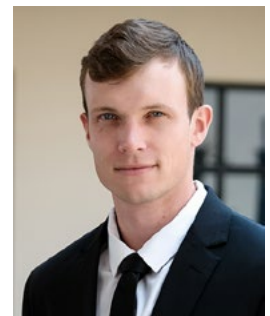
The monthly rental is allowed to increase by 10% in each year succeeding the year in which the building was purchased.

CONCLUSION

Tax is a complicated area of the law and this article merely intends to better inform the general public. Always consult with a qualified professional to ensure full compliance.



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