

BINDING CLASS RULING: BCR 028

DATE: 24 March 2011

The guidance contained in this ruling is affected by subsequent law changes and new legislation. Refer to paragraph 76B of the Eight Schedule to the Act.

ACT : INCOME TAX ACT, NO. 58 OF 1962 (the Act)
SECTION : PARAGRAPHS 33(1)(a), 74, 76, AND 76A OF THE EIGHTH SCHEDULE TO THE ACT
SUBJECT : MARKET VALUE OF A SHARE IMMEDIATELY AFTER A DIVIDEND DISTRIBUTION

1. Summary

This ruling deals with the determination of the base cost to be allocated to shares due to the part-disposal thereof, triggered by a capital distribution immediately after a dividend distribution.

2. Relevant tax laws

This is a binding class ruling issued in accordance with section 76R of the Act.

In this ruling legislative references to paragraphs are to paragraphs of the Eighth Schedule to the Act, applicable as at 12 November 2010 and unless the context indicates otherwise, any word or expression in this ruling bears the meaning ascribed to it in the Act.

This ruling has been requested under the provisions of paragraphs 33(1)(a), 74, 76, and 76A of the Eighth Schedule.

3. Class

The Class members to whom this ruling will apply are shareholders as described in point 4 below.

4. Parties to the proposed transaction

The Applicant: A public company incorporated in South Africa

The Shareholders: The shareholders of the Applicant

5. Description of the proposed transaction

The Applicant holds an interest in listed shares as its only capital asset. It intends to dispose of the listed shares and to distribute the proceeds from the disposal to the Shareholders, after which it will be placed in voluntary liquidation.

The capital structure of the Applicant comprises share capital, share premium and distributable reserves.

It is proposed that the distribution will be effected by passing two resolutions that will provide the following –

- a dividend to be paid to shareholders registered as such in the members' register of the Applicant immediately before close of business on the record date; and
- a share premium distribution to be made to shareholders registered as such in the members' register of the Applicant immediately after close of business on the record date,

with the record date being the same for both resolutions.

The declaring of a dividend out of the distributable reserves of the Applicant will be followed by the distribution of the share premium on the same date. The distribution of the share premium will constitute a "capital distribution" as defined in paragraph 74 of the Eighth Schedule. The share capital will be distributed as a final liquidation distribution.

6. Conditions and assumptions

This ruling is not subject to any conditions and assumptions.

7. Ruling

The ruling made in connection with the proposed transaction is as follows:

- For purposes of calculating the base cost of the listed shares attributable to the part-disposal thereof resulting from the capital distribution, the "market value of the entire asset immediately prior to that disposal", as envisaged in paragraph 33(1)(a), will be calculated by taking into account the reduction in the value of the listed shares by the amount declared as a dividend immediately prior to the share premium distribution.

8. Period for which this ruling is valid

This binding class ruling is valid in respect of the proposed transaction.

Issued by:

**Legal and Policy Division: Advance Tax Rulings
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