



SOUTH AFRICAN REVENUE SERVICE

BINDING CLASS RULING: BCR 004

DATE: 14 May 2009

The guidance contained in this ruling is affected by subsequent law changes.

ACT : INCOME TAX ACT, NO. 58 OF 1962 (the Act)
SECTION : SECTIONS 10(1)(k)(i) AND 22(1) AND PARAGRAPH 20(1) OF THE EIGHTH SCHEDULE TO THE ACT
SUBJECT : DISTRIBUTIONS MADE TO PARTICIPATORY INTEREST HOLDERS IN A COLLECTIVE INVESTMENT SCHEME WHICH ARE REINVESTED WITH THE SCHEME

1. Summary

This ruling deals with the tax implications for the participatory interest holders in a collective investment scheme where distributions are to be made to them from the collective investment scheme and such distributions are to be reinvested immediately in full with the collective investment scheme on their behalf.

2. Relevant tax laws

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

In this ruling legislative references to sections and paragraphs are to sections of the Act and paragraphs of the Eighth Schedule to the Act applicable at 8 January 2008 and unless the context otherwise indicates, 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 –

- sections 10(1) (k)(i) and 22(1); and
- paragraph 20(1).

3. Class

The class members to whom this ruling will apply will be the participatory interest holders in the collective investment scheme.

4. Parties to the proposed transaction

The Applicant: The management company on behalf of all the participatory interest holders in the Collective Investment Scheme

Collective investment scheme:

A Collective Investment Scheme, established in securities in terms of the Collective Investment Schemes Control Act, No. 45 of 2002

Investors: Participatory interest holders in the Collective Investment Scheme

5. Description of the proposed transaction

The Collective Investment Scheme will make periodic distributions of the income earned on the securities held by the Collective Investment Scheme to the Investors. These distributions will not be paid in cash to the Investors but reinvested immediately in full with the Collective Investment Scheme on behalf of the Investors.

6. Conditions and assumptions

The ruling made is not subject to any condition and assumption.

7. Ruling

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

- The distributions to be made by the Collective Investment Scheme to the Investors, in respect of income earned on the securities which is exempt from income tax in the hands of the Collective Investment Scheme under the provisions of section 10(1)(iA), will be treated as dividends declared by the Collective Investment Scheme. Such dividends received by or accrued to the Investors will not qualify for the exemption provided for under the provisions of section 10(1)(k)(i), as paragraph (bb) of the proviso to section 10(1)(k)(i) prohibits such exemption.
- If the participatory interest is held on capital account, the gross amount of the distributions reinvested on behalf of the investors for the benefit of the investors will be added to the base cost of existing participatory interest under the provisions of paragraph 20(1) of the Eighth Schedule, as expenditure actually incurred in effecting an improvement to or enhancement of the value of the asset.

- If the participatory interest is held as trading stock, such additional amount will constitute part of the cost of acquiring such trading stock under the provisions of section 22(1).

8. Period for which this ruling is valid

This binding class ruling is valid for a period of five (5) years as from the date of this ruling until 7 January 2013.

Issued by:

**Legal and Policy Division: Advance Tax Rulings
SOUTH AFRICAN REVENUE SERVICE**