South African Revenue Service

BINDING PRIVATE RULING: BPR 432

DATE: 24 November 2026

ACT : INCOME TAX ACT 58 OF 1962 (the Act)
SECTION : PARAGRAPHS 38 AND 39 OF THE EIGHTH SCHEDULE TO THE ACT
SUBJECT : REPURCHASE OF ORDINARY SHARES BY THE ISSUING COMPANY

Preamble

This binding private ruling is published with the consent of the Applicant(s) to which it has been issued. It is binding between SARS and the Applicant and any Co-Applicant(s) only and published for general information. It does not constitute a practice generally prevailing.

1. Summary

This ruling determines the tax consequences of the repurchase of ordinary shares by the issuing company.

2. Relevant tax laws

In this ruling, references to sections and paragraphs are to sections of the Act and paragraphs of the Eighth Schedule to the Act applicable as at 15 September 2026. Unless the context indicates otherwise any word or expression in this ruling bears the meaning ascribed to it in the Act.

This is a ruling on the interpretation and application of –

- paragraph 38; and
- paragraph 39

3. Parties to the proposed transaction

The Applicant:	A resident company that is a wholly owned subsidiary of Company B
Company A:	A resident company that is a shareholder of Company B
Company B:	A resident company that is a Broad-Based Black Economic Empowerment (B-BBEE) partner of a South African listed company

4. Description of the proposed transaction

Company B currently holds shares in a South African listed company and offered participation in the B-BBEE shareholding structure (B-BBEE structure), through

Company A, to qualifying black individuals (investors). Company A fulfilled a facilitating role offering ordinary shares at a nominal affordable price to investors. For each share that Company A held in Company B, it issued one ordinary share to an investor.

Due to the increase in the share price of the underlying listed company, the value of the shares of Company B increased significantly over the years and so has the value of the ordinary shares of Company A. Company B paid dividends to its shareholders, which included Company A, when dividends were received from the listed company. Company A then also declared and paid dividends to its shareholders.

To provide liquidity to investors, Company B, at inception of the B-BBEE structure, incorporated the Applicant as a wholly owned subsidiary to act as market-maker. Over a considerable number of years, the Applicant purchased shares in Company A and Company B at fair market value from investors wishing to exit the structure. These purchases were funded by interest-free loans advanced by Company B.

As a result of the Applicant's market-maker activities, the Applicant accumulated shares in Company A (a shareholder of Company B) as well as directly in Company B (the Applicant's 100% shareholder). Due to the circular shareholding, these shares have effectively been internalised within the B-BBEE structure.

The internalised shares serve no practical or economic purpose, voting rights cannot be exercised and dividends flow back to the declaring company (Company B) via Company A and the Applicant. The circular shareholding complicates the overall structure, results in unnecessary cash flows, and is time-consuming and costly to administer.

Other than as part of an internal restructuring, the Applicant has never sold, and it will never sell, the accumulated internalised shares, as a sale would be contrary to the intent of the B-BBEE structure.

The Applicant's current loan liability towards Company B in respect of the share purchases bears no repayment terms, but the Applicant has made some repayments from dividends derived from Company A.

The Applicant, Company A and Company B propose the following transaction steps in order to cancel the internalised shares and streamline the B-BBEE structure:

- **Step 1 – Partial loan capitalisation**

  The Applicant and Company B will agree that the loan will become due and payable. Company B will subscribe for ordinary shares in the Applicant equal to a specified amount. Company B and the Applicant will agree to settle the subscription price for the ordinary shares by set-off against an equal amount of the loan owing.

  After Step 1, there will be a remaining loan balance owing by the Applicant to Company B. This amount will be repaid in Step 5.

- **Step 2 – Company B share repurchase from Company A**

  Company B will repurchase ordinary shares from Company A in a number equal to the number of shares in Company A held by the Applicant. The

repurchase price for the Company B shares will be equal to the original issue price of those shares, which will remain as an outstanding claim.

- **Step 3 – Company A share repurchase from the Applicant**

  Company A will repurchase its ordinary shares held by the Applicant in the Company A. The repurchase price will be equal to the original issue price per share of the underlying Company B shares. The issue price of the shares in Company A that form the subject of the share repurchase in this Step 3, was nominal. Consequently, the share repurchase comprises a return of contributed tax capital in that nominal amount and a dividend for the balance of the original issue price of the underlying Company B shares. In settlement of the repurchase consideration, Company A will cede to the Applicant the outstanding claim arising in Step 2. The Applicant will realise a loss in consequence of this transaction step.

- **Step 4 – Company B share repurchase from the Applicant**

  Company B will repurchase from the Applicant the ordinary shares in Company B directly held by the Applicant, also at the original issue price per share with the consideration remaining as an outstanding claim. The Applicant will realise a loss in consequence of this transaction step.

- **Step 5 – Loan repayment**

  The Applicant will repay the outstanding interest-free loan owing by the Applicant to Company B through set-off against the outstanding claims owing by Company B to the Applicant arising from Steps 2 and 4.

5. Conditions and assumptions

This binding private ruling is subject to the following additional conditions and assumptions:

a) The Applicant holds ordinary shares in Company A acquired solely in its capacity as market-maker for the B-BBEE structure, and such shares were purchased from shareholders at fair market value at the time of acquisition.

b) The companies repurchasing their shares will pass board resolutions authorising the share repurchase transactions, determining the price per share to constitute a reduction of contributed tax capital as permitted under the Act.

6. Ruling

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

a) The repurchase of the Company B shares from the Applicant and Company A in Steps 2 and 4 will constitute disposals of these shares by the Applicant and Company A to Company B for purposes of paragraph 38(1) of the Eighth Schedule.

b) The repurchase of the shares in Company A from the Applicant in Step 3 will constitute a disposal of those shares by the Applicant to Company A for purposes of paragraph 38(1) of the Eighth Schedule.

c) The repurchase price per share in Steps 2, 3 and 4 reflect an arm's length price for purposes of paragraph 38(1) of the Eighth Schedule.

d) The losses to be sustained by the Applicant in consequence of the disposal of shares in Company A in Step 3, and of Company B shares in Step 4, to their issuers, will be subject to paragraph 39 of the Eighth Schedule, to the extent that paragraphs 19 and 43A of the Eighth Schedule do not apply.

7. Period for which this ruling is valid

This binding private ruling is valid in respect of the current year of assessment.

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