

BINDING PRIVATE RULING: BPR 206

DATE: 14 September 2015

**ACTS : INCOME TAX ACT NO. 58 OF 1962 (the Act)
VALUE ADDED TAX ACT NO. 89 OF 1991 (the VAT Act)
TRANSFER DUTY ACT NO. 40 OF 1949 (the Transfer Duty Act)**

**SECTION : SECTION 64FA AND PARAGRAPH 67B OF THE EIGHTH
SCHEDULE TO THE ACT
SECTIONS 8(19) AND 10(27) OF THE VAT ACT
SECTION 9(19) OF THE TRANSFER DUTY ACT**

**SUBJECT : DISPOSAL BY A SHARE BLOCK COMPANY OF ITS SECTIONAL
TITLE UNITS TO ITS SHARE BLOCK HOLDERS**

1. Summary

This ruling determines the tax consequences of a disposal by a share block company of its sectional title units to its share block holders in exchange for the surrender of their share block certificates and their rights of use of the units.

2. Relevant tax laws

This is a binding private ruling issued in accordance with section 78(1) and published in accordance with section 87(2) of the Tax Administration Act No. 28 of 2011.

In this ruling references to sections and paragraphs are to sections of the relevant Act and paragraphs of the Eighth Schedule to the Act, applicable as at 3 July 2015. Unless the context indicates otherwise, any word or expression in this ruling bears the meaning ascribed to it in the relevant Act.

This is a ruling on the interpretation and application of the provisions of –

- section 64FA of the Act;
- paragraph 67B of the Eighth Schedule;
- sections 8(19) and 10(27) of the VAT Act; and
- section 9(19) of the Transfer Duty Act.

3. Parties to the proposed transaction

The Applicant: A private company incorporated in and a resident of South Africa

The Trust: A trust formed in and a resident of South Africa

The Share Block Company: A share block company, incorporated in and a resident of South Africa

4. Description of the proposed transaction

The Share Block Company owns three sectional title units (the units). The share block holders (the Applicant and the Trust) each hold an undivided share in all of those units.

The Share Block Company intends to dispose of all the units to the Applicant and the Trust. In return, the Applicant and the Trust will surrender to the Share Block Company their share block certificates and their rights of use of the units, which will be cancelled. The shares in the Share Block Company will thus be replaced by direct holding of the units in the sectional title scheme as joint owners.

5. Conditions and assumptions

This binding private ruling is made subject to the additional condition and assumption that the Applicant and the Trust currently hold their shares in the Share Block Company as capital assets.

6. Ruling

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

- Paragraph 67B of the Eighth Schedule will be applicable to the disposal of the sectional title units by the Share Block Company to the Applicant and the Trust, as the shareholders in the Share Block Company, in exchange for the surrender of their share block certificates and their rights of use of the units held by them, and consequently –
 - the Share Block Company must disregard any capital gain or capital loss in respect of that disposal; and
 - the disposal will be exempt from dividends tax under section 64FA(1)(d) of the Act.
- The supply of the units by the Share Block Company to its shareholders will be deemed to have been made in the course or furtherance of an enterprise under section 8(19) of the VAT Act and, therefore, the value of the supply will be nil as provided for under section 10(27) of the VAT Act.
- No transfer duty will be payable by the shareholders of the Share Block Company on the transfer of the units to them as provided for under section 9(19) of the Transfer Duty Act.

7. Period for which this ruling is valid

This binding private ruling is valid for a period of 3 years from 3 July 2015.