TR 229

Facts

B is registered as a law firm under the Law Practitioners Act and is in the business of providing legal services to domestic and international clients.

B has 300 ordinary shares currently in issue and these will be consolidated into 3000 ordinary shares in accordance with the Companies Act. Thirty will remain as ordinary shares and 2,970 will be reclassified as Redeemable Participating Shares. The 30 ordinary shares and 2,970 Redeemable Participating Shares shall be held in equal proportion by the existing shareholders.

An existing shareholder is entitled to request B to purchase his Redeemable Participating Shares at a value determined by an independent valuation at the material time (the current value is USD 700 per share based on an independent valuation report dated 13th January 2021).

A new shareholder may join B and will be entitled to Redeemable Participating Shares at the value as determined by an independent valuer at the material time.

The Redeemable Participating Shares are not freely transferable, and can only be purchased by or sold to a third party, subject to shareholders' approval.

In accordance with International Financial Reporting Standards (IFRS), redeemed shares will be paid out of equity (stated capital plus retained earnings).

Point at issue

Is there income tax payable by the shareholders in connection with the redemption of Redeemable Participating Shares?

Ruling

Based on the facts provided, the redemption proceeds received by the existing shareholders are considered to be a benefit to shareholders in accordance with section 86A of the Income Tax Act and will therefore be subject to income tax.