

TR 239

Facts

B, a company incorporated in Mauritius, started to carry out business with three shareholders who are also full-time employees as executive directors of B. The shareholders each hold 100 ordinary shares in B.

Prior to admitting new shareholders to B, B proposes to improve its financial ratios through a share buy-back. The price to be paid for the shares of B by the new shareholders will reflect the goodwill of B and will be determined by a professional valuer. B is already in preliminary talks with two potential new shareholders. B proposes to buy back 60 shares.

Point at issue

Whether the proceeds from the buy-back of the ordinary shares in the hands of the shareholders will be subject to tax in the event B proceeds with the buy-back of the 60 ordinary shares from the shareholders at the prevailing market value?

Ruling

On the basis of the facts provided, it is ruled that the proceeds received by the existing shareholders from the buy-back of the ordinary shares is 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.