DIVIDENDS TAX (ELO 1.1)		
	MARKS	CANDIDATE SCORE
E-mail format	1	
Professional language used	1	
No spelling errors	1	
The consideration in respect of the share repurchase **will meet the definition of a 'dividend'** in section 1 of the Act (see para (b) of the definition which specifically refers to a share repurchase), **except to the extent that it results in the reduction of contributed tax capital** (see (i) of the 'dividend' definition in section 1).	2	
Therefore, of the consideration in respect of the share repurchase, **R208,000** (R520,000 x 40%) **will be a dividend as defined** and **R312,000** (R520,000 x 60%) **will be a return of capital** for tax purposes.	4	
The contributed tax capital attributable to Jonathan's shareholding is R980 500.	1	
CGT consequences		
The **R312 000 will be "proceeds"** as defined in **paragraph 35** of the Eighth Schedule.	2	
The base cost attributable to 30% of Jonathan's shareholding is **R294 150** (R980 500 x 30%).	1	
Jonathan will therefore realise a capital gain of **R17 850** (R312 000 - R294 150).	1	
Assuming Jonathan has no other capital gains / losses, there will be **no taxable capital gain** as the capital gain will be reduced in full by the annual exclusion of **R40 000**.	1	
Income tax consequences		
The dividend of R208,000 will be included in gross income in terms of paragraph (k), but will be exempt from income tax in terms of section 10(1)(*k*) of the Income Tax Act.	2	
Dividends tax consequences		
The R208,000 portion of the repurchase consideration, will also be a 'dividend' as defined for purposes of dividends tax (since the relevant portion of the definition of dividend in s64D of th Act, refers back to the section 1 definition).	1	
Section 64E(2) of the Income Tax Act requires dividends tax to be imposed on dividends paid, unless such dividends are exempt from dividends tax in terms of section 64F.	1	
None of the exemptions in section 64F apply to Jonathan.	1	
Jonathan will therefore be liable for dividends tax of R41,600 (R208 000 x 20%)	1	
Therefore, the estimation made by Jonathan's accountant is incorrect.	1	
STT consequences		
The share repurchase is a "transfer" as defined in section 1 of the Securities Transfer Tax Act.	1	
However, since Shaz (Pty) Ltd is an unlisted company it will be liable for the STT of R1 300 (R520 000 x 0,25%) (not Jonathan)	1	
VAT consequences		
The transfer of equity shares are financial services as per section 2 of the VAT Act.	1	
The share repurchase will therefore be an exempt supply in terms of section 12(a) of the VAT Act.	1	
	26	
MAXIMUM	20	