KEBD
KLAGSBRUN EDELSTEIN BOSMAN DU PLESSIS INC.
Attorneys | Notaries | Conveyancers

220 Lange Street,
Nieuw Muckleneuk,
Pretoria, 0181
PO Box 178, Groenkloof,
South Africa, 0027
Docex 42, Brooklyn
Tel: +27 (0) 12 452 8900
Fax: +27 (0) 12 452 8901
www.kebd.co.za

UNDERSTANDING CORPORATE RESTRUCTURINGS AND SHARE BUY-BACKS UNDER SECTION 48 OF THE COMPANIES ACT NO. 71 OF 2008

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In South Africa, corporate restructurings and share buy-backs are common strategies employed by companies to optimise their capital structure, streamline operations, and enhance shareholder value. These transactions are governed by various regulations, including Section 48 of the Companies Act No. 71 of 2008 ("**Companies Act**").

This article aims to provide an overview of corporate restructurings and share buy-backs in the context of South African tax law.

Corporate restructurings encompass a broad range of transactions, including, but not limited to mergers and acquisitions. These transactions can result in significant tax implications for the companies involved, as well as their shareholders.

Share buy-backs involve a company repurchasing its own shares from existing shareholders. This can be done for various reasons, including returning excess cash to shareholders, boosting earnings per share, or thwarting hostile takeovers. Section 48 of the Companies Act provides guidelines for the tax treatment of certain corporate restructuring transactions. Under Section 48, qualifying corporate restructurings may be eligible for certain tax relief measures, such as roll-over relief and exemption from capital gains tax (CGT). Roll-over relief allows companies to defer the recognition of gains or

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losses arising from the transfer of assets during a restructuring, provided certain conditions are met. This helps to facilitate the restructuring process without imposing an immediate tax burden on the companies involved.

Furthermore, Section 48 provides for the tax-neutral treatment of certain corporate actions, such as the transfer of assets between group companies or the conversion of debt into equity. These provisions aim to promote efficiency and flexibility in corporate structures while ensuring that tax considerations do not impede legitimate business transactions.

In South Africa, share buy-backs are regulated by Section 48 of the Companies Act as well as tax legislation. From a tax perspective, share buy-backs may have different implications depending on whether they are considered capital distributions or dividends. Capital distributions, which include share re-purchases funded from retained earnings or capital reserves, may be subject to CGT in the

hands of the selling shareholders. However, certain exemptions or reliefs may apply, particularly for minority shareholders or in the context of intra-group transactions.

On the other hand, share buy-backs financed from profits or revenue reserves may be treated as dividends for tax purposes, subjecting them to dividend withholding tax (DWT) at the applicable rate. The tax treatment of share buy-backs is therefore influenced by various factors, including the source of funds, the motives behind the transaction, and the ownership structure of the company.

In conclusion, corporate restructurings and share buy-backs play a crucial role in shaping the corporate landscape and driving economic growth. These transactions are subject to specific tax rules and regulations, as outlined in Section 48, amongst other provisions. By understanding the tax implications of corporate actions, companies can make informed decisions that maximise value for shareholders while remaining compliant with applicable tax laws. It is advisable for companies contemplating such transactions to seek professional tax and legal advice to ensure proper structuring and compliance with regulatory requirements.

By Eunice Davey (Director) | Corporate and Commercial Department

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