

BINDING CLASS RULING: BCR 048

DATE: 14 September 2015

ACT : INCOME TAX ACT NO. 58 OF 1962 (the Act)
SECTION : SECTIONS 1(1) – DEFINITION OF “INCOME”, 11(a), 23(f) AND 25BA
SUBJECT : DEDUCTIBILITY OF EXPENDITURE INCURRED BY A PORTFOLIO OF A COLLECTIVE INVESTMENT SCHEME IN SECURITIES

1. Summary

This ruling determines the deductibility of expenditure incurred by a portfolio of a Collective Investment Scheme in Securities (CISS) as defined in section 1 of the Collective Investment Schemes Control Act, No. 45 of 2002 (the CISC Act), from income retained by it.

2. Relevant tax laws

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

In this ruling references to sections are to sections of the Act applicable as at 22 June 2015. Unless the context indicates otherwise, any word or expression in this ruling bears the meaning ascribed to it in the Act.

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

- section 1(1) – definition of “income”;
- section 11(a);
- section 23(f); and
- section 25BA.

3. Class

The class members to whom this ruling applies are described in point 4 below.

4. Parties to the proposed transaction

The Applicant: An Association not for gain

The Class Members: Portfolios of Collective Investment Schemes in Securities

5. Description of the proposed transaction

A CISS (and therefore each Class Member) issues participatory interests to its unit holders who invest in the investment portfolio. A Class Member derives income mainly by way of dividends and interest and incurs expenditure, principally the fees payable to its manager. A Class Member typically retains income sufficient to meet its expenses and distributes the remainder of its income to its participatory interest holders.

These activities together constitute the proposed transaction in respect of which this ruling is made.

5. Conditions and assumptions

This binding class ruling is not subject to any additional condition and assumption.

6. Ruling

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

- Amounts retained by a Class Member will, under section 25BA(1)(b), constitute “income” as defined in section 1(1). Section 23(f) does not apply to the expenditure sought to be deducted from that income. Consequently, the expenditure of a Class Member will be fully deductible from the amounts retained if that expenditure qualifies under section 11(a).

7. Period for which this ruling is valid

This binding class ruling is valid for a period of 5 years from 22 June 2015.

**Legal and Policy Division: Advance Tax Rulings
SOUTH AFRICAN REVENUE SERVICE**