

## Tax Alert

June 04, 2021



# IRAS' Advance Ruling on sale of assets by Registered Business Trusts

On 1 June 2021, an advance ruling was published by IRAS on whether sale of interest in certain investments is a capital transaction (not leading to any taxation/ deductibility of gains/ costs in Singapore).

The case before the IRAS involved a listed business trust ('ABC Trust') registered under the Business Trust Act. ABC Trust is managed by a Trustee-Manager who holds the dual responsibility of safeguarding the interests of the unitholders and managing the trust's business.

ABC Trust holds the investment in its initial offering portfolio of assets in certain jurisdiction, through a business arrangement, where it entered into an agreement as an investor with XY, the business operator that manages and operates the income-generating assets under the arrangement ("XY interest"). ABC Trust disposed of the XY interest after holding of the interest for more than 5 years. There has been no prior sale of any part of the XY interest by ABC Trust.

### Ruling:

- The sale of the XY interest is a capital transaction and therefore any costs/loss associated with the sale and gains (if any) arising therefrom is not deductible and taxable respectively under the provisions of the Singapore Income Tax Act.
- IRAS considered factors such as the intention of ABC Trust at the time of acquiring the XY interest, the holding period of the XY interest, mode of financing, frequency of similar transactions by ABC Trust, circumstances of the realization and ABC Trust's intention to wind up upon completion of the sale of the XY interest.

### Key takeaways:

- The ruling illustrates the factors which are critical in determining whether a transaction should be treated as capital or revenue. While the ruling applies only to the applicant and the particular arrangement that was the subject of the request, taxpayers may consider the principles laid down by IRAS under such ruling.
- At Dhruva Advisors, we have the relevant experience in advising and assisting clients on obtaining advance rulings from tax authorities thereby allowing you to plan cashflows from transactions or structures with certainty.

For any questions regarding the above matter or any other tax related matter, please feel free to reach out to us.

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