

Tax Alert

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Enhancements to tax certainty of Non-Taxation of Companies' Gains on Disposal of Equity Investments

Summary

IRAS released further guidance on 30 Sep 2025 regarding the certainty of non-taxation of companies' gains on disposal of equity investments under Section 13W of Singapore Income Tax Act 1947 ("**SITA**") (referred as "**Safe harbour rules**"), providing enhancements to the Safe harbour rules as announced in Budget 2025.

Originally introduced in Budget 2012, Safe harbour rules provides upfront certainty of non-taxation for companies disposing of shares, where gains from the sale of *ordinary shares* in an investee company are not taxable if at least 20% shareholding in the ordinary shares ("**20% shareholding test**") are held for a minimum holding period of 24 continuous months ("**24 months period test**")¹, for disposals made between 1 June 2012 and 31 December 2027 (referred as 'sunset date'). The Safe harbour rules are applicable regardless of whether the investee company is (a) incorporated in Singapore or elsewhere; (b) listed or non-listed.

Exclusions apply if the divesting company is subject to certain tax rules or if the investee company engages in certain types of activity.

Apart from removal of the sunset date (i.e. making the tax exemption under Safe harbour rules permanent), below are the enhancements announced in Budget 2025, which shall take effect from 1 January 2026 -

- the scope of the Safe harbour rules will be expanded to include gains from the disposal of qualifying preference shares, in addition to ordinary shares; and
- 20% shareholding test can be satisfied on group basis

¹ Under the scheme, this means that for every day of the 24 months, the divesting company must maintain a minimum ordinary shareholding level of at least 20% in the investee company whose ordinary shares are being disposed of.

It is in the light of the above changes announced in Budget 2025 which are taking effect from 1 January 2026, Inland Revenue Authority of Singapore (“IRAS”) has issued further guidance to provide clarity on the said announcements.

Overview of changes

Originally introduced in Budget 2012, the Safe harbour rules gives companies upfront certainty of non-taxation on gains from the disposal of *ordinary shares* in an investee company, provided the divesting company holds at least 20% shareholding in the investee’s ordinary shares for a continuous 24-month period.

This Safe harbour rules applied to disposals made between **1 June 2012 and 31 December 2027**, however, as announced in Budget 2025, the same has been removed making the Safe harbour rules permanent.

Besides above, the details of the changes announced in the Budget 2025, that will take effect from 1 January 2026 are as follows -

- **Inclusion of preference shares**

- The scope of eligible gains will be expanded to include gains from the disposal of preference shares (so long as they are accounted for as equity);
- Note that preference shares refer to those that are accounted for as equity by the investee company under the applicable accounting principles adopted by the investee company (“**Qualifying preference shares**”).
- If the investee company is not required to follow any specific accounting standards, the applicable accounting principles will refer to the International Financial Reporting Standards.
- Where the divesting company and investee company both are VCCs, 20% shareholding threshold will be evaluated by only considering ordinary shares.

- **Availability to test 20% shareholding on group basis**

- The 20% shareholding threshold requirement may be assessed on a group basis (i.e. aggregating shareholdings across related companies) rather than strictly on the divesting company alone (details provided below).
- The group basis of assessment for the 20% shareholding threshold condition does not apply when the divesting company is either a registered business trust or variable capital company.
- With regards to assessing 20% shareholding test on group basis, the divesting company can now aggregate its shareholding with those of related companies within the same corporate group. For meeting the 20% shareholding threshold, only those shares that have been held continuously by the divesting company and its related companies throughout the relevant 24-month holding period will be taken into account. Any gains derived from the disposal of shares that do not meet this continuous holding requirement will not qualify for the tax exemption. Additionally, for the purpose of determining which shares are considered disposed of, the first-in-first-out (FIFO) method applies.
- The divesting company and other companies are regarded as being in the same group if:

- more than 50% of the total number of issued ordinary shares in one company is beneficially owned, whether directly or indirectly, by the other company, with one of the companies being the divesting company; or
- more than 50% of the total number of issued ordinary shares in each of the companies, including the divesting company, is beneficially owned, directly or indirectly, by a common holding company

To provide a bird's eye's view of the broad changes that will take effect from 1 January 2026, we have summarised the same in the table below –

Conditions	Disposals before 1 January 2026	Disposals after 1 January 2026
Eligible shares	Only ordinary shares	Ordinary shares and qualifying preference shares
20% shareholding threshold condition	Evaluated on a divesting entity basis only	Evaluated on a divesting entity basis or group basis (for companies) Evaluated on a divesting entity basis only (for registered business trusts and variable capital companies)



Dhruva Comments

The enhancements to the Safe harbour rules represent greater tax certainty and flexibility for corporate restructuring and investment holding. The removal of the sunset clause ensures the scheme remains a permanent feature of Singapore's tax landscape, enhancing Singapore's attractiveness as a business location and minimize compliance costs for taxpayers.

The inclusion of qualifying preference shares and the option to assess the 20% shareholding threshold on a group basis better reflect the practical structures of corporate groups.

Dhruva Advisors is committed to help and support companies undergoing restructuring or disposals to analyse the tax implications of such transactions and mitigate any adverse tax consequences based on the provisions of the law.



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