



Tax Bytes

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Greetings from your Tax & Legal team at Deloitte Singapore.

We are pleased to update you on the following new/updated content from the Inland Revenue Authority of Singapore (IRAS):

Advance ruling on "Whether repayments (including retained earnings) to Company A upon liquidation of Company B ("Liquidation Proceeds") are subject to Singapore income tax under the provisions of the Income Tax Act 1947 (2020 Revised Edition) (the "ITA")"

On 1 March 2024, IRAS has published the above summary of income tax advance ruling issued at this link [here](#).

Background

This advance ruling concerns Company A, a Singapore-incorporated company and its wholly owned foreign subsidiary, Company B. Company B had not declared any dividends since its incorporation.

As Company A prepares to liquidate Company B, the expected liquidation proceeds will not be paid in cash, but instead offset the non-trade payables Company A owes to Company B.

The central issue is whether liquidation proceeds derived by Company A are taxable pursuant to Section 10(1) of the Income Tax Act 1947.

The ruling

The IRAS considers the liquidation proceeds, including Company B's retained earnings, to represent a return of capital to Company A. As a result, capital receipts are not subject to tax.

Comments

Despite the succinct nature of the advance ruling, it suggests that liquidation proceeds exceeding the cost of investment may be fully characterised as a return of capital.

Although Section 10L of the Income Tax Act (refer to commentary [here](#)), as introduced by the Income Tax (Amendment) Act 2023 and effective from 1 January 2024, does not apply to the scenario described in the IRAS' ruling, a hypothetical application of this section to liquidation proceeds received on or after this date presents an interesting discussion.

Briefly, Section 10L specifies that gains from the sale or disposal of foreign capital assets, under certain conditions, will be treated as taxable income upon their receipt in Singapore. It is understood that the IRAS does not consider liquidation proceeds received from the liquidation of a foreign subsidiary as a 'sale or disposal' of foreign assets. As such, ordinary tax principles continue to apply in characterising the tax treatment of such proceeds.

Contacts

Should you have any comments or questions arising from this newsletter, please contact either the listed contacts below, or any member of the [Singapore Tax & Legal team](#).



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