

IRAS e-Tax Guide

Stamp Duty : Relief for the Transfer of Assets upon Conversion of an Existing Company to a Limited Liability Partnership (LLP)



INLAND REVENUE
AUTHORITY
OF SINGAPORE

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Stamp Duty Relief for the Transfer of Assets upon Conversion of an Existing Company to a Limited Liability Partnership (LLP)

1. Aim

1.1 This guide serves :-

- to inform you that the Minister of Finance, in Budget 2011, has announced a new stamp duty relief granted for the transfer of assets upon the conversion of an existing company to an LLP;
- to provide you with the conditions for relief and the circumstances under which the relief allowed may be withdrawn

2 At a Glance

2.1 Before 19 February 2011, when a company converts to an LLP, stamp duty relief is not given to the transfer of assets from the company to the LLP. Stamp duty relief for the transfer of assets is now given subject to conditions in para 6.2.

3 Glossary

3.1 “LLP” has the same meaning as in the Limited Liability Partnerships Act (Cap. 163A)

3.2 “Firm” has the same meaning as in section 2(1) of the Business Registration Act (Cap. 32)

3.3 “Registered Business Trust” has the same meaning as in section 2 of the Business Trust Act (Cap. 31A)

3.4 “Entity” means company, statutory body, registered business trust or LLP

3.5 “Date of Conversion” means the date of registration specified in the notice of registration issued by the Registrar of Limited Liability Partnerships under section 20 or 21 of the Limited Liability Partnership Act (Cap. 163A)

4 Background

4.1 The relief will provide businesses with the flexibility in organisational restructuring.

5 Current Tax Treatment

- 5.1 Under the Limited Liability Partnerships Act (Cap.163A), where a company or a firm converts to an LLP, all the assets of that company or firm would vest in the LLP automatically. Stamp duty is payable on the transfer of assets from the firm or company to the LLP. As there may not be any transfer instrument executed to transfer the assets, the notice of registration issued by Registrar of the Limited Liability Partnerships upon the conversion of a firm or company to an LLP is deemed to be a transfer on sale of the assets of the company or firm to the LLP. Ad valorem stamp duty would be payable on the notice of registration based on the value of the chargeable assets (assets chargeable to stamp duties, i.e. immovable property situated in Singapore, stocks or shares, or any interest thereof) transferred to the LLP.
- 5.2 Currently, where prescribed conditions are met, stamp duty relief is allowed for the transfer of the assets from the partners of a firm to an LLP upon the conversion of a firm to an LLP. The relief is however not given to the transfer of assets upon the conversion of a company to an LLP. Ad valorem stamp duty is payable on the notice of registration upon the conversion of a company to an LLP.

6 What's New and the Effective Date

- 6.1 Following the announcement in Budget 2011, stamp duty relief would be extended to the transfer of assets from a company to the LLP upon the conversion of an existing company to an LLP. This relief applies to a company that is converted to an LLP on or after 19 Feb 2011.
- 6.2 The following conditions have to be satisfied for the relief to be allowed: -
- (a) The shareholders of the existing company remain as the partners ("original partners") of the new LLP as at the date of conversion;
 - (b) The assets of the new LLP are those of the existing company as at the date of the conversion;
 - (c) The percentage of partnership interests of each of the partners in the new LLP have to remain the same as the shareholding percentages of each of the shareholders in the existing company as at the date of conversion and
 - (d) At least 75% of the composition of the partnership interest in the LLP held by the original partners immediately after the conversion should remain the same for 2 years from the date of conversion

6.3 The stamp duty relief that has been allowed on the notice of registration upon the conversion of a company to an LLP will be withdrawn under any of the following circumstances:

- (a) Where the original partners collectively or individually dispose of more than 25% of their/its interest in the LLP within 2 years from the date of the conversion except where the original partners dispose of their/its interest to a wholly associated entity
- (b) Where the LLP disposes of any of the chargeable assets that it had acquired from the existing company as at the date of conversion to its partners

6.4 Illustrations on subsequent disallowance can be found in Annex A.

7 Administrative Procedure

7.1 An application for relief must be accompanied by:

- A Statutory Declaration by an advocate and solicitor or a partner of the new LLP. The SD should include the following information :-
 - ✓ Whether the conditions for relief have been/will be met
 - ✓ Names and I/D or UEN of the shareholders of the existing company and the partners of the new LLP as at the date of conversion (supporting documents should be furnished)
 - ✓ The respective shareholding of the shareholders in the existing company and the respective partner's interest in the new LLP as at the date of conversion (any supporting documents should be furnished)
 - ✓ A list of all the chargeable assets of the company as at the date of conversion (any supporting documents should be submitted)
- A copy of the notice of registration issued by the Registrar of Limited Liability Partnerships under section 20 or 21 of the Limited Liability Partnerships Act
- A copy of the last audited Statement of Accounts of the existing company

8 Frequently Asked Questions

8.1 **Why is there a limit that only up to 25% change in partnership interest can take place within 2 years of the conversion?**

The relief is meant to facilitate pure changes of corporate forms, where the partners/shareholders, as well as the assets concerned, remain substantially unchanged. We have allowed up to 25% change in partnership interest to accord some degree of flexibility in the restructuring process.

8.2 Why is there a requirement that the relevant assets, as well as the shareholders/partners, and their corresponding interests, must be unchanged before and after the conversion for the new relief?

The relief is meant to facilitate conversions of companies to LLPs. As such, any changes in shareholders/partners, and their corresponding interests in the relevant assets, would not be granted the relief. There is however some flexibility accorded, as up to 25% change in partnership interest can take place within 2 years of the conversion, without resulting in a withdrawal of the relief given.

9 Contact Information

9.1 For enquiries on this Guide, please contact :-

Property Tax Division
Valuation and Stamp Duty Branch
Inland Revenue Authority of Singapore
55 Newton Road
Revenue House
Singapore 307987

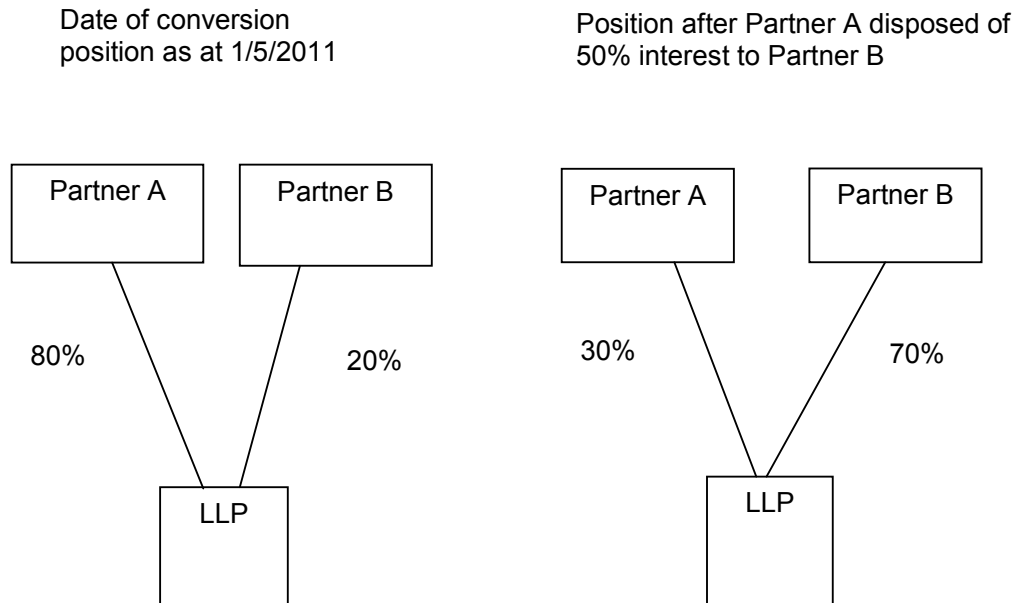
Tel :6351 3687 / 6351 3698

Fax :63513694

Email :estamp@iras.gov.sg

Annex A - Illustrations on Subsequent Disallowance

Example 1

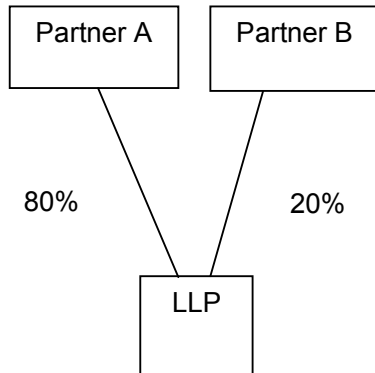


Partner A disposes of his 50% interest in the LLP to Partner B on 1/11/2012 while retaining his 30% interest.

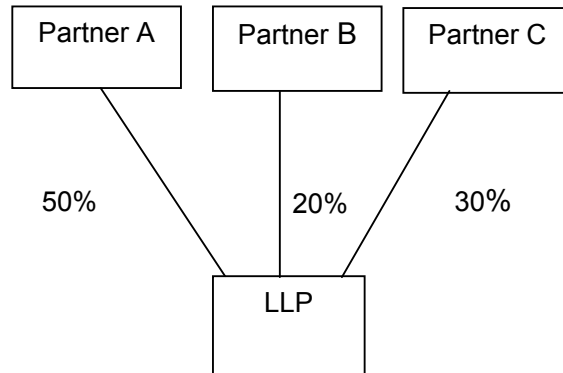
The relief previously allowed on the conversion would be withdrawn and there would be a claw back of the duty as there is a change of partnership interest involving >25% of the interest in the LLP within 2 years from the date of the conversion.

Example 2

Date of conversion
position as at 1/5/2011



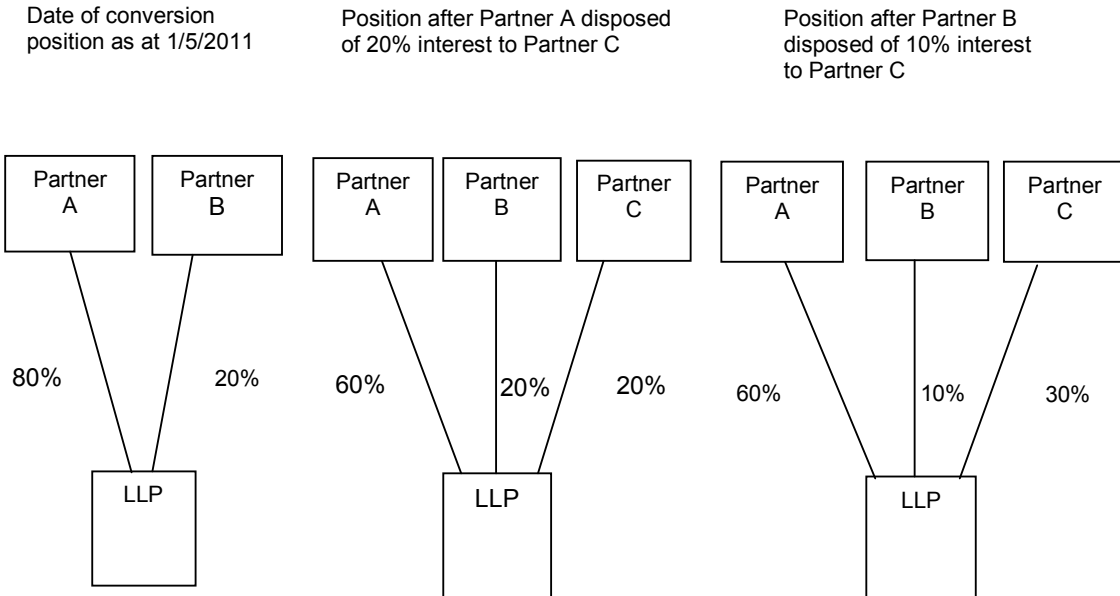
Position after Partner A disposed of
30% interest to Partner C



Partner A disposes of his 30% interest in the LLP to Partner C on 1/11/2012 while retaining his 50% interest.

The relief previously allowed on the conversion would be withdrawn and there would be a claw back of the duty as there is a change of partnership interest involving > 25% of the interest in the LLP within 2 years from the date of the conversion.

Example 3

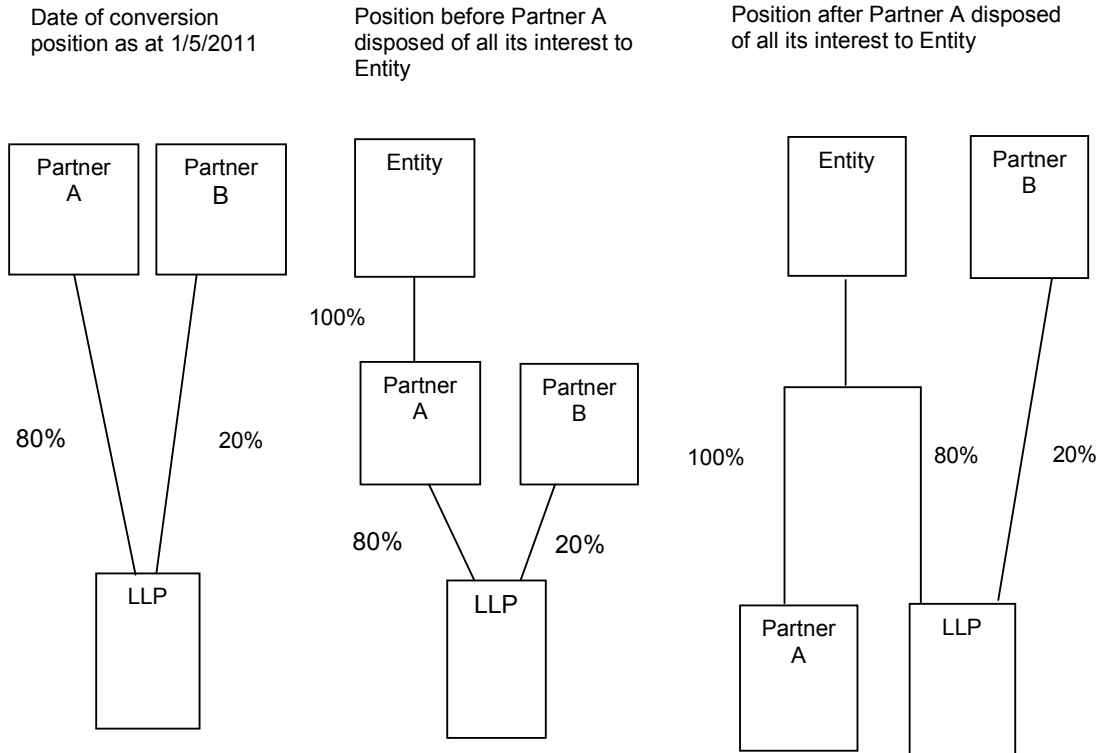


Partner A disposes of his 20% interest in the LLP to a third party, Partner C on 1/10/2011 while retaining his 60% interest. Partners A, B and Cs' interests in the LLP after the disposal by Partner A would be 60% : 20% : 20%. The relief allowed on the conversion would not be withdrawn as there is a change of partnership interest involving $\leq 25\%$ interest in the LLP.

On 1/3/2012, Partner B disposes of his 10% interest in the LLP to Partner C while retaining his 10% interest. Partners A, B and Cs' interests in the LLP would be 60% : 10% : 30%. The relief allowed on the conversion would be withdrawn as Partners A & B had, in total, disposed of $> 25\%$ of their interest in the LLP within a period of 2 years from the date of conversion. There would be a claw back of the duty.

The relief would not be withdrawn if Partner B had disposed of the 10% interest in the LLP to Partner C on or after 1/5/2013.

Example 4



Entity holds 100% of Partner A. Partner A disposes all his interest in the LLP to Entity on 1/10/11.

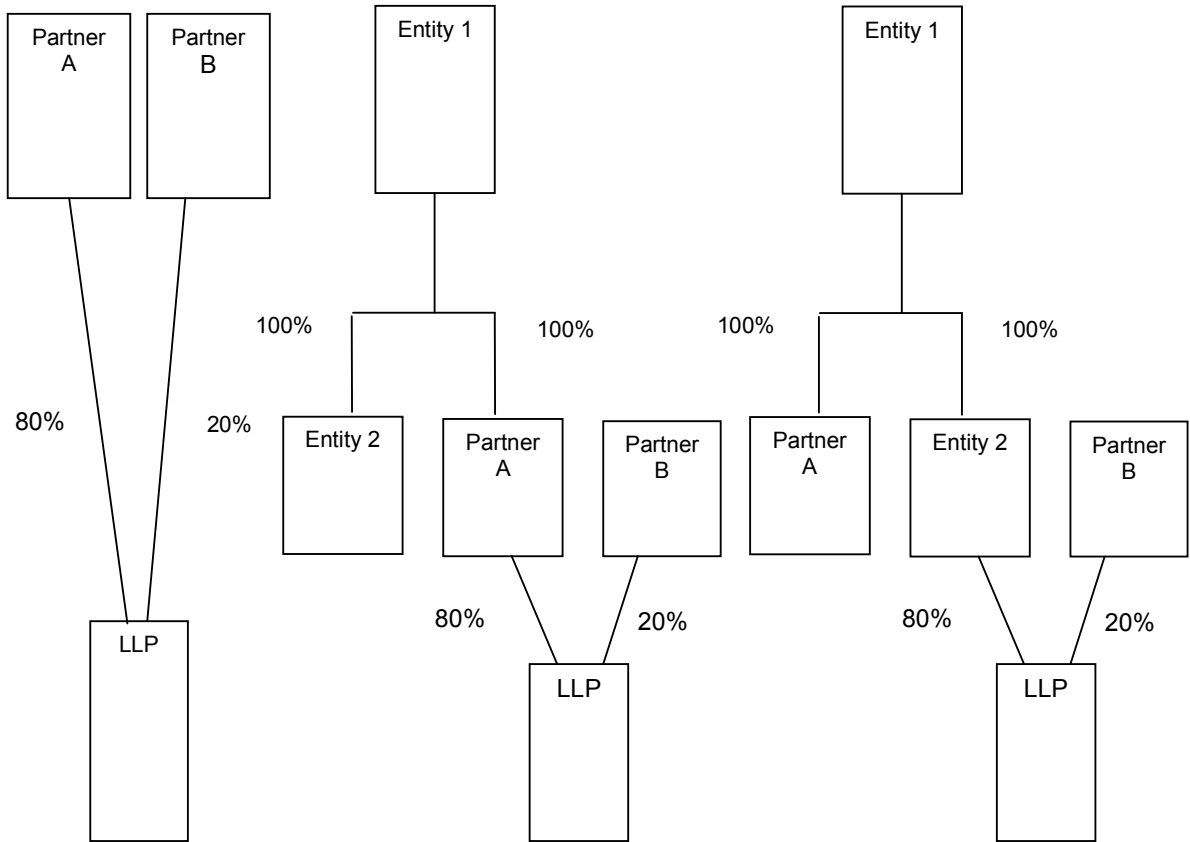
Although Partner A had disposed of more than 25% interest in the LLP within 2 years from the date of conversion, the relief allowed would not be withdrawn as Partner A had disposed of his interest in the LLP to a wholly directly associated entity.

Example 5

Date of conversion
position as at 1/5/2011

Position before Partner A disposed
of all its interest to Entity 2

Position after Partner A disposed
of all its interest to Entity 2



Entity 1 holds 100% of Entity 2 and 100% of Partner A. On 1/10/2011 Partner A disposes of his interest in the LLP to Entity 2.

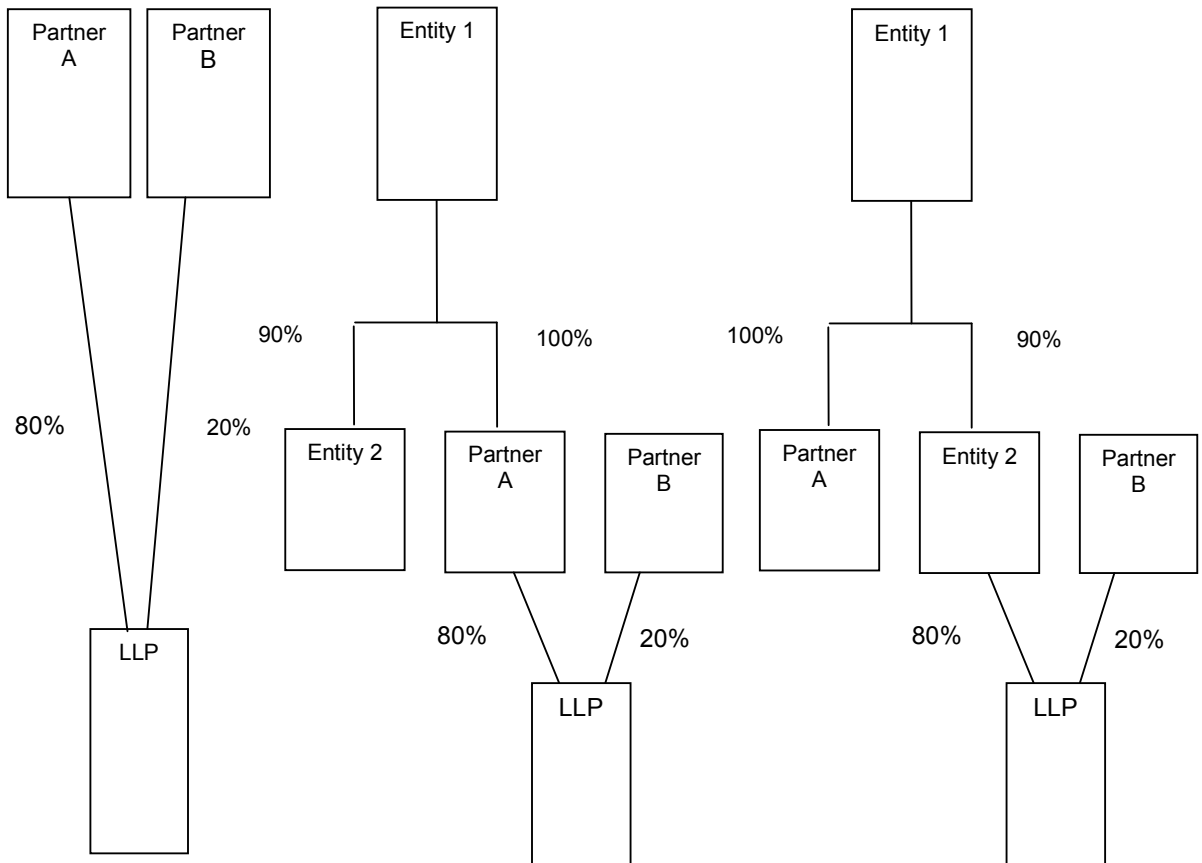
Although Partner A had disposed of more than 25% interest in the LLP within 2 years from the date of conversion, the relief allowed on the conversion would not be clawed back as Partner A had disposed of his interest in the LLP to a wholly indirectly associated entity.

Example 6

Date of conversion position as at 1/5/2011

Position before Partner A disposed of all its interest to Entity 2

Position after Partner A disposed of all its interest to Entity 2



Entity 1 holds 90% of Entity 2 and 100% of Partner A. On 1/10/2011 Partner A disposes of his interest in the LLP to Entity 2.

The relief allowed on the conversion would be withdrawn and there would be a claw back of the duty as there is a change of partnership interest involving >25% of the interest in the LLP within 2 years from the date of the conversion to an entity that was not wholly associated with Partner A.