

IRAS CIRCULAR

VALUATION OF GAINS OR PROFITS FROM OPTION TO PURCHASE SHARES IN A COMPANY LISTED ON THE SINGAPORE EXCHANGE



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Valuation of Gains or Profits from Option to Purchase Shares in a Company Listed on the Singapore Exchange

Introduction

- 1 Under section 10(6) of the Singapore Income Tax Act (“SITA”), the gains or profits derived by a person from the exercise of share options granted to him by reason of any office or employment are taxable as his income.
2. The rules for valuing the gains or profits derived from the exercise of such share options are also prescribed in section 10(6). The amount of gains or profits is the open market price of the shares at the time of the exercise of the share option, less the amount paid for such shares. Where the open market price is not readily available, as is often the case for shares of companies not listed on any stock exchange, the net asset value of the shares will be used in lieu of the open market price.
3. The valuation rules prescribed in section 10(6) and as described in paragraph 2 above were recently amended in so far as they apply to options for acquisition of shares in a company listed on the Singapore Exchange (SE).
4. The purpose of this Practice Note is to explain the application of the new valuation rule.

Administrative Practice

5. Under current SE rules, when an option to acquire shares in a company already listed on the SE is being exercised, new shares in the company will have to be issued to the person who exercised the option. The new shares cannot be traded on the SE until they are listed on the SE. Prior to the amendment to section 10(6), the amount of gains or profits from the exercise of such option is the open market price of the shares on the date the option is exercised less the amount paid for such shares.
6. The amendment to effect the change in the valuation of gains or profits from options to acquire shares in a company listed on the SE is found in paragraphs (d) and (e) of sections 10(6) of the SITA.
7. Paragraph (d) of the amended section 10(6) now provides that gains or profits derived from the exercise of such options shall be the last done price on the listing date of the shares so acquired less the amount paid for such shares. “the last done price on the listing date” is defined in paragraph (e) to be the price of the shares in the open market at the last transaction on the date on which such shares are first listed on the SE after the acquisition of such shares.

8. Therefore, after the amendment, the last transacted price of the company shares on the date the shares acquired under the option are first listed on the SE, instead of the price at the time of the exercise, is used to value the gains or profits subject to tax. The amendment, however, does not affect the timing for the accrual of the gains or profits as income. The gains or profits so valued will continue to accrue as income of the year in which the option is exercised.
9. The new valuation rule applies to share options exercised on or after the date the Amendment Act comes into operation, i.e. 23 January 1998.
10. Taxpayers who have any enquiries on this Practice Note may call our Taxpayer Services Division for clarification.