

IRAS CIRCULAR

INCOME TAX TREATMENT OF REAL ESTATE INVESTMENT TRUSTS



**INLAND REVENUE
AUTHORITY
OF SINGAPORE**

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INTRODUCTION

The Income Tax (Amendment) Bill 2006¹ has several new provisions relating to the tax treatment of real estate investment trusts (“REITs”). This Circular explains the tax treatment as provided by these proposed changes to the Singapore Income Tax Act (“ITA”).

TAX TREATMENT

2 At present, the Comptroller will accord the tax transparency² treatment to a REIT if the trustee distributes at least 90% of any taxable income to unitholders in the same year in which the income is derived by the trustee and undertakes that certain administrative procedures are complied with. The REIT income that enjoys the tax transparency treatment is confined to -

- a. rental income, income from the management or holding of immovable property but not including trading gains from the disposal of immovable property;
- b. interest income ancillary to the management or holding of immovable property; and
- c. interest income from deposits, debt securities and Islamic debt securities.

3 The types of income for which the tax transparency treatment is granted, as set out above, is now being provided for in the ITA by way of relevant amendments proposed in the Income Tax (Amendment) Bill 2006.

4 With the introduction of the proposed Sections 43(2A)(a), 35(16)(a), 13(1)(zh)³ and amendment to Section 43(3B), the income specified in paragraph 2 above will be granted tax transparency treatment (provided the approving conditions are met) and the distributions made out of these specified income will be either exempt from tax (if conditions in Section 13(1)(zh) are met), subject to tax at a rate of 10% (if conditions in Section 43(3B) are met) or subject to normal taxation (in all other cases).

5 Where a REIT derives:

- a. income specified in paragraph 2 but does not distribute the income to the unitholders in the same year in which the income is derived; or
- b. income other than those specified in paragraph 2,

¹ Presented in Parliament for First Reading on 8 November 2006.

² This is made under Section 43(2) of the ITA, where the Comptroller agrees not to charge the trustee with any tax, and to subject the beneficiary to tax on the distribution received.

³ Formerly covered under Section 13(1)(ze)(v) of the ITA.

the tax transparency treatment will not be applicable and such income will be subject to tax at the trustee level. Any distribution made from such income is capital and will not be subject to any further tax when received by the unitholders.

6 The above amendments as proposed in the Income Tax (Amendment) Bill 2006 will take effect from the date of gazette of the Income Tax (Amendment) Act 2006.

ENQUIRIES

7 For general enquiries or clarifications on this Circular, please call 1800-3568622.

Inland Revenue Authority of Singapore