

1. Subject:

Whether the use of unremitted foreign-sourced interest income towards a capital reduction exercise constitutes a deemed remittance into Singapore under section 10(25) of the Income Tax Act¹ (“ITA”).

2. Relevant background and facts:

Background

- a. The Company is incorporated and tax resident in Singapore. It carries on a trade in Singapore. It is a wholly-owned subsidiary of ABC, a company incorporated and tax resident in Country A.

Loans to related entities by the Company

- b. To meet funding needs within the ABC Group, the Company may use its excess cash, which may be kept within or outside Singapore, to extend loans to its related parties at arm's length interest rates.
- c. The Company does not consider itself as a funding vehicle and is not in the business of borrowing and lending.
- d. The Company had extended loans to its related parties, DEF, a company incorporated and tax resident in Country B and GHI, a company incorporated and tax resident in Country C.
- e. The Company represented that:
- (i) The loan agreements were negotiated and signed outside Singapore;
 - (ii) The funds from the loans were made available by the Company to its related parties wholly outside Singapore; as the funds were transferred by the Company from its bank account in or outside Singapore, to its related parties bank accounts outside Singapore;
 - (iii) The interest expenses on the loan is not deductible against income chargeable to Singapore income tax; and
 - (iv) The funds from the loans were wholly used outside Singapore by its related parties and were not brought into or used in Singapore

¹ Income Tax Act, Chapter 134 (Revised Edition 2014)

- f. The Company had maintained separate bank accounts in Country B to facilitate the servicing of the loans to DEF and GHI. The bank accounts in Country B were maintained to receive the principal loan repayments and the interest payments made by DEF and GHI to the Company.
- g. Certain portions of the loan extended to GHI by the Company was funded from the interest income derived by the Company on the loan to DEF.
- h. The interest income derived by the Company on the loan to DEF which was applied towards extending the loan to GHI was wholly transferred from the Company's bank account in Country B to GHI's bank account in Country C.
- i. The interest income derived by the Company on the loan to DEF was not repatriated to Singapore at any time by the Company before it was extended as a loan to GHI.

Proposed Capital Reduction Exercise

- j. Arising from internal working capital and other requirements of ABC group, the Company is contemplating to effect a capital reduction under the Companies Act² to return excess capital to its shareholder, ABC.
- k. The capital reduction will be made using funds from the loan principal repayments and/or interest income from the loans to DEF and GHI.
- l. In carrying out the capital reduction exercise, the foreign-sourced interest income will not be received in, transmitted to or brought into Singapore by the Company at any time, as these funds will be transferred directly from the Company's bank accounts outside Singapore to ABC's bank account outside Singapore.

3. Relevant legislative provisions:

- a. Income Tax Act, Chapter 134 (Revised Edition 2014) - Section 10(25)

4. The ruling:

- a. The Company's use of unremitted foreign-sourced interest income from the Company's bank account outside Singapore towards the proposed capital reduction exercise under the Companies Act to its shareholder's bank account outside Singapore does not constitute a deemed remittance under section 10(25) of the ITA.
- b. The ruling is subject to the following conditions:
 - (i) The foreign-sourced income indeed constitutes foreign-sourced income of the Company for Singapore income tax purposes;

² Companies Act, Chapter 50 (Revised Edition 2006)

- (ii) The remittance of funds from the Company's bank account outside Singapore to ABC's bank account outside Singapore is indeed for the purposes of the capital reduction exercise made directly to ABC without involving any physical remittance or transmission of funds by the Company into Singapore;
 - (iii) The foreign-sourced interest income is not in fact amounts:
 - applied in or towards satisfaction of any debt incurred in respect of a trade or business carried on in Singapore by the Company;
 - applied by the Company to purchase any movable property which is brought into Singapore; or
 - constituting foreign-sourced income of the Company, which had already been remitted to, transmitted or brought into Singapore from the time the foreign-sourced income was accrued to the Company to the time it was transmitted to ABC's offshore bank account.
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5. Reasons for the decision:

- a. The use of unremitted foreign-sourced income for the purposes of a capital reduction exercise where the funds applied towards the capital reduction are transferred directly from the company's bank account outside Singapore to its shareholder's offshore bank account does not come within the provisions of section 10(25) of the ITA.
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6. General References

- a. Taxpayers may refer to the [IRAS Website](#) for further guidance on the application of section 10(25) where income from outside Singapore is considered received in Singapore.
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