

1. Subject:

Whether the use of Company A's foreign-sourced dividend income from Company B to offset a non-trade related intercompany debt owing by Company A to Company B would trigger the remittance rules under section 10(25) of the Income Tax Act¹ ("ITA").

2. Relevant background and facts:

Background

- a. Company A is incorporated and tax resident in Singapore. Company A and Company B are both investment-holding companies. Company B is incorporated and tax resident outside Singapore. Company A and Company B are wholly owned by Company C, a company incorporated and tax resident outside Singapore and publicly listed outside Singapore. Company A, B and C belong to the XYZ Group.
- b. The purpose of incorporating Company A is to act as a separate investment holding company that would eventually hold directly / indirectly all active entities under the XYZ Group.
- c. Company A does not have any trade or business carried on in Singapore. Company A provides long-term loans to its direct subsidiaries for their operational needs based on Group policy that any request for funding by a subsidiary should be requested from its direct holding company. Company A derives passive dividend and interest income from these subsidiaries.
- d. Apart from holding its subsidiaries, Company A is not engaged in the active business of buying and selling of shares or borrowing and lending of money. There are no employees in Company A that is involved in the extension of loans or monitoring of repayment by its subsidiaries.

Internal reorganisation

- e. Prior to an internal reorganisation, Company B owned 100% of the ordinary shares of Company D and its subsidiaries.
- f. Following an internal reorganisation, Company A acquired 100% of the ordinary shares of Company B from Company C. On the same day, Company A acquired Company D and its subsidiaries from Company B.
- g. The purchase consideration due to Company B and Company C was taken up as non-trade related intercompany debts.

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

- h. The amount of non-trade related intercompany debt owing by Company A to Company C for the purchase of Company B was fully converted to share capital in Company A.
- i. The amount of non-trade related intercompany debt owing by Company A to Company B would be settled via various ways. One of the ways proposed is to offset the non-trade related intercompany debt through the offsetting of dividends declared by Company B to Company A.

Proposed Arrangement

- j. Company B is proposing to declare a dividend to Company A. Company A intends to offset the foreign-sourced dividend income receivable from Company B against the non-trade related intercompany debt payable to Company B.
 - k. There will be no actual physical receipt / transmission / bringing of cash dividends from Company B to Company A in or into Singapore.
 - l. The dividends to be declared by Company B to Company A arose from capital gains derived by Company B from the sale of Company D and its subsidiaries.
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3. Relevant legislative provision:

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

- a. Company A's use of its foreign-sourced dividend income from Company B to offset the intercompany debt owing by Company A to Company B does not trigger the remittance rules under section 10(25) of the ITA. This is to the extent that:
 - i. Company A's activities remain as represented above;
 - ii. The dividends declared by Company B indeed constitutes foreign-sourced income of Company A for Singapore income tax purposes;
 - iii. The foreign-sourced dividends from Company B are not remitted to, transmitted or brought into Singapore from the time the foreign-sourced dividends accrues to Company A to the time the intercompany debt is repaid to Company B.
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5. Reasons for the decision:

- a. Company A does not carry on any trade or business in Singapore and is treated as a passive investment holding company. Section 10(25)(b) does not apply to a passive investment holding company.

- b. Company A's proposed use of unremitted foreign-sourced dividend income to offset the non-trade related intercompany debt payable 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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