IRAS e-Tax Guide

Income Tax and Stamp Duty:
Mergers and Acquisitions Scheme
(Fourth edition)

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Income Tax and Stamp Duty: Mergers and Acquisitions Scheme

1 Aim

1.1 This e-Tax Guide sets out the details of the mergers and acquisitions scheme[1] ("M&A scheme").

1.2 The M&A scheme is relevant to Singapore companies.

2 At a glance

2.1 The M&A scheme seeks to encourage Singapore companies, especially small and medium enterprises ("SMEs"), to grow through strategic acquisitions. Under the scheme, a Singapore company ("acquiring company") which makes a qualifying acquisition of the ordinary shares of another company ("target company") may, subject to conditions, enjoy the following tax benefits[2]:

(a) An ***M&A allowance*** on the purchase consideration;

(b) A ***stamp duty relief*** on the agreement for the sale of equitable interest in ordinary shares or instrument of transfer executed in connection with the qualifying share acquisition; and

(c) A ***double tax deduction*** ("DTD") on transaction costs incurred in respect of the qualifying share acquisition[3].

2.2 The M&A scheme is not intended to apply to:

(a) an internal restructure/ reorganisation of companies undertaken within a corporate group except where such a restructure/ reorganisation results in the group owning a higher proportion of the ordinary shares in a target company after the event[4];

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[1] Originally introduced in Budget 2010 for a 5-year period (i.e. 1 Apr 2010 to 31 Mar 2015), the M&A scheme was extended in Budget 2015, for 5 years till 31 Mar 2020.

[2] The various tax benefits under the M&A scheme are provided under section 37L of the Income Tax Act ("ITA") and section 15A of the Stamp Duties Act.

[3] The DTD only applies to transaction costs incurred in respect of qualifying share acquisitions made during the period 17 Feb 2012 to 31 Mar 2020 (both dates inclusive).

[4] For example, Company A held 100% and 60% of the ordinary shares in Company B and Company C respectively. After a reorganisation within the corporate group, Company A holds 100% of Company B's shares while the latter holds 60% of Company C's shares. In such a case, no M&A tax benefits can be granted to Company B for its acquisition of the ordinary shares in Company C as there is no increase in the proportion of ordinary share ownership in Company C held by the group as a whole. However, if Company B had acquired 80% instead of 60% of the ordinary shares of Company C, then M&A tax benefits are available to Company B in respect of its acquisition of the additional 20% ordinary shares of Company C.

(b) the setting up of new (subsidiary) companies within a corporate group to carry on business activities;

(c) the acquisition of ordinary shares which form part of the acquiring company’s trading stocks.

3 Glossary

3.1 Associate

An associate refers to a company over which the acquiring company or its acquiring subsidiary (as the case may be), has significant influence. In determining whether a target company is considered an associate of the acquiring company or acquiring subsidiary, reference is made to the Financial Reporting Standard 28 (Investments in Associates and Joint Ventures) and the Singapore Financial Reporting Standard for Small Entities.

3.2 Concessionary income

This refers to income that is subject to tax at a concessionary rate of tax.

3.3 Connected

An acquiring company is considered connected to a target company if:

(a) 75% or more of the ordinary shares of one company is beneficially held, directly or indirectly, by the other; or

(b) 75% or more of the ordinary shares of each of the 2 companies is beneficially held, directly or indirectly, by a third company.

3.4 Contingent consideration

This refers to that part of the purchase consideration for the share acquisition that is payable only when conditions pre-agreed between the acquiring company and the target company are met.

3.5 Corporate group

This refers to a group of 2 or more companies, each of which is either a holding company or subsidiary of another company within the group.

3.6 Date of share acquisition

This refers to:

(a) the date on which the agreement for the sale of ordinary shares is entered into by the acquiring company or its acquiring subsidiary, as the case may be, or

(b) in the absence of such an agreement, the date of the transfer of the ordinary shares of the target company to the acquiring company or its acquiring subsidiary, as the case may be.

3.7 Local employee

A local employee means an employee of the acquiring company who is a Singapore citizen or Singapore permanent resident; and who makes contributions to the Central Provident Fund ("CPF") in respect of the income derived from his employment with the acquiring company which are obligatory under the CPF Act.

3.8 Normal income

This refers to income that is subject to tax at the prevailing corporate tax rate.

3.9 Singapore company

A Singapore company is one which is incorporated and tax resident in Singapore.

3.10 Step-acquisition

This refers to a situation where ordinary shares of a target company are acquired cumulatively over a period of time by the acquiring company or any of its acquiring subsidiaries.

4 Overview of M&A scheme

M&A allowance

4.1 Subject to conditions, an acquiring company which makes a qualifying acquisition of the ordinary shares of a target company during the period 1 Apr 2010 to 31 Mar 2020 (both dates inclusive) is granted an M&A allowance, computed as follows:

M&A allowance rate x Purchase consideration (subject to cap)

4.2 The M&A allowance rate and cap on purchase consideration are dependent on the period in which the qualifying share acquisition is made.

	1 Apr 2010 to 31 Mar 2015	***1 Apr 2015 to 31 Mar 2016***[5]	***1 Apr 2016 to 31 Mar 2020***[5]
M&A allowance rate	5%	25%	25%
Cap on purchase consideration for each basis period	$100 million	$20 million	$40 million

4.3 Besides the cap on purchase consideration, the amount of M&A allowance granted to an acquiring company for each year of assessment ("YA") for all qualifying share acquisitions executed in the basis period for that YA is subject to an overall cap.

Basis period in which acquisitions are made	***Cap on M&A allowance for corresponding YA***
Ends before 1 Apr 2016	$5 million
Starts on or after 1 Apr 2016	$10 million
Straddles 1 Apr 2016	① Shares acquired before 1 Apr 2016 - $5 million ② Shares acquired on or after 1 Apr 2016 - $10 million ① & ② subject to overall cap of $10 million

5 Revised M&A allowance rates and caps on purchase consideration as announced in Budget 2015 and Budget 2016.

4.4 The M&A allowance on the purchase consideration incurred is allowed over 5 years on a straight-line basis (“5-year write-down period”) and cannot be deferred. The purchase consideration includes any contingent consideration that is incurred in the same basis period in the qualifying share acquisition is made.

4.5 Where any contingent consideration is incurred in a basis period subsequent to the basis period in which the qualifying share acquisition took place, the M&A allowance on that contingent consideration is allowed on a straight-line basis over the remaining years of the 5-year write-down period. If any contingent consideration is incurred in the last basis period of the 5-year write-down period or later, the M&A allowance on that contingent consideration is allowed fully in the YA relating to the basis period in which the consideration is incurred.

4.6 The acquiring company may acquire the ordinary shares of the target company either directly or through a wholly owned subsidiary that is incorporated for the primary purpose of acquiring and holding shares in other companies (“acquiring subsidiary”). In both situations, the M&A allowance is granted only to the acquiring company.

4.7 The example in **Annex A** illustrates the computation of M&A allowance.

Stamp duty relief

4.8 Subject to conditions, stamp duty relief is granted on any contract or agreement for sale of equitable interest in ordinary shares or on any transfer documents for the acquisition of the ordinary shares under an M&A scheme. The instrument must be executed during the period 1 Apr 2010 to 31 Mar 2020 (both dates inclusive) to be eligible for the relief.

4.9 The acquiring company may acquire the ordinary shares of the target company directly or through an acquiring subsidiary. The cap on the amount of stamp duty relief for each financial year (“FY”) is dependent on the period in which the qualifying share acquisition takes place.

	1 Apr 2010 to 31 Mar 2015	***1 Apr 2015 to 31 Mar 2016***[6]	***1 Apr 2016 to 31 Mar 2020***[6]
Cap on stamp duty relief for each FY	$200,000	$40,000	$80,000

4.10 Where both stamp duty relief and M&A allowance are claimed on the same qualifying share acquisition, the FY for purpose of claiming the stamp duty relief must be identical to the basis period for purpose of claiming the M&A allowance.

6 Revised caps on stamp duty relief as announced in Budget 2015 and Budget 2016.

4.11 The example in **Annex B** illustrates the application of the stamp duty relief.

Double Tax Deduction

4.12 The M&A scheme provides for a DTD on transaction costs incurred in respect of qualifying share acquisitions made during the period 17 Feb 2012 to 31 Mar 2020 (both dates inclusive).

4.13 Transaction costs are professional fees necessarily incurred for a qualifying share acquisition (e.g. legal fees, accounting or tax advisor's fees, valuation fees); excluding any such fees or incidental costs in respect of loan arrangements[7]. For purpose of allowing a DTD, the amount of transaction costs is taken net of grants or subsidies from the Government or any statutory board and is subject to an expenditure cap of $100,000.

4.14 The cap of $100,000 applies to all transaction costs incurred in relation to qualifying acquisitions of ordinary shares in all target companies, for which the claims for M&A allowances are first made in the same YA. The is regardless of when the transaction costs are incurred.

4.15 The DTD on transaction costs is allowed in –

(a) the YA in which the M&A allowance on the qualifying share acquisition for which the transaction costs are incurred is first claimed; or

(b) the YA relating to the basis period in which the transaction costs are incurred,

whichever is the later.

5 Qualifying share acquisitions

5.1 Qualifying share acquisitions are acquisitions that result in the acquiring company owning[8]:

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[7] Borrowing costs, stamp duty and any other taxes incurred for the qualifying share acquisition are not considered transaction costs for purpose of claiming a DTD.

[8] This refers to the cumulative total ordinary shares owned by the acquiring company and its acquiring subsidiaries.

	Acquisitions during the period 1 Apr 2010 to 31 Mar 2015	
50% threshold	**More than 50%**	of the ordinary shares of a target company if the acquiring company owns 50% or less of such shares before the date of share acquisition
75% threshold	**75% or more**	of the ordinary shares of a target company if the acquiring company owns more than 50% (but less than 75%) of such shares before the date of share acquisition

	Acquisitions during the period 1 Apr 2015 to 31 Mar 2020	
20% threshold	**20% to 50%**	of the ordinary shares of a target company if the acquiring company owns less than 20% of such shares before the date of share acquisition[9]
50% threshold	**More than 50%**	of the ordinary shares of a target company if the acquiring company owns 50% or less of such shares before the date of share acquisition

This is provided that the relevant threshold is maintained at the end of the basis period or FY in which the qualifying share acquisition is made[10].

5.2 The 20% threshold seeks to support SMEs taking their first steps in M&A and provide flexibility for Singapore companies making smaller acquisitions due to the incumbent shareholders' reluctance to relinquish control or restrictions on foreign ownership in certain overseas jurisdictions. To safeguard against passive or portfolio investments, acquiring companies must meet the additional qualifying conditions in paragraph 6.3 to enjoy M&A tax benefits under the 20% threshold.

5.3 Besides the introduction of the 20% threshold, Budget 2015 also saw the removal of the 75% threshold to simplify the M&A scheme from 1 Apr 2015. Nonetheless, Singapore companies that took steps before 1 Apr 2015 to acquire ordinary shares in a target company with the intention of crossing the 75% threshold may still be eligible for M&A tax

9 The 20% threshold was introduced in Budget 2015.

10 If an acquisition results in an acquiring company owning more than 50% of the ordinary shares of a target company, its ownership of the ordinary shares of the target company must be maintained at more than 50% at the end of the basis period/ financial year in which the acquisition was made in order for the acquisition to be considered as qualifying.

benefits during a 1-year transitional period (i.e. 1 Apr 2015 to 31 Mar 2016), subject to conditions. Paragraph 6.5 provides details on the conditions to be met.

6 Qualifying conditions

General conditions

6.1 Subject to paragraphs 6.3 and 6.5, tax benefits under the M&A scheme are given to an acquiring company in respect of a qualifying share acquisition if the following conditions are met:

(a) the acquiring company –

(i) is a Singapore company. Where the acquiring company belongs to a corporate group, its ultimate holding company must also be a Singapore company, unless a waiver is granted by the relevant agency under the Headquarters Tax Incentive Programme ("HQ Programme")[11];

(ii) carries on a trade or business[12] in Singapore on the date of share acquisition;

(iii) has in its employment at least 3 local employees, excluding company directors, throughout the 12-month period prior to the date of share acquisition; and

(iv) is not connected to the target company for at least 2 years prior to the date of share acquisition;

(b) where the acquisition is made by an acquiring subsidiary, the acquiring subsidiary –

(i) does not carry on a trade or business in Singapore or elsewhere on the date of share acquisition;

(ii) is wholly owned, whether directly or indirectly[13], by the acquiring company on the date of share acquisition; and

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[11] The HQ Programme aims to encourage companies to conduct substantive headquarters management activities from Singapore to oversee, manage and control their regional and global operations and businesses. As administrators of the HQ Programme, Economic Development Board, the Monetary Authority of Singapore and the Maritime and Port Authority of Singapore may waive the requirement for the ultimate holding company of an acquiring company to be a Singapore company, on a case-by-case basis, for companies under the programme, subject to conditions. Companies interested in applying for a waiver are advised to contact the relevant agency administering the HQ Programme directly.

[12] This means the income derived by the acquiring company is chargeable to tax under section 10(1)(a) of the ITA.

[13] Prior to 17 Feb 2012, the acquiring subsidiary must be directly owned by the acquiring company. This requirement was relaxed in Budget 2012 to include acquiring subsidiaries

(iii) does not claim any tax benefits under the M&A scheme;

(c) where the acquisition is made by an acquiring subsidiary and on the date of share acquisition, the acquiring subsidiary is indirectly[13] owned by the acquiring company through 1 or more intermediate companies, every such intermediate company –

(i) does not carry on a trade or business in Singapore or elsewhere on that date;

(ii) is wholly owned, whether directly or indirectly, by the acquiring company on that date;

(iii) is incorporated for the primary purpose of acquiring and holding shares in other companies; and

(iv) does not claim any tax benefits under the M&A scheme; and

(d) the target company or a subsidiary wholly owned (whether directly or indirectly[14]) by the target company ("operating subsidiary") –

(i) carries on a trade or business in Singapore or elsewhere on the date of share acquisition; and

(ii) has in its employment at least 3 employees throughout the 12-month period prior to the date of share acquisition.

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indirectly owned by the acquiring company through intermediate companies, for qualifying share acquisitions made on or after 17 Feb 2012.

[14] In Budget 2012, the requirement for the operating subsidiary to be wholly and directly owned by the target company was relaxed to include operating subsidiaries indirectly owned by the target company, for qualifying share acquisitions made on or after 17 Feb 2012.

6.2 The table below summarises the general conditions to be met:

	Acquiring company	Acquiring subsidiary	Intermediate company	Target company/ operating subsidiary
Is a Singapore company	✓ [a]			
Carries on a trade or business on the date of share acquisition	✓ [b]			✓ [c]
Employs at least 3 employees through-out the 12-month period immediately before the acquisition	✓ [d]			✓ [e]
Is not connected to the target company for at least 2 years immediately before the acquisition	✓			
Does not carry on a trade or business in Singapore or elsewhere on the date of share acquisition		✓	✓	
Does not claim any tax benefits under the M&A scheme		✓	✓	
Wholly owned, whether directly or indirectly, by the acquiring company		✓	✓	
Is incorporated for the primary purpose of acquiring and holding shares in other companies		✓	✓	

Notes:
[a] Condition must also be met by the ultimate holding company if the acquiring company is a subsidiary
[b] Trade or business must be carried on in Singapore
[c] Trade or business need not be carried on in Singapore
[d] Must be local employees; excluding directors
[e] Need not be local employees

Specific conditions – 20% threshold

6.3 Acquiring companies seeking to claim M&A tax benefits based on the 20% threshold must meet 2 additional conditions:

(a) the target company is considered an associate of the acquiring company or acquiring subsidiary, as the case may be, upon the share acquisition; and

(b) the acquiring company or acquiring subsidiary, as the case may be, is represented on the board of directors of the target company or its operating subsidiary.

6.4 The condition in paragraph 6.3(b) must be met no later than the date on which the acquiring company's corporate income tax return for the YA relating to the basis period in which the qualifying share acquisition is made, is due for submission. **Annex C** addresses the frequently asked questions ("FAQs") relating to this condition.

Specific conditions – 75% threshold

6.5 To be eligible for M&A tax benefits based on the 75% threshold during the 1-year transitional period from 1 Apr 2015 to 31 Mar 2016:

(a) the acquiring company or any of its acquiring subsidiaries must have acquired ordinary shares of the target company before 1 Apr 2015; and

(b) the acquisition referred to in (a) and the acquisition that results in the acquiring company owning, whether directly or indirectly, 75% or more of the ordinary shares in the target company, is not more than 12 months apart.

Step-acquisition

6.6 In a step-acquisition, acquisitions made within the same basis period or FY as the acquisition that results in the acquiring company or its acquiring subsidiary crossing the 20%, 50% or 75% threshold, may be considered as qualifying share acquisitions and be consolidated for purpose of claiming tax benefits under the M&A scheme.

6.7 If the step-acquisition results in the acquiring company or its acquiring subsidiary crossing the 50% or 75% threshold[15], the acquiring company may, as an alternative to the method described in paragraph 6.6, elect for acquisitions during a specified 12-month period ("12-month look-back period") to be consolidated.

6.8 The 12-month look-back period ends on either:

(a) the date of acquisition resulting in the acquiring company or its acquiring subsidiary crossing the 50% or 75% threshold, or

(b) the date of an acquisition that is after the date referred to in paragraph (a) but before the end of the basis period or FY of the acquiring company in which the date referred to in paragraph (a) falls[16].

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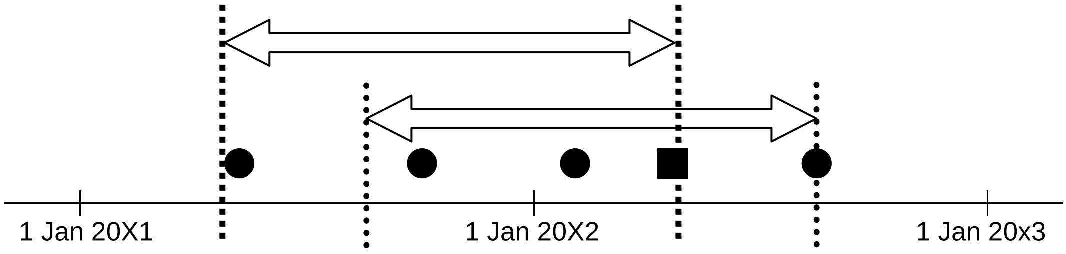
[15] The election for a 12-month look-back period does not apply to an acquisition that results in the acquiring company or its acquiring subsidiary crossing the 20% threshold.

[16] Subject to the transitional rule in paragraph 6.10.

The diagram below illustrates the 12-month look-back period.



Legend	
⟺	12-month period
■	Acquisition resulting in an acquiring company or its acquiring subsidiary owning (i) more than 50% or (ii) 75% or more of the ordinary shares of a target company
●	Other acquisitions of ordinary shares of the target company

6.9 Regardless the method of consolidation, the acquiring company must ensure that:

(a) the general and specific conditions explained in the earlier paragraphs[17] (where applicable) are met in respect of each acquisition; and

(b) the threshold crossed is maintained at the end of the basis period or FY in which the qualifying share acquisitions are made.

6.10 As announced in Budget 2015, the option to elect for a 12-month look-back period is removed from 1 Apr 2015 to simplify the M&A scheme. However in order not to disadvantage companies that have started step-acquisitions before 1 April 2015, the election option is allowed during the 1-year transitional period from 1 Apr 2015 to 31 Mar 2016. This means the 12-month look-back period will end on either:

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[17] The condition for an acquiring company not to be connected to the target company for at least 2 years prior to the date of acquisition (paragraph 6.1(a)(iv)) does not apply if the date of acquisition in question is:

(a) after the date on which the acquiring company's ownership in the target company crosses the 20%, 50% or 75% threshold; but

(b) on or before the end of the basis period of the acquiring company (or the 12-month look-back period) in which the threshold in (a) is crossed.

For example, Company A, a Dec year-end company, acquires 80% of the ordinary shares of Company B in Jun 2015 and buys the remaining 20% in Oct 2015. The condition for Company A not to be connected to Company B will not apply to the acquisition in Oct 2015.

(a) the date of acquisition (being a date not later than 31 Mar 2016) resulting in the acquiring company or its acquiring subsidiary crossing the 50% or 75% threshold, or

(b) the date of an acquisition that is after the date referred to in paragraph (a) but before:

(i) the end of the basis period or FY of the acquiring company in which the date referred to in paragraph (a) falls; or

(ii) 31 Mar 2016,

whichever is the earlier.

Application of M&A allowance rate, purchase consideration cap & stamp duty relief cap in a step-acquisition

6.11 In a step-acquisition, the applicable M&A allowance rate, purchase consideration cap and stamp duty relief cap are dependent on the period in which the acquisition that crosses the relevant threshold is made.

6.12 The examples in **Annex D** illustrate the computation of the M&A allowance and stamp duty relief in the case of a step-acquisition.

Eligibility conditions during the 5-year writing-down period

6.13 To remain eligible for M&A allowance for each of the YA during the 5-year write-down period, the following conditions must be met[18]:

(a) the acquiring company, throughout the basis period relating to the YA in which the deduction is claimed:

(i) remains a Singapore company. Where the acquiring company belongs to a corporate group, its ultimate holding company must also remains a Singapore company (unless a waiver of the condition is granted[19]);

(ii) continues to carry on a trade or business in Singapore; and

(iii) has in its employment at least 3 local employees, excluding company directors;

[18] For the purpose of stamp duty relief, the acquiring company and subsidiary (where applicable) must meet these conditions for 2 years from the date of share acquisition or in the case of a step-acquisition, 2 years from the date of the last share acquisition. For the purpose of claiming M&A allowance on any contingent consideration incurred after the 5-year write-down period, the acquiring company and subsidiary (where applicable) must meet these conditions throughout the basis period in which the contingent consideration is incurred.

[19] See paragraph 6.1(a)(i) for more information.

(b) the acquiring subsidiary as well as any intermediate company (i.e. if the acquiring subsidiary is owned by the acquiring company through one or more intermediate company), if applicable, throughout the basis period relating to the YA in which the deduction is claimed:

(i) does not carry on any trade or business in Singapore or elsewhere;

(ii) does not claim any tax benefits under the M&A scheme; and

(iii) is wholly owned by the acquiring company[20]; and

(c) where M&A benefits are claimed based on the 20% threshold[21]:

(i) the target company continues to be considered an associate of the acquiring company or acquiring subsidiary, as the case may be; and

(ii) the acquiring company or acquiring subsidiary, as the case may be, continues to be represented on the board of directors of the target company or its operating subsidiary.

6.14 If any of the above eligibility conditions is not met for any YA during the 5-year write-down period, the balance of any M&A allowance that has yet to be allowed to the acquiring company will cease to be allowed from the affected YA.

6.15 As regards stamp duty relief, if any of the above eligibility conditions is not met during a 2-year period from the date of share acquisition or in the case of a step-acquisition, from the date of the last share acquisition, any stamp duty relief given will be recovered with interest.

7 Determination of M&A allowance and stamp duty relief

7.1 The M&A allowance available to an acquiring company is determined based on the cash consideration paid for the acquisition of ordinary shares in a target company. The consideration must be fully paid up within 6 months from the date of share acquisition; or in the case of a

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[20] For share acquisitions that took place from 1 Apr 2010 to 16 Feb 2012, the wholly owned acquiring subsidiary must also be directly owned by the acquiring company throughout the basis period relating to the YA in which the deduction is claimed.

[21] If acquiring company or its acquiring subsidiary makes further acquisitions of the ordinary shares of the target company and obtains control over the target company (i.e. crosses the 50% threshold), the acquiring company or the acquiring subsidiary (as the case may be) will not be required to meet the 2 conditions in paragraph 6.13(c) from the YA in respect of the basis period in which the 50% threshold is crossed. However, should the acquiring company or the acquiring subsidiary divests of its shares in the target company resulting in 50% or less ownership in the target company, the 2 conditions will reapply.

contingent consideration, within 6 months from the date on which the contingent consideration becomes payable.

7.2 Where an acquiring company uses its own shares as consideration for the ordinary shares in a target company, the amount of M&A allowance to be granted to the acquiring company shall be determined based on:

(a) the market value of the acquiring company's shares as at the date of share acquisition[22], where the purchase consideration is satisfied wholly by way of such shares; or

(b) the cash paid and the market value of the acquiring company's shares as at the date of share acquisition[22], where the purchase consideration is satisfied by way of cash and such shares.

7.3 Stamp duty is computed based on the consideration or the net asset value ("NAV") of the ordinary shares of a target company acquired, whichever is the higher. The consideration may be in cash or by way of the acquiring company's shares, or a combination of both.

7.4 Where the consideration is satisfied by way of the acquiring company's shares, the value of the consideration shall be the NAV of the acquiring company's shares. In the event where the NAV of the ordinary shares of the target company is higher than the NAV of the acquiring company's share, then stamp duty is computed on the higher amount.

8 Manner of offset of M&A allowance and DTD on transaction costs

8.1 Where the acquiring company derives from trade or business both normal and concessionary income, the M&A allowance[23] and DTD on transaction costs (i.e. M&A deductions) will first be made against the normal income. If the company has insufficient normal income to absorb the M&A deductions, the excess deductions are available for offset against the company's concessionary income in accordance with section 37B of the ITA.

8.2 Where the acquiring company derives from trade or business only concessionary income that is subject to tax at either a single concessionary rate of tax or 2 or more concessionary rates of tax, a specified amount of the M&A deductions will be allowed against that single concessionary income or that part of the concessionary income that is subject to tax at the higher or highest concessionary rate of tax (as the case may be).

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[22] If the market value is not available, the M&A allowance is to be determined by reference to the NAV of the acquiring company's shares as at the end of the accounting period immediately before the date of share acquisition.

[23] To avoid doubt, this refers to that part of the M&A allowance allowable for a YA. During the 5-year write-down period, this would be 1/5 of the total M&A allowance granted to the acquiring company.

8.3 The specified amount is computed as follows:

$$A \times \frac{B}{C}$$

where A is the M&A deduction;

B is the prevailing corporate rate of tax; and

C is –

(a) in a case where the concessionary income derived by the acquiring company from its trade or business is subject to tax at a single concessionary rate of tax, that rate; or

(b) in a case where the concessionary income derived by the acquiring company from its trade or business is subject to tax at 2 or more concessionary rates of tax, the higher or highest of those rates.

8.4 If the acquiring company has insufficient concessionary income at the higher or highest rate of tax to absorb the specified amount, the excess deductions are available for offset against other concessionary income of the company in accordance with section 37B.

9 Group relief, carry-back and carry-forward of unabsorbed M&A allowance and DTD on transaction costs

9.1 The M&A allowance and DTD on transaction costs are not available for transfer under the group relief system. This is because the scheme is intended to directly benefit a Singapore-based acquiring company which carries on substantive business operations in Singapore and is seeking growth through M&A.

9.2 Unabsorbed M&A allowance and DTD on transaction costs are also not available for carry back to offset the acquiring company's assessable income for preceding year(s). The unabsorbed M&A allowance and DTD on transaction costs may, however, be carried forward to offset future income of the acquiring company, subject to it meeting the shareholding test[24].

[24] The shareholding test in respect of unabsorbed M&A allowance and DTD on transaction costs is provided under section 37L(21) of the ITA. It works the same way as that provided in section 23(4) for the utilisation of unabsorbed capital allowance.

10 Events resulting in forfeiture or reduction in M&A allowance and/ or stamp duty relief

Divestment of ordinary shares pursuant to a qualifying share acquisition

M&A allowance

10.1 An acquiring company or acquiring subsidiary, as the case may be, may subsequently divest the ordinary shares acquired for which M&A allowance has been granted. Where the divestment occurs after the basis period for the YA in which the qualifying share acquisition took place and causes the ordinary share ownership in the target company to fall below the threshold that resulted in the M&A allowance, the M&A allowance ceases to be given to the acquiring company from the YA to which the divestment of ordinary shares relates.

10.2 Where the divestment does not result in the acquiring company owning less than the threshold that resulted in the M&A allowance, the M&A allowance continues to be given to the acquiring company but on a prorated basis to reflect the corresponding reduction in shareholding.

10.3 The example in **Annex E** illustrates the proration of M&A allowance arising from divestment of ordinary shares in a target company.

Stamp duty relief

10.4 Where an acquiring company or acquiring subsidiary, as the case may be, divests the ordinary shares of a target company and this results in the company's ordinary share ownership in the target company to fall below the threshold that resulted in the claim of stamp duty relief within a two-year period[25] starting from the date of share acquisition or in the case of step-acquisition, from the date of the last share acquisition, any stamp duty relief shall be clawed back with interest.

Dilution of ordinary shareholding in target company

M&A allowance

10.5 Where the shareholding of an acquiring company in a target company is subsequently diluted due to the issuance of new ordinary shares by the target company, M&A allowance continues to be available to the company without pro-ration if:

[25] This 2-year period mirrors the 2-year claw-back period for section 15 relief under the Stamp Duties Act, which requires a person who acquires shares for which the relief is granted not to divest the acquired shares within 2 years, as otherwise the relief given is to be clawed back

(a) in a case where the threshold that resulted in the M&A allowance was either 50% or 75%, the acquiring company still owns more than 50% of the ordinary shares of the target company; and

(b) in a case where the threshold that resulted in the M&A allowance was 20%, the acquiring company still owns more than 20% of the ordinary shares of the target company.

10.6 This is to allow greater flexibility to the acquiring company in raising funds after the share acquisition including through the issuance of new ordinary shares of the target company, for further expansion and growth of the group's business. However, where the dilution results in the acquiring company owning 50% or less; or less than 20% of the ordinary shares of the target company (as the case may be), the M&A allowance ceases to be given from the YA to which the dilution of shareholding relates.

Stamp duty relief

10.7 Where the shareholding of an acquiring company in a target company is subsequently diluted due to the issuance of new ordinary shares by the target company within 2 years from the date of share acquisition or in the case of a step-acquisition, from the date of the last share acquisition and the dilution of shareholding in the target company results in the company, owning 50% or less; or less than 20% of the ordinary shares in the target company (as the case may be), any stamp duty relief previously allowed will be clawed back with interest.

<u>Substantial change of shareholders in acquiring company</u>

M&A allowance

10.8 Where there is a substantial change of ultimate shareholders in an acquiring company, the M&A allowance ceases to be given from the YA in which the change of shareholders occurs unless the shareholding requirement[26] is waived. This seeks to prevent any abusive arrangement entered into with one of its main purposes as creating M&A allowance[27].

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26 The shareholding requirement is met if the shareholders of the acquiring company on the first day of the YA in which the deduction is claimed and on the date of acquisition of shares are substantially the same.

27 For example, the corporate shareholder (Company A) of a target company (Company B) may, shortly after selling his controlling shareholding to an acquiring company (Company C) (for which Company C may claim M&A allowance and stamp duty relief), arrange to acquire Company C to claim another set of M&A allowance and stamp duty relief. Anti-avoidance provisions have been put in place to prevent multiple sets of M&A allowance and stamp duty relief claims where there is no substantive change to a corporate group.

Stamp duty relief

10.9 Where there is a substantial change of ultimate shareholders in an acquiring company, within a two-year period starting from the date of share acquisition or in the case of a step-acquisition, from the date of the last share acquisition, any stamp duty relief previously allowed will be clawed back with interest unless the shareholding requirement is waived.

10.10 **Annex F** summarises the effect on the availability of M&A allowance and stamp duty relief for the acquiring company due to changes in its ultimate shareholders or business operations, or in ordinary share ownership in a target company, or non-compliance of other conditions under the M&A scheme.

11 Abusive practices

11.1 Where it appears that an acquiring company or acquiring subsidiary has entered into an arrangement with the main purpose of creating or inflating an M&A allowance or a DTD on transaction costs, the arrangement will be disregarded under section 33 of the ITA. Any M&A allowance or DTD given to the acquiring company will be withdrawn. The statutory time limit to raise additional assessments or make adjustments to assessments which result in any unabsorbed allowances or losses, under section 74(1) and (4) of the ITA, does not apply in such cases.

11.2 Examples of arrangement considered to be abusive tax practice are:

(a) *Inflated value of share acquisition deal*

An acquiring company may arrange with a target company to artificially inflate the value of the ordinary shares acquired in order to maximise the M&A allowance available to the acquiring company. Such an arrangement can be facilitated especially if the target company is located in a jurisdiction where there is no requirement to maintain financial accounts or records.

(b) *Divestment and repurchase of share*

An acquiring company may arrange to sell and shortly thereafter, repurchase the ordinary shares of a target company, giving rise to M&A allowance and stamp duty relief. The arrangement cannot be substantiated by sound commercial reasons[28].

[28] A purchase, sale and buyback, and so on, of ordinary shares of a target company can result in 2 or more sets of M&A allowance and stamp duty relief being given, and therefore an erosion of our tax base, if such arrangements are undertaken without sound commercial reasons. However, where the divestment and repurchase of the ordinary shares of a target company were carried out due to sound commercial reasons, the situation is not considered an abusive tax practice.

(c) *Artificial creation of M&A allowance*

A special purpose vehicle ("SPV") is set up with the main purpose of owning assets that the acquiring company intends to acquire. For example, a company which wishes to acquire a plot of land for redevelopment may arrange for its directors (or any third party) to incorporate a SPV to acquire the land before the company acquires the SPV and avail itself of M&A allowance and stamp duty relief.

(d) *Asset stripping*

An acquiring company or acquiring subsidiary, as the case may be, may, shortly after acquiring the ordinary shares of a target company for which M&A allowance is granted to the acquiring company, strip-off the assets of the target company (or the assets of the target company's subsidiaries) by selling them to a third party; or transferring them to a related party with the main purpose of creating a tax deduction for the related party.

12 Registered business trust

12.1 The M&A scheme is extended to a registered business trust ("RBT")[29]. An acquiring RBT is subject to the same conditions (with necessary modifications) as those imposed on an acquiring company that claims M&A tax benefits pursuant to a qualifying share acquisition.

12.2 **Annex G** summarises the modified conditions applicable to an acquiring RBT under the M&A scheme.

13 Administrative matters

13.1 An acquiring company/ RBT must ensure that it meets the qualifying conditions before making a claim under the M&A scheme.

Claim for stamp duty relief

13.2 The acquiring company/ RBT is required to furnish the following information when making an application for stamp duty relief[30] under the M&A scheme:

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[29] This is because an RBT is treated as a company for tax purposes under section 36B of the ITA.

[30] Qualifying acquisition documents are required to be stamped within:

(a) 14 days from the date of execution of such documents, for documents executed in Singapore; or

(b) 30 days from the date such documents are first received in Singapore, for documents executed outside Singapore;

(a) a copy of the executed agreement and/ or instrument of transfer;

(b) a copy of the latest statement of accounts of the target company (accounts must be within 24 months from the date of agreement or transfer, as the case may be), whether the target company is incorporated in Singapore or outside Singapore;

(c) a statutory declaration by an advocate, solicitor or by a responsible officer of the acquiring company/ RBT confirming that:

  (i) the conditions for relief have been/ will be met;

  (ii) the acquiring company/ RBT or acquiring subsidiary, as the case may be, has no intention to dispose of the ordinary shares acquired within two years from the date of share acquisition or in the case of a step- acquisition, from the date of the last share acquisition such that company's ownership in the target company becomes lower than the threshold reached that resulted in the claim of stamp duty relief;

  (iii) the target company has no intention to issue new ordinary shares such that the ordinary share ownership of the acquiring company/ RBT in the target company is diluted to 50% or less or less than 20% (as the case may be) within 2 years from the date of share acquisition or in the case of a step-acquisition, from the date of the last share acquisition; and

  (iv) the acquiring company/ RBT is not aware of any events that may result in a substantial change of its ultimate shareholders within two years from the date of share acquisition or in the case of a step-acquisition, from the date of the last share acquisition; and

(d) for share acquisitions before 13 Jul 2015 (i.e. publication date of the 3rd edition of this e-Tax Guide), an independent professional valuation report of the target company, where the target company is incorporated outside Singapore.

Claim for M&A allowance

13.3 The acquiring company/ RBT may claim the M&A allowance when it lodges its income tax return for the YA relating to the basis period in which the qualifying share acquisition took place. Where the acquiring company/ RBT elects to consolidate acquisitions of a target's ordinary shares over the 12-month look-back period, it must make such an election in its tax computation at the time of lodgement of its income tax return for the YA relating to the basis period in which the 50% or 75% as the case may be, is crossed.

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except when an application for stamp duty relief is made within the period stated in (a) or (b).

13.4 The acquiring company/ RBT need not submit any supporting documents/ information with its income tax return when making a claim only for the M&A allowance and not stamp duty relief under the M&A scheme. However, it needs to prepare and retain[31] the following documents/ information:

(a) a confirmation by a responsible officer of the acquiring company/ RBT that all qualifying conditions for M&A allowance have been met;

(b) documents specified in paragraph 13.2(a) & (b);

(c) an independent professional valuation report of the ordinary shares of the target company acquired under any of the following circumstances:

(i) the target company is incorporated outside Singapore;

(ii) the acquisition is funded by way of the acquiring company/ RBT's issuance of shares/ units and the market value of such shares/ units is not readily available; or

(iii) the acquiring company/ RBT does not wish to determine the M&A allowance based on the NAV of its shares/ units.

13.5 The requirement for an independent professional valuation report is waived when:

(a) the acquiring company/ RBT, as the case may be, and shareholders of the target company are not related to each other on the date of share acquisition; and

(b) the value of the share acquisition is $5 million or below.

13.6 For qualifying share acquisitions made on or after 13 Jul 2015 (i.e. publication date of the 3rd edition of this e-Tax Guide), the conditions for a waiver of the independent professional valuation report are revised as follows:

(a) the acquisition is made by a company/ RBT listed on the Singapore Stock Exchange or its subsidiaries; or

(b) the value of the share acquisition is $5 million or below.

[31] Supporting documents/ information must be retained for a period of at least five years from the relevant YA. These documents should be submitted to the Comptroller of Income Tax upon request. For more information on record keeping, please refer to our website (www.iras.gov.sg) – Business records that companies must keep.

14 Contact information

14.1 If you have any enquiries or need clarification on this e-Tax Guide, please call:

1800 356 8622 (Corporate Income Tax); or

1800 460 4923 (Stamp Duty)

15 Updates and amendments

	Date of amendment	*Amendments made*
1	28 Jun 2012	The e-tax guide published on 27 Jun 2011 is updated for the following enhancements to the M&A scheme announced in Budget 2012: (a) Relaxation of conditions for share acquisitions made during the period 17 Feb 2012 to 31 Mar 2015; and (b) Introduction of a double tax deduction scheme for qualifying transaction costs incurred on qualifying share acquisitions made during the period 17 Feb 2012 to 31 Mar 2015.
2	16 May 2014	The e-tax guide is revised to reflect the change in administrative requirement for relevant documents to be retained and only to be submitted to the Comptroller of Income Tax upon request.
3	13 Jul 2015	The e-tax guide is revised to reflect: A. Refinements to the M&A scheme as announced in Budget 2015 (a) Increase M&A allowance rate from 5% to 25% and lower cap on value of qualifying acquisitions from $100 million to $20 million per year (i.e. maximum M&A allowance claimable by an acquiring company remains unchanged at $5 million per YA); (b) Lower cap on stamp duty relief on the transfer of unlisted shares from $200,000 to $40,000 per financial year; (c) Introduce a new 20% qualifying threshold (subject to conditions); (d) Remove the 75% qualifying threshold as well as the option to elect for a 12-month look-back period after a 1-year transitional period from 1 Apr 2015 to 31 Mar 2016 (N/B: Transitional rules apply for the removal of the 75% qualifying threshold) The above takes effect from 1 Apr 2015. B. Revisions to the administrative requirements concerning the submission of independent valuations report with effect 13 Jul 2015.
4	30 Jun 2016	The e-tax guide is revised to reflect the increase in the cap on value of qualifying acquisitions from $20 million

		to $40 milion from 1 Apr 2016.

Annex A – Example on computation of M&A allowance

Company A, a Dec year-end company, makes the following qualifying share acquisitions:

Acquisition order	*Value of acquisition ($ million)*	*Date of acquisition*	*YA*
1st	65	1 Mar 2014	2015
2nd	50	20 Sep 2014	
3rd	30	31 Jan 2015	2016
4th	12	15 Oct 2015	
5th	25	29 Feb 2016	2017
6th	24	30 Jun 2016	

Company A also incurs contingent consideration of $10 million and $3 million in respect of the 3rd and 4th share acquisition respectively in the basis period for YA 2018.

Company A's schedule for the writing-down of the M&A allowance is shown in the table below (in $ million):

YA							*Note*
2015	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	
1.00	1.00	1.00	1.00	1.00			1
	0.90	0.90	0.90	0.90	0.90		2
		2.00	2.00	2.00	2.00	2.00	3
			0.17	0.17	0.16		4
1.00	**1.90**	**3.90**	**4.07**	**4.07**	**3.06**	**2.00**	

Notes:

(1) As the total value of the 1st and 2nd acquisitions relating to YA 2015 exceeds $100 million, the M&A allowance available for YA 2015 is capped at $5 million, i.e. 5% x $100 million. The M&A allowance is written down over 5 years on a straight-line basis.

(2) The M&A allowance available for YA 2016 is:

Acquisition order	***M&A allowance rate (%)***	***Cap on purchase consideration ($'m)***	***Value of acquisition ($'m)***	***M&A allowance ($'m)***
	[a]	***[b]***	***[c]***	***[a] x Lower of [b] & [c]***
3rd	5	100	**30**	1.5
4th	25	20	**12**	3
			Total	4.5
			Available allowance (subject to $5 million cap)	**4.5**

The M&A allowance is written down over 5 years on a straight-line basis.

(3) The M&A allowance available for YA 2017 is:

Acquisition order	***M&A allowance rate (%)***	***Cap on purchase consideration ($'m)***	***Value of acquisition ($'m)***	***M&A allowance ($'m)***
	[a]	***[b]***	***[c]***	***[a] x Lower of [b] & [c]***
5th	25	**20**	25	5 (capped at $5 million)
6th	25	40	**24**	6 (capped at $10 million)
			Total	11
			Available allowance (subject to $10 million overall cap)	**10**

The M&A allowance is written down over 5 years on a straight-line basis.

(4) The total M&A allowance available in respect of the 3rd and 4th acquisitions is capped at $5 million.

Acquisition order	***M&A allowance rate (%)***	***Value of acquisition ($'m)***			***M&A allowance ($'m)***
		Non-contingent	***Contingent***	***Total***	
	[a]			***[b]***	***[a] x [b]***
3rd	5	30	10	40	2
4th	25	12	3	15	3.75
				Total	5.75
				Total available allowance (subject to $5 million cap)	**5**

As $4.5 million of M&A allowance has been made available in YA 2016, the M&A allowance available for YA 2018 is capped at $0.5 million (i.e. $5 million - $4.5 million). The amount of $0.5 million can be based on the contingent consideration for:

(a) the 3rd acquisition, i.e. 5% x $10 million;

(b) the 4th acquisition, i.e. 25% x $2 million (capped); or

(c) both the 3rd and 4th acquisitions, e.g. sum of [5% x $5 million (capped)] and [25% x $1 million (capped)].

Company A must indicate the basis for its claim when it lodges its income tax return for YA 2018.

The M&A allowance is written down over the remaining 3 years of the 5-year write-down period.

Annex B – Example on application of stamp duty relief

Company B, a Dec year-end company, undertakes qualifying share acquisitions, as follows:

S/N	*Value of unlisted share acquisition ($'m)*	*Date of execution of share transfer*	*Stamp duty payable ($)*
1	90	20 Sep 2014	180,000
2	90	15 Oct 2015	180,000
3	90	20 May 2016	180,000

Company B's schedule for stamp duty relief is shown in the table below:

FY	*Date of execution of share transfer*	*Stamp duty relief ($)*	*Note*
2014	20 Sep 2014	180,000	1
2015	15 Oct 2015	40,000	2
2016	20 May 2016	80,000	3

Notes:

(1) As the share transfer document is executed in the year ended 31 Dec 2014, the stamp duty relief is capped at $200,000 per FY. The stamp duty relief remitted for the share transfer document executed on 20 Sep 2014 is $180,000. Any unutilised stamp duty relief is disregarded and not allowed to be carried forward to the next FY.

(2) As the transfer document is executed between 1 Apr 2015 and 31 Mar 2016 (both dates inclusive), the stamp duty relief cap of $40,000 applies. This means stamp duty of $140,000 (i.e. $180,000 - $40,000) remains payable for FY 2015.

(3) As the transfer document is executed after 1 Apr 2016, the stamp duty relief cap of $80,000 applies. This means stamp duty of $100,000 (i.e. $180,000 - $80,000) remains payable for FY 2016.

Annex C – FAQs relating to the condition for representation on board of directors of the target company

1 Must the acquiring company nominate a director from its own board of directors ("BOD") to represent it on the target company's BOD or can it nominate any employee to do so?

The acquiring company can nominate any individual who is eligible to be a company director under the Companies Act to represent it on the BOD of the target company.

2 What documents should the acquiring company provide to support its claim that an individual represents it on the BOD of the target company?

If the individual is a director or an employee of the acquiring company, the relationship between the acquiring company and its employee or director (as the case may be) is taken as prima facie evidence that the employee or director represents the acquiring company on the BOD of the target company. However, should the circumstances suggest otherwise, the Comptroller of Income Tax may require a written agreement between the individual and the acquiring company as proof of representation.

A written agreement is also needed if the individual is neither a director nor an employee of the acquiring company.

Separately, whether or not the individual receives a fee for representing the acquiring company on the BOD of the target company should not affect the acquiring company's ability to meet the condition, as this is a commercial decision made by the parties to the agreement.

3 If a common director sits on the board of both the acquiring company and target company prior to the acquisition (i.e. the director was not specifically appointed by the acquiring company to be its representative on the BOD of the target company), would the condition be considered as met?

No. The condition requiring the acquiring company to have at least one director representing it on the BOD of the target company helps to ensure that the acquiring company participates in the decision-making of the target company. If the director is already sitting on the BOD of both companies prior to the acquisition of shares of the target company, he would be acting as an agent of other groups of shareholders of the target company, rather than for the acquiring company. In this regard, we would require the acquirer to specifically appoint an individual to represent it on the BOD of the target company.

4 Must the acquiring company be represented by the same individual on the BOD of the target company throughout the 5-year write-down period?

No. The company can continue to write-down the M&A allowance as long as the acquiring company is represented by at least 1 individual on the BOD of the target company.

5 The M&A scheme allows an acquiring company to acquire shares of a non-operating target company as long as the target company has an operating subsidiary. It also allows the acquiring company to make the acquisition through an acquiring subsidiary. In such situations, how will the condition be applied?

To provide businesses with flexibility in their commercial arrangements, the directors can represent either or both the acquiring company and the acquiring subsidiary, on the BOD of either or both the target company and the operating subsidiary.

Annex D – Examples on computation of M&A allowance and application of stamp duty relief in a step-acquisition

Example 1

Company C, a Dec year-end company, acquired ordinary shares of Company D, E, F and G in the following tranches:

Acquisition order	***Date of acquisition***	***YA***	***Value of acquisition ($'m)***	***Shareholding***	
				Number of shares in millions	***Cumulative (%)***
Company D					
1st	Jan 2015	2016	1	2	20
2nd	Jul 2015		1	2	40
Company E					
1st	Feb 2015	2016	0.5	1	10
2nd	Aug 2015		1.5	3	**40**
Company F					
1st	Mar 2015	2016	11	5.5	**55**
2nd	Sep 2015		9	4.5	100
Company G					
1st	May 2015	2016	3	4	40
2nd	Oct 2015		2	4	**80**

Company D

Company C does not qualify for M&A tax benefits on the acquisitions of Company D's ordinary shares as:

(a) the acquisition that resulted in Company C owning 20% or more (but 50% or less) of the ordinary shares of Company D was made before 1 Apr 2015 (i.e. before the 20% threshold was introduced); and

(b) subsequent acquisition of Company D's shares on Jul 2015 did not lead to Company C owning more than 50% of the ordinary shares of Company D.

Company E

The acquisition in Aug 2015 results in Company C owning 20% or more (but 50% or less) of the ordinary shares of Company E. Accordingly, Company C can claim M&A allowance based on the M&A allowance rate of 25% and cap on purchase consideration of $20 million[32,33].

Separately, though the acquisition in Feb 2015 falls in the same basis period as the acquisition in Aug 2015, Company C cannot consolidate the 2 acquisitions as the new qualifying threshold of 20% only applies to acquisitions made on or after 1 Apr 2015.

Company F

The acquisition in Mar 2015 resulted in Company C owning more than 50% of the ordinary shares of Company F[34]. Given the qualifying threshold is crossed before 1 Apr 2015, Company C can claim M&A allowance based on the M&A allowance rate of 5% and cap on purchase consideration of $100 million[33].

Further, as the acquisition in Sep 2015 falls in the same basis period as the acquisition in Mar 2015, Company C can consolidate the 2 acquisitions as long as it continues to own more than 50% of Company F's ordinary shares as at the end of 2015.

Company G

The acquisition in Oct 2015 results in Company C owning more than 50% of the ordinary shares of Company G[35]. It follows that Company C can:

(a) claim M&A allowance based on the M&A allowance rate of 25% and cap on purchase consideration of $20 million[32,33]; and

(b) can consolidate the acquisition in May 2015 with the acquisition in Oct 2015 as long as it continues to own more than 50% of Company G's ordinary shares as at the end of 2015.

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[32] The cap on purchase consideration of $20 million applies to qualifying acquisitions made during the period from 1 Apr 2015 to 31 Mar 2016 (both dates inclusive).

[33] Regardless of the M&A allowance rate and cap on purchase consideration applicable to each qualifying acquisition, where the qualifying acquisitions are made before 1 Apr 2016, an overall cap of $5 million applies to the total amount of M&A allowances available in respect of all such acquisitions falling in the same basis period.

[34] If the 50% and 75% thresholds are crossed in the same basis period (or FY), the acquiring company is considered to have crossed the 50% threshold instead of the 75% threshold for purposes of claiming M&A tax benefits.

[35] If the 20% and 50% thresholds are crossed in the same basis period (or FY), the acquiring company is considered to have crossed the 50% threshold instead of the 20% threshold for purposes of claiming M&A tax benefits.

M&A allowance

The M&A allowance available for YA 2016 is as follows:

Target company	***M&A allowance rate (%)***	***Value of acquisition ($'m)***	***M&A allowance ($'m)***
	[a]	***[b]***	***[a] x [b]***
E	25	1.5	0.375
F	5	20 (i.e. 11 + 9)	1
G	25	5 (i.e. 3 + 2)	1.25
		Total	2.625
		Available allowance (subject to $5 million cap)	**2.625**

The M&A allowance is written down over 5 years on a straight-line basis.

Stamp duty relief

The stamp duty relief for FY 2015 is as follows:

Target company	***Date of acquisition***	***Value of acquisition ($'m)***	***Cumulative shareholding (%)***	***Stamp duty relief[36] ($)***	***Note***
D	Jan 2015	1	20	Nil	
E	Feb 2015	0.5	10	Nil	
F	Mar 2015	11	**55**	22,000 *(i.e. 0.2% x $11 million)*	
G	May 2015	3	**40**	6,000 *(i.e. 0.2% x $3 million)*	2
D	Jul 2015	1	40	Nil	
E	Aug 2015	1.5	**40**	3,000 *(i.e. 0.2% x $1.5 million)*	3
F	Sep 2015	9	100	9,000 *(capped)*	4
G	Oct 2015	2	80	Nil	5
			Total	$40,000	

Notes:

(1) If the qualifying share acquisitions within an FY include:

- qualifying acquisitions that cross the 50% or 75% qualifying threshold before 1 Apr 2015; and

- qualifying acquisitions that cross the 20%, 50% or 75% qualifying threshold during the period from 1 Apr 2015 to 31 Mar 2016 (both dates inclusive),

the maximum amount of stamp duty relief allowable is computed as follows:

[36] Stamp duty relief determined sequentially as and when documents are stamped.

A + B

where A is the lesser of –

(a) the total amount of stamp duty chargeable on all those qualifying acquisitions that cross the qualifying thresholds before 1 Apr 2015[37]; and

(b) $200,000, and

B is the lesser of –

(a) the total amount of stamp duty chargeable on all those qualifying acquisitions that cross the qualifying thresholds during the period from 1 Apr 2015 to 31 Mar 2016 (both dates inclusive)[37]; and

(b) $40,000 – A (or zero, if $40,000 – A is negative).

(2) May 2015

Qualifying acquisitions before 1 Apr 2015	• Company F's shares acquired in Mar 2015
Qualifying acquisitions on or after 1 Apr 2015	• Company G's shares acquired in May 2015

A is the lesser of			B is the lesser of		
$22,000 *(i.e. 0.2% x $11 million)*	&	$200,000	$6,000 *(i.e. 0.2% x $3 million)*	&	$18,000 *(i.e. $40,000 - $22,000)*
	↓			↓	
	$22,000			$6,000	

Maximum stamp duty relief = A + B
= $22,000 + $6,000
= $28,000

Company C can claim relief on the full amount of stamp duty chargeable on the acquisition of Company G's shares in May 2015 (i.e. $6,000).

[37] In a step-acquisition, other acquisitions made in the same FY as the acquisition that crosses a qualifying threshold may be considered qualifying shares acquisitions and be consolidated with the latter for purpose of claiming a stamp duty relief regardless of the date on which these other acquisitions are made.

(3) Aug 2015

Qualifying acquisitions before 1 Apr 2015	• Company F's shares acquired in Mar 2015
Qualifying acquisitions on or after 1 Apr 2015	• Company G's shares acquired in May 2015 • Company E's shares acquired in Aug 2015

A is the lesser of			B is the lesser of		
$22,000 *(i.e. 0.2% x $11 million)*	&	$200,000	$6,000 + $3,000 *[i.e. (0.2% x $3 million) + (0.2% x $1.5 million)]*	&	$18,000 *(i.e. $40,000 - $22,000)*
↓ $22,000			↓ $9,000		

Maximum stamp duty relief = A + B
= $22,000 + $9,000
= $31,000

Company C can claim relief on the full amount of stamp duty chargeable on the acquisition of Company E's shares in Aug 2015 (i.e. $3,000).

(4) Sep 2015

Qualifying acquisitions before 1 Apr 2015	• Consolidation of Company F's shares acquired in Mar & Sep 2015
Qualifying acquisitions on or after 1 Apr 2015	• Company G's shares acquired in May 2015 • Company E's shares acquired in Aug 2015

A is the lesser of			B is the lesser of		
$22,000 + $18,000 *[i.e. (0.2% x $11 million) + (0.2% x $9 million)]*	&	$200,000	$6,000 + $3,000 *[i.e. (0.2% x $3 million) + (0.2% x $1.5 million)]*	&	$0 *(i.e. $40,000 - $40,000)*
↓ $40,000			↓ $0		

Maximum stamp duty relief = A + B
= $40,000 + $0
= $40,000

Prior to Sep 2015, Company C has already claimed a total of $31,000 in stamp duty relief. Given the maximum amount of stamp duty relief claimable is $40,000, the amount of relief claimable on the acquisition of Company F's shares in Sep 2015 is subject to a cap of $9,000 (i.e. $40,000 - $31,000).

(5) Oct 2015

Qualifying acquisitions before 1 Apr 2015	• Consolidation of Company F's shares acquired in Mar & Sep 2015
Qualifying acquisitions on or after 1 Apr 2015	• Consolidated of Company G's shares in May & Oct 2015 • Company E's shares in Aug 2015

A is the lesser of	B is the lesser of
\$22,000 + \$18,000 *[i.e. (0.2% x \$11 million) + (0.2% x \$9 million)]* & \$200,000 ↓ \$40,000	\$6,000 + \$4,000 + \$3,000 *[i.e. (0.2% x \$3 million) + (0.2% x \$2 million) + (0.2% x \$1.5 million)]* & \$0 *(i.e. \$40,000 - \$40,000)* ↓ \$0

Maximum stamp duty relief = A + B
= \$40,000 + \$0
= \$40,000

No further relief is claimable by Company C as it has already claimed up to the maximum amount of \$40,000 in Sep 2015.

Example 2

Company H, a Dec year-end company, acquired ordinary shares of Company I in the following tranches:

<table>
<tr><th rowspan="2">S/N</th><th rowspan="2">Date of acquisition</th><th rowspan="2">YA</th><th rowspan="2">Value of acquisition ($'m)</th><th colspan="2">Shareholding</th></tr>
<tr><th>Number of shares in millions</th><th>Cumulative (%)</th></tr>
<tr><td>1</td><td>Feb 2010</td><td>2011</td><td>6</td><td>60</td><td>60</td></tr>
<tr><td>2</td><td>Mar 2015</td><td rowspan="3">2016</td><td>1</td><td>10</td><td>70</td></tr>
<tr><td>3</td><td>Jun 2015</td><td>1</td><td>5</td><td><u>75</u></td></tr>
<tr><td>4</td><td>Sep 2015</td><td>1</td><td>5</td><td>80</td></tr>
</table>

The acquisition in Feb 2010 does not qualify for M&A allowance or stamp duty relief as the shares were acquired before 1 Apr 2010 (i.e. before the qualifying period of the M&A scheme).

The acquisition in Jun 2015 results in Company H owning 75% or more of Company I's ordinary shares. But arising from the removal of the 75% threshold from 1 Apr 2015, Company H must meet additional conditions in order to enjoy M&A tax benefits during the 1-year transitional period from 1 Apr 2015 to 31 Mar 2016, specifically:

(a) Company H must have made an acquisition of Company I's ordinary shares before 1 Apr 2015; and

(b) the acquisition mentioned above and the acquisition that results in Company H owning 75% or more of Company I's ordinary shares is not more than 12 months apart.

Given Company H acquired 10 million of Company I's ordinary shares in Mar 2015 (i.e. before 1 Apr 2015) and that this acquisition and the acquisition in Jun 2015 are not more than 12 months apart, Company H may therefore claim M&A tax benefits on the acquisition in Jun 2015.

Further, as the acquisitions in Mar 2015 and Sep 2015 fall in the same basis period as the acquisition in Jun 2015, these acquisitions can be consolidated as long as Company H continues to own 75% or more of Company I's ordinary shares as at the end of 2015[38].

[38] Given the 75% threshold will be removed at the end of the 1-year transitional period (i.e. from 1 Apr 2016), such other acquisitions falling in the same basis period as the acquisition that resulted in the 75% threshold must also be made before 1 Apr 2016 in order to be considered for consolidation.

M&A allowance

The M&A allowance available for YA 2016 is as follows:

25% x $3 (i.e. $1 + $1 + $1) million = $0.75 million

The M&A allowance is written down over 5 years on a straight-line basis.

Stamp duty relief

The stamp duty relief for FY 2015 is as follows:

0.2% x $3 (i.e. $1 + $1 + $1) million = $6,000

Example 3

Company J, a Dec year-end company, acquired ordinary shares of Company K in the following tranches:

S/N	***Date of acquisition***	***YA***	***Value of acquisition ($'m)***	***Shareholding***	
				Number of shares in millions	***Cumulative (%)***
1	15 Mar 2014	2015	1.5	15	15
2	30 Sep 2014		4.5	35	50
3	31 Jan 2015	2016	3	20	**<u>70</u>**
4	30 Jun 2015		5	25	95

In Aug 2015, Company J disposes 10 million of Company K's ordinary shares.

The acquisition on 31 Jan 2015 resulted in Company J owning more than 50% of Company K's ordinary shares. As the acquisition on 30 Jun 2015 falls in the same basis period as the acquisition on 31 Jan 2015, both acquisitions can be consolidated as long as Company J continues to own more than 50% of Company K's ordinary shares as at the end of 2015.

Alternatively, Company J can elect to consolidate ordinary shares of Company K acquired during a continuous 12-month period ending on and including either 31 Jan 2015 (Period A) or 30 Jun 2015 (Period B).

<u>M&A allowance for YA 2016 and stamp duty relief for FY 2015</u>

	Basis period	***Period A***	***Period B***	***Note***
Period for consolidation	1 Jan 2015 to 31 Dec 2015	1 Feb 2014 to 31 Jan 2015	1 Jul 2014 to 30 Jun 2015	
Consolidated share acquisitions (before disposal)	45 million shares *[i.e. (20 + 25) million]* Disregard all acquisitions in 2014	70 million shares *[i.e. (15 + 35 + 20) million]* Disregard acquisition on 30 Jun 2015	80 million shares *[i.e. (35 + 20 + 25) million]* Disregard acquisition on 15 Mar 2014	
M&A allowance	$0.31 million *[i.e. 5% x (45 – 10) / 45 x $(3 + 5) million]*	$0.45 million *[i.e. 5% x $(1.5 + 4.5 + 3) million]*	$0.55 million *[i.e. 5% x (80 – 10) / 80 x $(4.5 + 3 + 5) million]*	1 & 2
Stamp duty relief	$16,000 *[i.e. 0.2% x $(3 + 5) million]*	$18,000 *[i.e. 0.2% x $(1.5 + 4.5 + 3) million]*	$25,000 *[i.e. 0.2% x $(4.5 + 3 + 5) million]*	2

Notes:

(1) The 10 million shares disposed of in Aug 2015 are deemed to be from the last share acquisition on 30 Jun 2015 (which does not fall within the elected Period A).

(2) If Company J were to dispose of 50 million shares in Company K in Aug 2015 instead of 10 million, it will not qualify for any M&A allowance for YA 2016 or stamp duty relief for FY 2015 as it owns only 45% of the ordinary shares in Company K at the end of the basis period relating to YA 2016 (or FY).

Annex E – Example on how M&A allowance is prorated in event of divestment

Company L, a Dec year-end company, executed a qualifying share acquisition on 31 Aug 2015 to acquire 80% or 800,000 of the ordinary shares of Company M for $20 million. However, on 30 Jun 2017, it disposes of 200,000 of the ordinary shares of Company M, resulting in a reduction in its ownership of Company's M ordinary shares from 80% to 60%.

Company L's schedule for the writing down of the M&A allowance is shown in the table below (in $ million):

YA 2016	*YA 2017*	*YA 2018*	*YA 2019*	*YA 2020*
1	1	0.75	0.75	0.75
Note 1		Note 2		

Notes:

(1) The M&A allowance available for the qualifying share acquisition is $5 million (i.e. 25% x $20 million). The allowance is written down over 5 years on a straight-line basis (i.e. $1 million each year).

(2) As Company L continues to own 60% (i.e. more than 50%) of the ordinary shares of Company M after the disposal on 30 Jun 2017, it can continue to avail itself to the M&A allowance granted on a pro-rated basis.

Formula for pro-rating M&A allowance is as follows:

$$\frac{(X - Y)}{X} \times \text{Annual write-down amount of M\&A allowance (based on X)}$$

where X is the number of ordinary shares acquired for which M&A allowance is first given; and

Y is –

(a) the number of ordinary shares divested (if this was the first divestment subsequent to the qualifying share acquisition); or

(b) the cumulative number of ordinary shares divested to-date (if this was not the first divestment subsequent to the qualifying share acquisition),

whichever applicable.

In this example, Company L is therefore able to claim M&A allowance of $0.75 million (see computation below) for each of the remaining 3 YAs (i.e. YA 2018 to YA 2020), assuming there is no further disposal of Company M's ordinary shares. (Note 3)

$$\frac{(800{,}000 - 200{,}000)}{800{,}000} \times \$1 \text{ million} = \$0.75 \text{ million}$$

(3) If Company L disposes of 300,000 of Company's M ordinary shares instead, resulting in it owning 50% or less of the ordinary shares of Company M, Company L will no longer able to claim the M&A allowance from YA 2018 onwards.

Annex F – Summary of effect on M&A allowance and stamp duty relief for an acquiring company due to changes in shareholding in a target company, in its shareholders or business operations and non-compliance of conditions under M&A scheme

	Scenario	*M&A allowance*	*Stamp duty relief*
1. Acquisition	Acquisition results in the acquiring company owning: • 20% to 50% (both inclusive); • more than 50%; or • 75% or more, of the ordinary shares of a target company.	Claimable. Subject to conditions and a $5 million cap per YA.	Claimable. Subject to conditions and depending on the year of acquisition, a $200,000 or $40,000 cap per FY.
2. Divestment	a. Despite the divestment, the acquiring company still (as the case may be) maintains: • 20% to 50% (both inclusive); • more than 50%; or • 75% or more, of the ordinary shares of the target company.	Continues to be claimable but on a pro-rated basis.	No claw-back.
	b. Divestment results in the acquiring company owning (as the case may be): • less than 20%; • 50% or less; or • less than 75%, of the ordinary shares of the target company.	Ceases to be claimable from the YA relating to the basis period in which the divestment occurs.	Claw-back with interest if divestment is within 2 years from the date of share acquisition; or in the case of a step-acquisition, from the date of the last share acquisition.
3. Dilution	a. Despite the dilution, the acquiring company still (as the case may be) maintains: • 20% to 50% (both inclusive); • more than 50%[39], of the ordinary shares of the target company.	Continues to be claimable without pro-ration.	No claw-back.

[39] This covers situations where the original threshold crossed was either the 50% or the 75% threshold.

	Scenario	*M&A allowance*	*Stamp duty relief*
	b. Dilution results in the acquiring company owning (as the case may be): • less than 20%; or • 50% or less[39], of the ordinary shares of the target company.	Ceases to be claimable from the YA relating to the basis period in which the dilution occurs.	Claw-back with interest if dilution is within 2 years from the date of share acquisition; or in the case of a step-acquisition, from the date of the last share acquisition.
4. Change of shareholders	Substantial change in the shareholders of the acquiring company	Ceases to be claimable from the YA relating to the basis period in which the change occurs and any unabsorbed M&A allowance will be forfeited unless the shareholding test requirement is waived by the Minister.	Claw-back with interest if the change occurs within 2 years from the date of share acquisition; or in the case of a step-acquisition, from the date of the last share acquisition unless the shareholding test requirement is waived by the Minister.
5. Failure to meet conditions in paragraph 6.13	Acquiring company's failure to meet any of the conditions in paragraph 6.13 (e.g. ceases to carry on any trade or business) during the write-down period of M&A allowance	Ceases to be claimable from the YA relating to the basis period in which the acquiring company fails to meet any of the conditions.	Claw-back with interest if the failure occurs within 2 years from the date of share acquisition; or in the case of a step-acquisition, from the date of the last share acquisition.

Annex G – Modification of qualifying conditions in respect of an acquiring Registered Business Trust (“RBT”)

Qualifying conditions in respect of an acquiring company	*Qualifying conditions in respect of an acquiring RBT*
The acquiring company is incorporated in Singapore.	The acquiring RBT is established in Singapore and the trust deed of the RBT is executed in Singapore and governed by Singapore law.
The acquiring company is tax resident in Singapore.	An acquiring RBT is considered a resident in Singapore if: (a) the trustee-manager of the RBT in his capacity as such carries on a trade or business in Singapore; and (b) the business of the RBT is controlled and managed in Singapore.
The ultimate holding company of the acquiring company must be incorporated and tax resident in Singapore.	Where 50% or more of the acquiring RBT’s units is beneficially owned, directly or indirectly, by a Singapore company that is not itself a subsidiary of another person.
The acquiring company is carrying on a trade or business in Singapore.	The trustee-manager of the acquiring RBT in his capacity as such is carrying on a trade or business in Singapore.
The acquiring company has in its employment at least 3 local employees.	The trustee manager has in its employment at least 3 local employees in respect of the business of the RBT.
The acquiring company is not connected to the target company for at least 2 years prior to the date of share acquisition.	For purpose of “connected” rule, references to 75% or more of the ordinary shares of the acquiring company is read as references to 75% or more of the units of the acquiring RBT.
To claim a deduction of the M&A allowance and to carry forward any unabsorbed M&A allowance and deduction on transaction costs, the acquiring company must meet the shareholding test.	The unitholders of the acquiring RBT at any date are substantially the same as the unitholders at any other date if, on both those dates: (a) the same unitholders are entitled to no less than 50% of any residual profits of the acquiring RBT available for distribution; and (b) the same unitholders are entitled to no less than 50% of any residual assets of the acquiring RBT available for distribution on winding up.