INLAND REVENUE
AUTHORITY
OF SINGAPORE

IRAS e-Tax Guide

Income Tax Treatment of a Trust Registered under the Business Trusts Act 2004
(Fourth Edition)

Published by
Inland Revenue Authority of Singapore

Published on 19 Nov 2025

First edition on 10 Oct 2014
Second edition on 8 Jan 2019
Third edition on 10 Mar 2021

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1 Aim

1.1 This e-Tax Guide provides details on the income tax treatment of a trust which is registered under the Business Trusts Act 2004[1].

1.2 It is applicable to trustee-managers or unitholders of a registered business trust.

2 At a glance

2.1 A trust registered under the Business Trusts Act 2004 ("registered business trust") is treated like a company for income tax purposes.

2.2 The income of a registered business trust is taxable at the trustee level. It is a final tax and the unitholders of the registered business trust are not taxed on their entitlement of trust income.

2.3 This publication sets out how certain corporate tax features are to be applied to a registered business trust:

(a) group relief;
(b) application of shareholding test;
(c) election of section 24 for the sale of property;
(d) mergers and acquisitions scheme;
(e) gains on disposal of shares; and
(f) enterprise innovation scheme.

[1] The Business Trusts Act 2004 regulates the business trusts activities and the responsibilities of a trustee-manager.

3 Glossary

3.1 Company

A company refers to any company incorporated or registered in Singapore or elsewhere.

3.2 Relevant dates for shareholding test

<u>Carry-forward relief</u>

<u>Unabsorbed capital allowances</u>
Last day of the Year of Assessment ("YA") in which the capital allowances were given and the first day of the YA in which the capital allowances are to be deducted.

<u>Unabsorbed trade losses and donations</u>
Last day of the year in which the trade losses and donations were incurred and first day of the YA in which the trade losses and donations are to be deducted.

<u>Carry-back relief</u>

<u>Unabsorbed capital allowances</u>
First day of the YA in which the capital allowances were given and the last day of the immediate preceding YA in which the capital allowances are to be deducted.

<u>Unabsorbed trade losses and donations</u>
First day of the year in which the trade losses were incurred and last day of the immediate preceding YA in which the trade losses are to be deducted.

3.3 Same business test

This test determines if a company continues to carry on the same trade or business for which capital allowances are given when carrying forward or back the unabsorbed capital allowances. The test is satisfied if the same trade or business is continued.

3.4 Shareholding test

This test compares the percentage of the shareholdings of a company (or its ultimate parent company) that is held by the same persons as at the relevant dates. The test is satisfied if there is no substantial change in the shareholders and their shareholdings as at the relevant dates.

3.5 Unabsorbed capital allowances

The capital allowances claimed by a company (under Part 6 of the Income Tax Act 1947 ("ITA")) for a YA that exceed the company's aggregate taxable income for that YA.

3.6 Unabsorbed donations

The approved donations made by a company in a YA that exceed its statutory income for that YA. Approved donations are donations approved for tax deduction and made to approved recipients under section 37(3)(b), (c), (d) or (f) of the ITA.

3.7 Unabsorbed trade losses

The trade losses incurred by a company for a YA that exceed the company's income from all sources for that YA.

3.8 Mergers and Acquisition Scheme

Under the scheme, subject to conditions, a company ("acquiring company") that acquires the ordinary shares of another company ("target company") during the period 1 April 2010 to 31 December 2030[2] (both dates inclusive) is granted an M&A allowance at a specified percentage of the value of the acquisition subject to a cap (amount depends on the period in which the qualifying share acquisition was made).

3.9 Enterprise Innovation Scheme

The Enterprise Innovation Scheme was introduced in Budget 2023 and is available for YA 2024 to YA 2028. Under the scheme, enhanced/new tax deductions and/or allowances are granted on qualifying expenditure incurred on research and development conducted in Singapore, intellectual property registration, acquisition and licensing of intellectual property rights, training, and innovation projects carried out with polytechnics, the Institute of Technical Education or other qualified partners. In lieu of tax deductions/allowances, eligible businesses may opt to convert up to $100,000 of the total qualifying expenditure incurred for each YA into cash at a conversion rate of 20%.

[2] Extended to 31 December 2030 in Budget 2025.

4 Background and tax treatment of a registered business trust

4.1 For tax purpose, a registered business trust is treated like a company from the first year it commences operation as a registered business trust. This is because the economic purpose, structure and operation of a registered business trust are similar to those of a company.

4.2 The corporate tax features which include the rates of tax, tax reliefs and foreign tax credits that are applicable to companies, will similarly apply to a registered business trust. This treatment is provided under section 36B of the ITA.

4.3 In addition, relief under section 15 of the Stamp Duties Act 1929 which is applicable to companies, also applies to the transfer of assets to a registered business trust. The conditions for the relief to apply to companies will apply accordingly to registered business trusts.

4.4 For tax purpose, a registered business trust is considered a resident of Singapore if –

(a) the trustee of the registered business trust in his capacity as such carries on a trade or business in Singapore; and
(b) the control and management of the business of the registered business trust is in Singapore.

4.5 The income of a registered business trust is taxed at the trustee level. However, the unitholders will not be taxed on their entitlement of the trust income and no credit will be allowed to the unitholders for the tax paid by the trustee of the registered business trust.

4.6 The following paragraphs highlight how certain features of the corporate tax system apply to a registered business trust:

(a) group relief;
(b) application of shareholding test;
(c) election of section 24 for sale of property;
(d) mergers and acquisitions scheme;
(e) gains on disposal of shares; and
(f) enterprise innovation scheme.

5 Group Relief

5.1 Under section 37B of the ITA, group relief[3] is available to companies belonging to the same group of companies.

[3] Details of the group relief are set out in IRAS e-Tax Guide on “Group Relief System”.

5.2 To qualify for group relief, the registered business trust must be established in Singapore and its trust deed must be executed in Singapore and governed by Singapore laws.

5.3 All requirements applicable to a company for the purposes of group relief will similarly apply to a registered business trust. However, for a registered business trust, units of the registered business trust will be used in lieu of the ordinary shares of the company.

6 Shareholding test

6.1 A company can carry forward and carry back unabsorbed capital allowances, trade losses and donations, provided that the company meets the shareholding test. Additionally, for unabsorbed capital allowances, the company must satisfy the same business test.

6.2 For a company, the shareholding test is satisfied if, on the relevant dates not less than 50% of the total number of issued shares of the company are held by or on behalf of the same persons.

6.3 For a registered business trust, the “unitholding test” is satisfied if, on the relevant dates –

(a) the same unitholders are entitled to no less than 50% of any residual profits available for distribution; and
(b) the same unitholders are entitled to no less than 50% of any residual assets available for distribution on a winding up.

6.4 Where each unit of a registered business trust carries the same beneficial interest in terms of the entitlement of the residual profits available for distribution and residual assets available for distribution on a winding up, the “unitholding test” is satisfied if, on the relevant dates, the same unitholders hold no less than 50% of the units of the registered business trust.

7 Election of section 24 for sale of property

7.1 Under section 24 of the ITA, when there is a sale of property and –

(a) the buyer has control over the seller; or
(b) the seller has control over the buyer; or
(c) a third party has control over both the seller and buyer;

the parties involved can make a section 24 election so that the property is regarded as being transferred, for income tax purposes, at the tax written down value from the seller to the buyer.

7.2 For the purpose of section 24 election, control involving a registered business trust is determined as follows:

(a) the registered business trust is deemed to have control over a company if:
   (i) the trustee of the registered business trust holds (on trust for unitholders) more than 50% of the shares of the company; or
   (ii) the unitholders of the registered business trust hold more than 50% of the shares of the company.

(b) a company is deemed to have control over the registered business trust if it holds more than 50% of the units in the registered business trust.

(c) another registered business trust has control over the registered business trust if the trustee of that other registered business trust holds (on trust for unitholders) more than 50% of the units in the registered business trust.

7.3 Hence, section 24 is applicable where the relationship between the seller and buyer (denoted by “A” or “B” as the case may be) is as follows:

(a) company A or trustee of another registered business trust A holds more than 50% units in registered business trust B;

(b) unitholders of registered business trust B or trustee of registered business trust B holds more than 50% of shares of company A;

(c) another company C owns more than 50% shares of company A or more than 50% units in registered business trust A, and more than 50% units in registered business trust B or;

(d) trustee of another registered business trust C holds, on trust for its unitholders, more than 50% shares of company A or more than 50% units in registered business trust A, and more than 50% units in registered business trust B.

8 Mergers and acquisitions scheme (“M&A scheme”)

8.1 The M&A scheme[4] is extended to a registered business trust. The acquiring registered business trust is subject to the same conditions (with necessary modifications) as those imposed on an acquiring company that claims M&A allowance pursuant to a qualifying share acquisition.

9 Gains on disposal of shares

9.1 For disposals of shares before 1 January 2026, the gains from disposal of ordinary shares in an investee company which are trust property of the registered business trust may be exempt under section 13W of the ITA.

[4] Details of the M&A scheme for companies and registered business trusts are available in IRAS e-Tax Guide on “Mergers and Acquisitions Scheme”.

9.2 Section 13W was enhanced in Budget 2025. From 1 January 2026, the gains from disposal of ordinary shares and/or qualifying preference shares[5] in an investee company which are trust property of the registered business trust may be exempt under section 13W of the ITA. However, the assessment of the 20% shareholding threshold condition to be done on a group basis is not applicable to a registered business trust[6].

10 Enterprise Innovation Scheme ("EIS")

10.1 Registered business trusts, subject to meeting the conditions under the EIS[7] scheme, can enjoy enhanced deductions up to $400,000 of qualifying expenditure or opt to convert up to $100,000 of the total qualifying expenditure across all the qualifying activities for each YA into a cash payout at a conversion rate of 20% on qualifying expenditure incurred during the basis periods for YA 2024 to 2028.

11 Contact Information

If you have any enquiries or need clarification on this e-Tax Guide, please call 1800-356 8622.

12 Updates and Amendments

	Date of amendment	Amendments made
1	8 Jan 2019	• Amended paragraph 3.8 to reflect the changes announced in Budget 2015 to extend the M&A Scheme for another 5 years. • Inserted the word "business" under paragraph 7.3(b) • Deleted "Second Edition" under footnote 4.
2	10 Mar 2021	• Updated paragraphs 3.8 and 8.1 to reflect tax changes announced in Budget 2020 on the extension of the M&A scheme to 31 December 2025 and the lapse of stamp duty relief for instruments executed on or after 1 April 2020. • Inserted footnote 5 in paragraph 9.1 for clarity.

5 Qualifying preference shares refer to those that are accounted for as equity by the investee company under the applicable accounting principles adopted by the investee company. If the investee company is not required to comply with any accounting principles in preparing its financial statements, the applicable accounting principles refer to the International Financial Reporting Standards.

6 Details are available in IRAS e-Tax Guide on "Certainty of Non-taxation of Companies' Gains on Disposal of Equity Investments".

7 Details of the EIS are available in IRAS e-Tax Guide on "Enterprise Innovation Scheme".

3	19 Nov 2025	• Inserted the EIS announced in Budget 2023 in paragraphs 2.3, 3.9, 4.6 and 10 and footnote 7. • Updated the relevant sections on capital allowance to “Part 6” in paragraph 3.5. • Updated paragraph 3.8 on the extension of the M&A scheme and inserted footnote 2. • Updated the renumbered provisions in the ITA in paragraphs 5.1 and 9.1 • Edited paragraph 9.1 to refer to shares disposed of before 1 January 2026. • Inserted paragraph 9.2 for disposals of shares on or after 1 January 2026.