INLAND REVENUE AUTHORITY OF SINGAPORE

IRAS e-Tax Guide

Income Tax: Tax Treatment of Gains or Losses from the Sale of Foreign Assets (Third Edition)

Published by
Inland Revenue Authority of Singapore

Published on 6 June 2025

First edition on 8 December 2023
Second edition on 9 December 2024

Table of Contents

1. Aim 1
2. At a Glance 1
3. Tax Treatment of Disposal Gains Prior to 1 January 2024 2
4. Tax Treatment of Disposal Gains From 1 January 2024 2
5. Covered Entities 3
6. Covered Income 5
7. Scenarios where the Sale or Disposal of Foreign Assets (Excluding IPRs) are Not Subject to Tax 5
8. Meeting of Economic Substance Requirement in Singapore 7
9. Tax Treatment of Gains from the Sale or Disposal of Foreign IPRs 13
10. Ascertainment of Gains Chargeable to Tax 16
11. Adjustment to Open-Market Price 18
12. Foreign Tax Credit 19
13. Exemption from Tax for Individuals Who Receive Gains from the Sale of Foreign Assets by an Entity 19
14. Administrative Requirements for covered entities with covered income 20
15. Advance Ruling on Adequacy of Economic Substance 21
16. Contact Information 21
17. Frequently Asked Questions 22
18. Updates and Amendments 27

Annex A – List of Assets which are Determined to be Situated Outside Singapore 28

Annex B – Guidance on the Core Income Generating Activities in relation to the Economic Substance Requirement for Each Sector 29

Annex C – Example of a Transitional Measure for Tracking and Tracing of Expenditures of IP Assets 31

Annex D – Computation of Foreign-sourced Disposal Gains 33

Annex E – Illustration of the Utilisation of Losses 34

1. Aim

1.1 This e-Tax Guide explains the income tax treatment of gains or losses from the sale or disposal of any movable or immovable property situated outside Singapore (referred to as "foreign asset").

1.2 This e-Tax Guide is relevant to entities[1] that derive gains or losses from the sale of foreign assets.

2. At a Glance

2.1 Currently, gains from the sale of foreign assets that are capital in nature are not taxable.

2.2 To address international tax avoidance risks relating to non-taxation of disposal gains in the absence of real economic activities, Singapore has amended its foreign-sourced income regime to subject foreign-sourced disposal gains to tax under specific circumstances. The amendment is in line with Singapore's focus on anchoring substantive economic activities in Singapore and our longstanding policy to align key areas of our tax regime with international norms.

2.3 Singapore will treat gains from the sale or disposal of foreign assets as income chargeable to tax under section 10(1)(g) of the Income Tax Act 1947 ("ITA") if:

a) the gains are not otherwise chargeable to tax under section 10(1) of the ITA; or

b) the gains are otherwise exempt from tax under the ITA.

Such gains are referred to in this guide as "foreign-sourced disposal gains".

2.4 Foreign-sourced disposal gains will be chargeable to tax under section 10(1)(g) of the ITA when the gains are received in Singapore from outside Singapore by a covered entity and:

a) the covered entity that derived the gains does not have adequate economic substance in Singapore; or

b) the covered entity derived the gains from a disposal of foreign Intellectual Property Rights ("IPRs")[2].

[1] More details on the covered entities can be found in paragraph 5 of this guide.

[2] More details on the tax treatment of gains from disposal of foreign IPRs can be found in paragraph 9 of this guide.

2.5 The changes will apply to the sale or disposal of a foreign asset that occurs on or after 1 January 2024.

3. Tax Treatment of Disposal Gains Prior to 1 January 2024

3.1 Singapore taxes gains from the sale or disposal of assets as income when the gains are revenue in nature, regardless of whether the income is Singapore-sourced or foreign-sourced (taxed when received in Singapore). Whether a gain from the sale or disposal of an asset is treated as capital or revenue in nature is determined with regard to the facts or circumstances of each case and with reference to the principles established in case law. The factors considered are drawn from established case law principles (commonly referred to as the “badges of trade”).

3.2 Apart from the above, Singapore does not tax gains from the sale or disposal of assets that are capital in nature, whether they are foreign-sourced or Singapore-sourced.

4. Tax Treatment of Disposal Gains From 1 January 2024

4.1 Under the new foreign-sourced disposal gains tax regime (legislated in “section 10L of the ITA”), foreign-sourced disposal gains (subject to paragraph 2.3 above) received in Singapore by an entity of a relevant group (see paragraph 5 below) from the sale or disposal of a foreign asset, will be treated as income chargeable to tax under section 10(1)(g) of the ITA under certain circumstances.

4.2 The foreign-sourced disposal gains will be subject to tax if the entity does not have adequate economic substance in Singapore or the gains are from the disposal of a foreign IPR, and the sale or disposal of the foreign asset occurs on or after 1 January 2024.

4.3 For example, if an entity (with a financial year ending 31 December) disposes a foreign asset on 1 June 2023, and the disposal gains are received in Singapore on 1 June 2024, such gains will not be subject to tax in Singapore. If the disposal of the foreign asset instead occurs on 1 June 2024, and the disposal gains are received in Singapore on 1 June 2025, the disposal gains will be subject to tax in Singapore in the year of assessment ("YA") 2026, unless the gains from the disposal of the asset (not being a foreign IPR) are derived from or incidental to the business activities or operations of an entity mentioned in paragraph 7 or by an entity that is able to meet the economic substance requirement in paragraph 8.

4.4 The foreign-sourced disposal gains are regarded as received in Singapore and chargeable to tax if such gains meet the conditions set out in section 10L(9) of the ITA, i.e., they are:

a) remitted to, or transmitted or brought into, Singapore;

b) applied in or towards satisfaction of any debt incurred in respect of a trade or business carried on in Singapore;

c) applied to the purchase of any movable property which is brought into Singapore.

4.5 Generally, the foreign-sourced disposal gains are deemed to be received in Singapore only if such gains belong to an entity that is located in Singapore. Thus, foreign entities (i.e., not incorporated, registered or established in Singapore) that are not operating in or from Singapore will not be within the scope of section 10L of the ITA. For example, a foreign entity that only makes use of the banking facilities in Singapore and has no operations in Singapore is not within the scope of section 10L of the ITA.

5. Covered Entities

5.1 Only entities[3] of relevant groups ("covered entities") will be within the scope of section 10L of the ITA.

5.2 An entity is a member of a group of entities if its assets, liabilities, income, expenses and cash flows are:

a) included in the consolidated financial statements[4] of the parent entity of the group; or

b) excluded from the consolidated financial statements of the parent entity of the group solely on size or materiality grounds or on the grounds that the entity is held for sale.

[3] An "entity" means —

a) any legal person (including a company, limited liability partnership) but not an individual;

b) a general partnership or limited partnership; or

c) a trust.

[4] "Consolidated financial statements" means financial statements prepared by an entity in accordance with generally accepted accounting standards, in which the assets, liabilities, income, expenses and cash flows of an entity, and the entities in which it has a controlling interest, are presented as those of a single economic unit.

5.3 A group is a relevant group if:

a) the entities of the group are not all incorporated, registered or established in Singapore; or

b) any entity of the group has a place of business outside Singapore.

5.4 The definition of a relevant group in paragraph 5.3 means that a group with only Singapore entities and operates only in Singapore will not fall within the scope of section 10L of the ITA. However, if one of the entities of the group has a place of business (e.g., a branch or a permanent establishment) in a foreign jurisdiction, the group is considered a relevant group for the purpose of section 10L of the ITA.

Examples – Whether an entity falls within the scope of section 10L of the ITA

5.5 Example 1: A Singapore company is not a member of a group (i.e., it is a single entity) and it has an overseas branch. The foreign-sourced disposal gains received by the company will not fall within the scope of section 10L of the ITA as the company and its overseas branch are considered one legal entity.

5.6 Example 2: A Singapore company and its Singapore subsidiary are members of a group (i.e., the group comprises two Singapore entities) where the Singapore company has a place of business in a foreign jurisdiction by virtue of its foreign branch. The foreign-sourced disposal gains received by the Singapore company will fall within the scope of section 10L of the ITA as there is more than one legal entity in the group (i.e., the Singapore company and its subsidiary are members of a group).

5.7 Example 3: Fund A is an investment fund established in Singapore. It has an office in Singapore, and carries out in Singapore various transactions in shares of companies in Jurisdiction B. It receives gains from the sale of foreign shares from Jurisdiction B which are capital in nature. Following the generally accepted accounting standards of Singapore, Fund A is not required to consolidate with its investee companies when preparing its financial statements. Since Fund A is not included in any consolidated financial statements and the reason is not due to size, materiality grounds, or on the grounds that the entity is held for sale, it will not fall within the scope of section 10L of the ITA.

6. Covered Income

6.1 The gains from the sale or disposal of any movable or immovable property situated outside Singapore ("covered income") of a covered entity will be subject to tax under section 10L of the ITA. Common examples where assets are determined to be situated outside Singapore are as follows:

a) immovable property is situated outside Singapore;

b) equity securities and debt securities are registered in a foreign exchange;

c) unlisted shares are issued by a company incorporated outside Singapore;

d) loans where the creditor is a resident in a jurisdiction outside Singapore;

e) IPRs where the owner is a resident in a jurisdiction outside Singapore.

Please refer to Annex A for more examples of assets that are determined to be situated outside Singapore.

7. Scenarios where the Sale or Disposal of Foreign Assets (Excluding IPRs) are Not Subject to Tax

7.1 Section 10L of the ITA will not apply to gains from the sale or disposal of a foreign asset (not being a foreign IPR) when it is:

a) carried out as part of, or incidental to, the business activities of

i) a bank licensed under the Banking Act 1970;
ii) a merchant bank licensed under the Banking Act 1970;
iii) a finance company licensed under the Finance Companies Act 1967;
iv) an insurer licensed or regulated under the Insurance Act 1966; or
v) a holder of a capital markets services licence under the Securities and Futures Act 2001;

b) carried out as part of, or incidental to, the business activities or operations of an entity which are incentivised under the following tax incentives in Singapore in the basis period in which the sale or disposal occurred:

i) Aircraft Leasing Scheme[5];
ii) Development and Expansion Incentive[6];
iii) Finance and Treasury Centre Incentive[7];

[5] Refer to section 43N of the ITA.

[6] Refer to Part 4 of the Economic Expansion Incentives (Relief from Income Tax) Act 1967 ("EEIA").

[7] Refer to section 43E of the ITA.

iv) Financial Sector Incentive[8];
v) Global Trader Programme[9];
vi) Insurance Business Development Incentive[10];
vii) Maritime Sector Incentive[11];
viii)Pioneer Certificate Incentive[12];

c) carried out by an entity that is able to meet the economic substance requirement in Singapore (see paragraph 8 below) in the basis period in which the sale or disposal occurred.

Example – Exclusion relating to business activities of an entity with tax incentive in Singapore

7.2 Entity A has been granted a tax incentive (listed in paragraph 7.1b) up to the period of 31 July 2025. Entity A disposes three foreign capital assets (not being IPRs) during the financial year ended 31 December 2025 as follows:

a) Entity A disposes Foreign Asset X on 1 July 2025. The disposal of the Foreign Asset X is determined to be carried out as "part of or incidental to the incentivised business". In this regard, the gain from the disposal of Foreign Asset X will not be subject to tax.

b) Entity A disposes Foreign Asset Y on 15 July 2025. The disposal of the Foreign Asset Y is determined not to be carried out as "part of or incidental to the incentivised business" (e.g., disposal of foreign immovable property which was used to derive rental income and not in the course of carrying out its incentivised activity). In this regard, the gain from disposal of Foreign Asset Y will be subject to tax upon remittance unless Entity A is able to meet the economic substance requirement in Singapore under paragraph 8 below.

c) Entity A disposes the Foreign Asset Z on 1 September 2025. As the disposal occurs after the incentive period, the disposal of Foreign Asset Z is not carried out as "part of or incidental to the incentivised business". In this regard, the gain from disposal of Foreign Asset Z will be subject to tax upon remittance unless Entity A is able to meet the economic substance requirement in Singapore under paragraph 8 below.

[8] Refer to section 43J of the ITA.

[9] Refer to section 43I of the ITA.

[10] Refer to sections 43C and 43R of the ITA.

[11] Refer to sections 13A, 13E, 13P, 43L, 43P, 43Q and 43U of the ITA.

[12] Refer to Parts 2 and 3 of the EEIA.

8. Meeting of Economic Substance Requirement in Singapore

8.1 Foreign-sourced disposal gains from the sale or disposal of a foreign asset (not being an IPR) will not be brought to tax if the entity has adequate economic substance in the basis period in which the sale or disposal occurs. The economic substance requirement will not be applied at a jurisdictional level for a group. It will be assessed at the entity level, except for the scenario mentioned in paragraphs 8.12 and 8.13.

(A) Pure equity-holding entity

8.2 A pure equity-holding entity is an entity:

a) whose function is to hold shares or equity interests in any other entity; and

b) has no income other than —
   i) dividends or similar payments from the shares or equity interests[13];
   ii) gains on the sale or disposal of the shares or equity interests; or
   iii) income incidental to its activities of holding shares or equity interests.

8.3 To meet the economic substance requirement, the entity is required to satisfy all the following conditions in the basis period in which the sale or disposal occurs:

a) the entity submits to a public authority any return, statement or account required under the written law under which it is incorporated or registered, being a return, statement or account which it is required by that law to submit to that authority on a regular basis;

b) the operations of the entity are managed and performed in Singapore (whether by its employees or outsourced to third parties or group entities); and

c) the entity has adequate human resources and premises[14] in Singapore to carry out the operations of the entity.

[13] "Equity interest", in relation to an entity, means an interest that carries rights to the profits, capital or reserves of the entity and is accounted for as equity under generally accepted accounting principles.

[14] A pure equity-holding entity will be considered as meeting the "adequate premises" criterion if:

a) it has an office in Singapore for the use of its employee(s) (including rented premises or co-working office spaces);

b) it shares a premise with an associated entity for the use of its employee(s); or

c) the outsourced service provider performing the pure equity-holding entity's core income generating activity has an office in Singapore.

A pure registered address (e.g., address of the corporate secretary) that is not used by the pure equity-holding entity's employees or outsourced service provider to perform the pure equity-holding entity's core income generating activity will not meet the "adequate premises" criterion.

Examples – Pure equity-holding entity

8.4 Example 1: Company A, a pure equity-holding entity, holds shares issued by Company B, a foreign-incorporated company. During the financial year 2024, Company A disposes some Company B shares.

Company A has an employee[15] in Singapore, and it shares an office with an associated company in Singapore. During the financial year 2024, the employee manages the investments (e.g., the employee monitors/ reviews the performance of the investments or makes buy/ sell decisions on the investments) and ensures that Company A complies with its filing requirements with Accounting and Corporate Regulatory Authority and Inland Revenue Authority of Singapore. In this regard, Company A will be regarded as having met the economic substance requirement for the financial year 2024.

8.5 Example 2: Limited Partnership C, a pure equity-holding entity, disposes some shares of Company D, a foreign-incorporated company, during the financial year 2024. Limited Partnership C is managed by General Partner E which is incorporated and is a tax resident in Singapore. General Partner E has an executive director based in Singapore which manages Limited Partnership C's investments. General Partner E has an office for the executive director to perform his duties of managing Limited Partnership C's investments.

In the financial year 2024, the executive director of General Partner E ensures that Limited Partnership C complies with filing requirements, and engages and monitors the activities carried out by outsourced service providers on behalf of Limited Partnership C. As such, Limited Partnership C will be regarded as having met the economic substance requirement for the financial year 2024.

8.6 Example 3: Company F is a pure equity-holding entity incorporated in Singapore. It holds shares in an investee entity outside Singapore. While Company F engages a service provider in Singapore to handle its filing matters, it only has one nominee director in Singapore. The management of its equity investments, including decisions to buy or sell, are undertaken by the company's directors outside Singapore. Since Company F does not carry out its core economic activities in Singapore, it is not able to meet the economic substance requirement.

[15] Includes a director of the company (excluding nominee director).

(B) Non-pure equity-holding entity

8.7 A non-pure equity-holding entity is an entity that is not a pure equity-holding entity.

8.8 The economic substance requirement will be determined based on an analysis of the entity's core income generating activities in Singapore (see Annex B for guidance on the core income generating activities in relation to the economic substance requirement for each sector).

8.9 To meet the economic substance requirement, the entity is required to satisfy all the following conditions in the basis period in which the sale or disposal occurs:

a) the operations of the entity are managed and performed in Singapore (whether by its employees or outsourced to third parties or group entities); and

b) the entity has adequate economic substance in Singapore, taking into account the following considerations:

i) the number of full-time employees[16] of the entity (or other persons managing or performing the entity's operations) in Singapore;
ii) the qualifications and experience of such employees or other persons;
iii) the amount of business expenditure incurred by the entity in respect of its operations in Singapore;
iv) whether the key business decisions of the entity are made by persons in Singapore.

Examples – Non-pure equity-holding entity

8.10 Example 1: Company G is an investment holding entity in Singapore that mainly invests in equities and provides loans to its related parties. As Company G provides loans in addition to investing in equities, it is a non-pure equity-holding entity. Company G disposes some shares in a foreign company in 2024.

Company G has two full-time employees with relevant qualifications to manage the investments in Singapore and they make decisions in relation to the company's investments and financing arrangements. It also incurs

[16] The number of full-time employees includes:

(a) employees working at least 35 hours a week;

(b) executive directors; or

(c) full time equivalent of part-time employees. For example, two part-time employees with daily working hours of 4 hours each will be considered one full-time employee.

$100,000 of local business expenditure[17] in 2024. It will be considered to have met the economic substance requirement in 2024.

8.11 Example 2: Company H is a small entity with an annual turnover of less than $5 million. It is not a pure equity-holding entity or an investment holding entity. It disposes some foreign assets in 2024. It employs one full-time employee in Singapore to carry out its core income generating activity and make key business decisions. It also incurs $50,000 of local business expenditure in 2024. It will be considered to have met the economic substance requirement in 2024.

Economic substance test can be applied at the holding entity level on behalf of its special purpose vehicles ("SPVs")

8.12 A SPV is typically formed to ring-fence the risks of investments and does not have headcount or significant expenditure residing within the SPV. If the immediate holding entity:

a) has effective control[18] over the SPV;
b) derives economic benefits from the activities carried out by the SPV; and
c) defines the core investment strategies that the SPV implements,

the immediate holding entity will not be considered a service provider of the SPV but will be the entity to be subject to the economic substance requirement.

8.13 If the immediate holding entity is also an SPV and another intermediate holding entity/ ultimate holding entity[19]:

a) has effective control over the SPV (including the immediate holding entity of the SPV if any);
b) derives economic benefits from the activities carried out by the SPV; and
c) defines the core investment strategies that the SPV implements,

the relevant intermediate holding entity/ ultimate holding entity would be subject to the economic substance requirement.

[17] Examples of business expenditure include rental expense, staff-related expenses like salaries, and statutory expenses.

[18] Financial Reporting Standard ("FRS") 110 (Consolidated Financial Statements) establishes control as the basis for determining who has to present and which entities are consolidated. For the purposes of determining control for the purposes of section 10L, we will generally rely on FRS 110.

[19] The economic substance requirement can be tested on the ultimate holding entity only if the intermediate holding entity below the ultimate holding entity is also a SPV.

Outsourcing of economic activities

8.14 The economic substance requirement takes into account outsourcing arrangements where an entity outsources some or all of its economic activities to third parties or group entities.

8.15 For an outsourcing arrangement to satisfy the economic substance requirement, the following conditions must be satisfied:

a) the economic activities are to be carried out by the outsourced entity in Singapore;

b) the outsourcing entity has a direct and effective control over the outsourced activities carried out by the outsourced entity on its behalf (i.e., the outsourcing entity has exercised adequate monitoring[20] and control of the economic activities carried out by the outsourced entity); and

c) the outsourced entity providing the outsourced services must set aside dedicated resources (e.g., manhours) to provide the outsourced services.

8.16 When determining whether the outsourcing entity is able to satisfy the economic substance requirement in respect of its economic activities, the resources[21] of the outsourced entity in Singapore will be considered. It is generally expected to charge the outsourcing entity an arm's-length fee for the activities performed, subject to transfer pricing rules where applicable. The outsourced entity can provide support to more than one entity, provided that its resources are commensurate with the complexity and level of services it provides to other entities.

Examples - Outsourcing of economic activities

8.17 Example 1: Singapore-listed Real Estate Investment Trust ("S-REIT")

An S-REIT has an overseas related entity to hold its overseas real properties. It engages a REIT Manager in Singapore.

The role of the REIT Manager is to manage the S-REIT's assets for the benefit of unitholders, and it charges an arm's length fee for its services. The investment business activities, including the acquisition, disposal, and management of the S-REIT's investments, are conducted by the REIT Manager in Singapore on behalf of the S-REIT.

[20] The monitoring mechanism should be documented in an outsourcing agreement or internal policies of the outsourcing entity. The documents could include relevant email correspondences.

[21] It is possible for one employee of the outsourced entity to provide support to more than one entity.

The REIT disposes some equity interest in the overseas related entity in 2024. The S-REIT will meet the economic substance requirement and outsourcing rules in 2024 if:

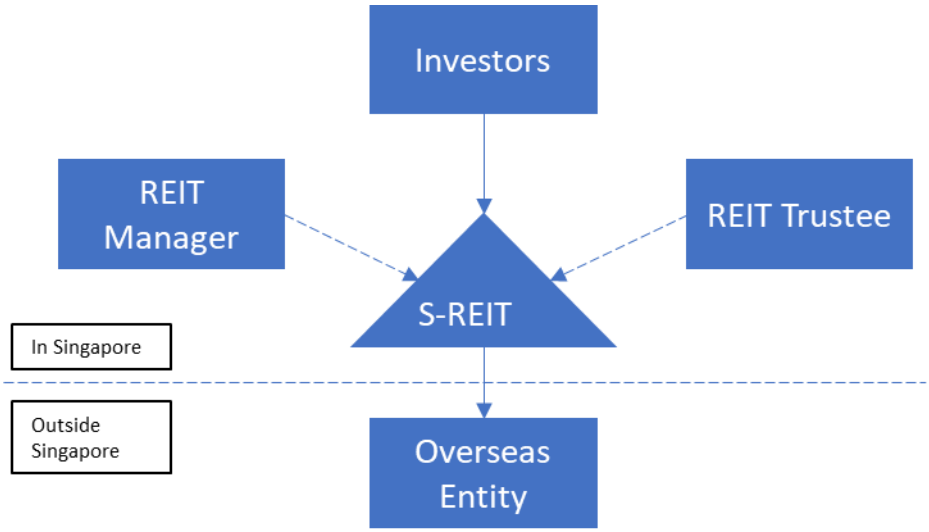
a) the core income generating activity is carried out by its REIT Manager in Singapore;

b) the trust deed sets out the following:

i) the functions and responsibilities of the REIT Manager;
ii) provision for the termination of the services of the REIT Manager;

c) the REIT Manager has set aside dedicated resources to perform its functions and responsibilities as per the trust deed; and

d) the REIT Manager charges an arm's length fee for its services.



8.18 Example 2: Private Trust - A trust will meet the economic substance requirement and outsourcing rules if:

a) the core income generating activity is carried out by its Trustee in Singapore;

b) the trust deed sets out the following:

i) the functions and responsibilities of the Trustee;
ii) provision for the termination of the services of the Trustee;

c) the Trustee has set aside dedicated resources to perform its functions and responsibilities as per the trust deed; and

d) the Trustee charges an arm's length fee for its services.

8.19 Example 3: Registered Business Trust - A registered business trust will meet the economic substance requirement and outsourcing rules if:

a) the core income generating activity is carried out by its Trustee-manager in Singapore;

b) trust deed sets out the following:

i) the functions and responsibilities of the Trustee-manager;
ii) provision for the termination of the services of the Trustee-manager;

c) the Trustee-manager has set aside dedicated resources to perform its functions and responsibilities as per the trust deed; and

d) the Trustee-manager charges an arm's length fee for its services.

9. Tax Treatment of Gains from the Sale or Disposal of Foreign IPRs

9.1 The tax treatment of gains from the sale or disposal of foreign IPRs is different from that of other foreign assets. The non-taxation of foreign-sourced disposal gains for entities in paragraphs 7 and 8 is not applicable to gains from disposal of foreign IPRs.

Qualifying foreign IPRs

9.2 For gains from the sale or disposal of qualifying foreign IPRs as defined in section 43X[22] of the ITA, a modified nexus approach is used to determine the extent of such gains that will not be taxable when received in Singapore.

9.3 The modified nexus approach is an international standard set by the Organisation for Economic Co-operation and Development ("OECD"), which permits jurisdictions to provide tax benefits to the income arising out of a qualifying IPR, so long as there is a direct nexus between the income receiving benefits and expenditures contributing to that income.

9.4 Qualifying IPR means:

a) any patent under the Patents Act 1994 or the equivalent law of any country or territory;

b) an application for a patent under the Patents Act 1994 or the equivalent law of any country or territory;

c) any copyright subsisting in software by virtue of the Copyright Act 2021 or the equivalent law of any country or territory,

[22] Refer to the concessionary rate of tax for intellectual property income.

and includes a family of qualifying IPRs.

9.5 The definition of the "modified nexus ratio" is calculated in accordance with the following formula and is capped at 100%:

$$\text{Modified Nexus Ratio}^{23} = \frac{\text{QE} \times 130\%}{\text{QE} + \text{NE}}$$

Where

QE	means the qualifying Research and Development[24] ("R&D") expenditure incurred in respect of the qualifying IPR to which the qualifying IP income disposal gains relate. <u>Qualifying R&D expenditure[25]</u> a) Direct R&D expenditure incurred by the entity (except under a cost-sharing agreement ("CSA")) on the qualifying IPR; b) Expenditure incurred for R&D carried out on behalf of the entity (except under a CSA) by (i) an unrelated party, or (ii) a Singapore-resident related party in Singapore; and c) Payments made by the entity under a CSA (except excluded CSAs[26]) to carry out R&D.
NE	means the non-qualifying expenditure incurred in respect of the qualifying IPR. <u>Non-qualifying expenditure</u> a) Expenditure (including licensing fees) incurred (except under a CSA) to obtain a qualifying IPR on which the entity has carried out R&D; b) Expenditure incurred for R&D carried out on behalf of the entity (except under a CSA) by a related party, where the related party is a non-resident or the R&D is carried out outside Singapore; c) Payments under excluded CSAs to carry out R&D; and d) Buy-in payments to become a party to a CSA to obtain a qualifying IPR.

[23] Please refer to Part 1 of the Schedule of the Income Tax (Concessionary rate of tax for intellectual property income) Regulations 2021.

[24] Section 2 of the ITA provides a definition of R&D.

[25] Refer to the full definition in paragraph 1 of Part 1 of The Schedule of the Regulations. It excludes interest payment or any payment for land or building, or any alteration, addition, or extension to any building.

[26] Excluded CSAs are CSAs where none of the R&D under the CSA is carried out by (i) the entity; (ii) an unrelated party; or (iii) a Singapore-resident related party where the R&D is carried out in Singapore.

9.6 The modified nexus ratio is applied to calculate the portion of disposal gains that will not be subject to tax when received in Singapore by the entity, which is ascertained in accordance with the following formula:

Gains not subject to tax = Disposal gains of qualifying IPR x Modified Nexus Ratio

Consequently, the gains subject to tax under section 10L is ascertained in accordance with the following formula:

Gains subject to tax = Total gains – Gains not subject to tax

Non-qualifying foreign IPRs

9.7 For non-qualifying foreign IPRs, the full amount of the gains from the sale or disposal of the IPRs will be subject to tax when such gains are received in Singapore. This is regardless of whether the entity has adequate economic substance in Singapore.

Example – Modified nexus approach

9.8 Entity A disposes two foreign IPRs:

a) Example 1: A patent is disposed with a disposal gain of $300,000 in 2024. The total qualifying expenditure incurred for the connected R&D carried out by Entity A was $100,000, and the non-qualifying expenditure incurred by Entity A to obtain the right was $200,000.

   Where the gain of $300,000 is received in Singapore in 2025, the amount of the gain that is not subject to tax is calculated as follows:

   Modified nexus ratio = ($100,000 x 130%) / ($100,000+$200,000)

   $300,000 x [($100,000 x 130%) / ($100,000+$200,000)] = $130,000

   Amount of gain that is subject to tax when it is received in Singapore:

   $300,000 - $130,000 = $170,000

b) Example 2: A marketing-related IP asset is disposed in 2024 with a disposal gain of $100,000. The IP asset is not a qualifying IPR as defined in paragraph 9.4. As such, the full amount of the gain of $100,000 will be subject to tax when it is received in Singapore in 2025.

Transitional arrangement

9.9 As a transitional measure, an entity is allowed to apply a transitional nexus ratio. For the transitional nexus ratio, the expenditures (i.e., the QE and NE)

are calculated based on three-year rolling average or expenditure incurred during the R&D period (if this is less than the three-year rolling average), instead of cumulative expenditure from the date the entity first incurs R&D expenditure in connection with the qualifying IPR.

9.10 The purpose of the transitional nexus ratio is to allow sufficient time for taxpayers to adapt to the tracking and tracing requirements while still complying with the general principles of the nexus approach. After the transitional period of three years, the entity would transition from using the three-year average to the modified nexus ratio.

9.11 Please refer to an example of a transitional measure for tracking and tracing of expenditures in Annex C.

10. Ascertainment of Gains Chargeable to Tax

10.1 The following deductions may be allowed to ascertain the amount of gains from the sale or disposal of foreign assets chargeable to tax in Singapore:

a) Any expenditure (except those mentioned in paragraph 10.2) incurred by the entity:
   i) to acquire, create or improve the foreign asset;
   ii) to protect or preserve the value of the foreign asset; or
   iii) to sell or dispose the foreign asset.

The expenditure will include expenses incurred to finance the acquisition, creation, and improvement of the foreign asset.

b) Any loss (subject to paragraph 10.6) incurred by the entity from the sale or disposal of any other foreign asset.

10.2 The following expenditures are not deductible:

a) Any expenditure that has been allowed a deduction against any other income, whether or not such income is chargeable or exempt from tax; or

b) Capital expenditure computed by the following formula:

$$D-E$$

where:
D is the amount of capital expenditure of the foreign asset for which any capital allowance (including any balancing allowance) is made against any other income; and

E is the amount of any balancing charge (or similar charge) made on the sale or disposal of the foreign asset.

Examples - To illustrate paragraph 10.2(b)

10.3 Example 1: Entity A purchases an equipment at $300,000 during the financial year 2023. On 31 December 2024, Entity A disposes the equipment at $350,000. Entity A has claimed capital allowances on the equipment of $200,000 in YA 2024 and YA 2025. In addition, a balancing charge, capped at $200,000 is made in YA 2025.

The following expenditure will not be deductible:
= D – E
= $200,000 (capital allowances claimed) - $200,000 (balancing charge)
= $0

The amount of gains that will be subject to tax under section 10L:
= Sales proceeds – historical cost + capital expenditure that is not deductible based on the formula of D-E
= $350,000 - $300,000 + $0
= $50,000

10.4 Example 2: Entity B purchases an equipment at $600,000 during the financial year 2023. On 31 December 2024, Entity B disposes the equipment at $250,000. Entity B has claimed capital allowances on the equipment of $400,000 in YA 2024 and YA 2025. In addition, a balancing charge of $50,000 is made in YA 2025.

The following expenditure will not be deductible:
= D – E
= $400,000 (capital allowances claimed) - $50,000 (balancing charge)
= $350,000

The amount of gains that will be subject to tax under section 10L:
= Sales proceeds – historical cost + capital expenditure that is not deductible based on the formula of D-E
= $250,000 - $600,000 + $350,000
= $0

10.5 Where not all the gains from the sale or disposal of a foreign asset are received in Singapore in the same basis period, a portion of the amount deductible under paragraph 10.1(a) above as the Comptroller of Income Tax ("Comptroller") considers reasonable is deductible for each basis period in which any such gains are received in Singapore. Please refer to Annex D which illustrates the computation of the foreign-sourced disposal gains.

10.6 The loss mentioned in paragraph 10.1(b) above may be deducted subject to the following:

a) Had the sale or disposal of the foreign asset resulted in a gain, the gain would have been subject to tax under section 10L of the ITA;

b) The loss can only be used to set off against foreign-sourced disposal gains that have been chargeable to tax; and

c) The balance of loss not so set off will be carried forward to set off against the foreign-sourced disposal gains that are chargeable to tax in Singapore in a future YA.

10.7 Please refer to Annex E which illustrates the utilisation of losses.

11. Adjustment to Open-Market Price

11.1 Where the sale or disposal of a foreign asset by the entity was at a price less than the open-market price for the foreign asset, the Comptroller may treat the following amount as the amount of the gains received in Singapore:

$$A + B - C$$

where:
A is the amount of the gains actually received in Singapore;
B is the open-market price for the foreign asset; and
C is the actual price for the sale or disposal of the foreign asset.

11.2 The open-market price for a foreign asset is either:

a) the price which the foreign asset could have been sold for in the open market on the date of its sale or disposal; or

b) where the Comptroller is satisfied by reason of the special nature of the foreign asset that it is not practicable to determine the price mentioned in paragraph (a), such other value as appears to the Comptroller to be reasonable in the circumstances.

11.3 If no amount of the gain is received in Singapore, the Comptroller will not tax the difference between the open market price and the actual price of the foreign asset. The Comptroller will tax the difference between the open market price and the actual price of the foreign asset in the year when there is an amount of gain received in Singapore.

Example - Adjustment to Open-Market Price

11.4 Entity A sells a foreign asset to its related party, Entity B for $250,000 in 2024 and makes a gain of $30,000. Entity A remits $10,000 of the gain to Singapore in the same year. The open market price for the foreign asset is $600,000 on the date of its disposal. The Comptroller may treat the amount of $360,000 ($10,000 + $600,000 – $250,000) as the gain received in Singapore in 2024.

12. Foreign Tax Credit

12.1 The foreign-sourced disposal gains received in Singapore may have been taxed in the foreign jurisdiction before the gains are received in Singapore. A Singapore tax resident entity may claim double taxation relief[27], unilateral tax credit[28], or elect for the foreign tax credit pooling system[29] when claiming the foreign tax credit to alleviate the foreign tax suffered on the foreign-sourced disposal gains. The foreign tax credit may be claimed within four years after the year of remittance.

13. Exemption from Tax for Individuals Who Receive Gains from the Sale of Foreign Assets by an Entity

13.1 Tax exemption under section 13(1)(zu) of the ITA will be given on the capital gains derived from the sale or disposal of a foreign asset where the gains are assessable as the income of an individual. For example, where the covered entity is a partnership and tax transparency treatment applies, the share of capital gains from the sale or disposal of a foreign asset will be exempt from tax in the hands of an individual partner of the partnership.

13.2 Tax exemption will not be given if the gains are business revenue gains. For example, an individual Mr A is a partner of a partnership that buys/ sells properties in both Singapore and Jurisdiction B. As tax transparency

[27] A double taxation relief may be granted if the foreign tax is paid in accordance with the Avoidance of Double Taxation Agreement provisions and is capped at the lower of the foreign tax paid and the Singapore tax that would be payable on the same income.

[28] Section 50A(1)(ha) of the ITA provides that unilateral tax credits can be allowed for any foreign tax paid in respect of a gain that is treated as income under section 10L.

[29] The foreign-sourced disposal gains received by the resident entity must satisfy all of the following conditions:

i) foreign income tax has been paid on the disposal gains in the foreign jurisdiction from which the gains are derived;

ii) the headline tax rate of the foreign jurisdiction from which the disposal gains are derived is at least 15% at the time the disposal gains are received in Singapore; and

iii) the foreign-sourced disposal gains are subject to tax in Singapore and entity is entitled to claim for foreign tax credits under the ITA.

treatment applies, the share of revenue gains from the sale or disposal of the properties in Jurisdiction B will be taxable in the hands of Mr A.

14. Administrative Requirements for covered entities with covered income

14.1 To ensure that entities keep track of the gains/ losses from disposal of foreign assets and accurately report their taxes when such gains are received or losses are utilised in Singapore, they are required to provide the following information with respect to such gains/ losses in their tax computations when submitting their annual income tax returns:

- Unremitted gains/ unutilised losses brought forward from prior YAs;
- Gains/ losses in the current financial year;
- Gains received/ losses utilised in Singapore during the financial year;
- Gains used[30] during the year and not received in Singapore;
- Unremitted gains/ unutilised losses carried forward;
- Tracking of allowable expenses (foreign and local expenses) attributable to the foreign-sourced gains/ losses;
- Information on economic substance in Singapore (for example, number of employees, amount of operating expenditure, information on outsourcing arrangements if business activities are outsourced);
- Gains/ losses of foreign IPRs not subject to tax under the Modified Nexus Approach.

14.2 Entities are required to retain all records reasonably required for the Comptroller to ascertain the amount of net gains from disposal of foreign assets chargeable to tax. These supporting documents need not be submitted with their annual Income Tax Returns, but they should be submitted to the Comptroller for verification when requested. Such records with respect to the gains/ losses from disposal of foreign assets may include, but are not limited to, the following:

- Audited financial statements/ certified management accounts[31] for the financial year the gains/ losses were accrued;
- Supporting documents stating the principal activity of the entity for the financial year the gains/ losses accrued (if there are no audited financial statements);
- Payroll documents reflecting the number of full-time employees based in Singapore for the financial year the gains/ losses were accrued;

[30] This refers to the gains that are used in a manner that are not considered as received in Singapore, such that the gains become permanently unavailable for subsequent remittance. One example of such use is when the gains are kept offshore and used for payment of Singapore one-tier tax exempt dividends directly to the shareholder's bank account.

[31] Certified management accounts can be submitted if the entity is exempt from audit requirements.

- Supporting documents on the sales proceeds, historical costs and any other expenditure incurred to derive the gains/ losses;
- Supporting documents reflecting the foreign tax paid by the entity in relation to the gain (e.g., notice of assessment or tax receipt issued by the foreign tax administration);
- Supporting documents to demonstrate monitoring and control of the services provided by the outsourced entity;
- Supporting documents providing details of the IP assets;
- Supporting documents to calculate the Modified Nexus Ratio and amount not subject to tax for qualifying IP assets.

15. Advance Ruling on Adequacy of Economic Substance

15.1 You may make an application for advance ruling to seek certainty on the adequacy of economic substance ("**ESR AR applications**") when a proposed sale or disposal of foreign assets is expected to occur. This is provided that the proposed sale or disposal of foreign assets is envisaged to take place within one year from the date of the application.

15.2 The advance ruling on the adequacy of economic substance, if issued[32], may be valid for up to five YAs, including the YA relating to the basis period in which the proposed sale or disposal of foreign assets is envisaged to take place. This means that the ruling may be applicable to the foreign-sourced disposal gains from any subsequent sale or disposal of foreign assets within the advance ruling validity period. This is provided that the relevant facts and representations made for the purpose of the ruling application remain unchanged and there is no change in the tax laws or our interpretation of the tax laws.

15.3 Please refer to the IRAS website > *Home* > *Taxes* > *Corporate Income Tax* > *Specific Topics* > *Advance Ruling System for Income Tax* > for more information on the advance ruling system.

16. Contact Information

16.1 For general enquiries or clarifications on this e-Tax guide, please call 1800 356 8622.

[32] The Comptroller may decline to make a ruling under the circumstances specified in the Part 1 of the Seventh Schedule of the ITA.

17. Frequently Asked Questions

Covered entity

1 My entity is a member of a group of Singapore companies, and one of the members has a permanent establishment overseas. Will my entity be considered an entity that falls within the scope of section 10L of the ITA?

Yes, the entity will fall within the scope of section 10L of the ITA.

2 A Singapore entity (Company A) holds a group of Singapore companies with no place of business outside Singapore and an overseas associate company (Company B). Company A accounts for the investment in Company B using the equity method and the assets, liabilities, income, expenses and cash flows of Company B are not included in the consolidated financial statements of Company A. Will Company B be considered a member of the group under section 10L?

No, Company B will not be considered a member of the group under section 10L as its assets, liabilities, income, expenses and cash flows are not included in the consolidated financial statements of its parent entity on a line-by-line basis in accordance with generally accepted accounting standards.

3 Will section 10L apply if an entity did not comply with "FRS 110 – Consolidated Financial Statements" even though it is required to do so?

Yes, section 10L will apply if the entity is required to comply with FRS 110 but chooses not to do so, provided it satisfies other conditions of a covered entity in paragraphs 5.2 and 5.3.

Economic substance requirement

4 How will the economic substance requirement be applied to the various sectors, for example, the shipping industry or the wholesalers? What is considered "adequate", and will there be any clear thresholds to help us determine what is "adequate"?

Economic substance requirement will be determined based on an analysis of the entity's core income generating activities in Singapore. (See Annex B for guidance on the core income generating activities in relation to the economic substance requirement for each sector.)

Adequate economic substance should commensurate with the business model and scale of operations. As the business models and scale of operations for entities may be very varied within the same sector, there are no prescribed minimum thresholds to determine the adequacy of economic substance at this juncture.

5 Is the economic substance requirement to be met in the year of disposal of the asset or in the year the gains are received in Singapore?

The economic substance requirement must be met in the year of disposal of the asset.

6 My entity is an investment holding entity that invests in shares. My entity does not have any business premise in Singapore and the registered address of my entity is that of a corporate service provider. Our employees work remotely outside Singapore and there are no employees working in Singapore. We do not outsource our business activities to any service provider. Will my entity be considered to have adequate economic substance in Singapore?

As your entity does not have a premise and employees in Singapore and does not outsource the business operations to a service provider in Singapore, it will not be considered to have adequate economic substance in Singapore.

7 Does interest income derived from shareholders' loans qualify as "income incidental to its activities of holding shares or equity interests in other entities" under the definition of a pure equity-holding entity?

Interest income derived from shareholders' loans will not be considered as "income incidental to its activities of holding shares or equity interests in other entities" of a pure equity-holding company.

Examples of "income incidental to its activities of holding shares or equity interests in other entities" of a pure equity-holding company are:

- bank interest income;
- foreign exchange gains arising from dividends or similar payments, sale or disposal of shares, and bank interest income.

8 Will the provision of an interest-free loan by my entity to its shareholders affect its status of a pure equity-holding entity?

Yes, the entity will not be considered a pure equity-holding entity. A pure equity-holding entity is an entity that only holds shares or equity interests in other entities and only earns dividends or similar payments from the shares or equity interests, disposal gains of the shares or equity interests and income incidental to the activities of holding such shares or equity interests.

Covered income

9 Where the amount received in Singapore is less than the historical cost of the asset, would the proceeds received in Singapore be accepted as capital funds received in Singapore and not disposal gains received in Singapore?

The proceeds received in Singapore can be treated as capital funds and not gains from the disposal of foreign assets if the entity can provide an account of the funds from foreign-sourced capital sources before the date of repatriation. This account should show that after the repatriation, the funds remaining outside Singapore is no less than the amount of gain from disposal of the foreign asset that has yet to be received in Singapore.

10 Can my company rely on the exemptions under section 13 of the ITA to exempt the gains from disposal of foreign assets from Singapore tax?

No, if the disposal gains are subject to tax under section 10L of the ITA, the exemptions under section 13 will not be applicable.

11 If the disposal gain has been subject to tax as trade income under section 10(1)(a) of the ITA, would such gain be subject to tax again under section 10L of the ITA?

No. As the gain has been taxed as trade income, the gain would not be brought to tax again under section 10L of the ITA.

12 Will proceeds from the sale of a foreign business that is capital in nature fall within the scope of section 10L of the ITA?

Yes. Where a covered entity sells its business via sale of assets, it must apply the rules under Annex A for each asset to determine if the asset is a foreign asset situated outside Singapore. Gains from the sale of foreign assets will fall within the scope of section 10L of the ITA.

13 In a scenario where:

a. a Singapore resident is the owner of the economic benefits of an IPR;
b. the legal owner of the IPR is a non-Singapore resident; and
c. the Singapore resident sells its economic ownership of the IPR,

will this be considered a sale of a foreign asset by the Singapore resident?

No. If the owner of a contractual right in respect of the benefits of an IPR is a tax resident in Singapore, the gains from the sale or disposal of its contractual right are considered as sourced in Singapore.

14 Is the remittance of a foreign-sourced dividend that originates from gains from disposal of foreign assets subject to tax under section 10L of the ITA?

No, the remittance of a foreign-sourced dividend that originates from gains from disposal of foreign assets is not subject to tax under section 10L of the ITA. The foreign-sourced dividend will be subject to tax under section 10(1) when received in Singapore unless it can qualify for tax exemption under section 13(8) or 13(12) of the ITA.

15 My entity disposed an IPR that falls within the definition in paragraph 9.4. However, my entity does not enjoy the concession under section 43X of the ITA. Will the IPR still be considered a qualifying IPR for the purpose of section 10L of the ITA?

Where the IPR falls within the definition in paragraph 9.4, it will be regarded as a qualifying IPR for the purpose of section 10L of the ITA. This is regardless of whether the entity is enjoying the concession under section 43X of the ITA in respect of income from the IPR.

16 Why is Singapore not introducing similar exemptions/ reliefs such as a participation exemption scheme or intra-group transfer relief like some other jurisdictions?

We are mindful that such exemptions/ reliefs will further complicate the tax regime as there will be a need to introduce specific anti-avoidance rules. Singapore will review our tax measures periodically and may consider these exemptions/ reliefs in future if appropriate.

17 My entity is undergoing liquidation and distributes its foreign assets to its shareholder as part of liquidation proceeds without receiving any consideration. Will this transaction fall within the scope of section 10L?

While there is a disposal of foreign assets by the entity, there are no gains to be received in Singapore as there is no consideration received for the disposal. As such, the transaction does not fall within the scope of section 10L.

18 Will my entity distributing its foreign assets to its shareholder as payment of dividends (i.e. dividends in kind) fall within the scope of section 10L?

While there is a disposal of foreign assets by the entity, there are no gains to be received in Singapore as there is no consideration received for the disposal. As such, the transaction does not fall within the scope of section 10L.

19 Will section 10L apply to the following situations:

a. a reduction of share capital;
b. a share buyback to cancel the shares (i.e. not for the purpose of holding repurchased shares as treasury shares); or
c. a share redemption?

The general principle is that there would be a sale or disposal of shares by the shareholders where there is a sale or transfer of shares (or any rights or interest thereof) in the course of a share capital reduction, buyback or redemption.

There is no sale or disposal for the purposes of section 10L if a share capital reduction or redemption involves only the extinguishment or cancellation of shares without any transfer of the shares from the shareholders to the company.

20 What will the tax treatment under section 10L be if an entity in Singapore with foreign assets is undergoing corporate amalgamation with another entity in Singapore?

The transfer of foreign assets under a merger is a sale or disposal under section 10L, unless the amalgamated company had made an election for the qualifying corporate amalgamation under section 34C and section 34CA of the ITA.

For non-qualifying corporate amalgamations, there is a need to apply the source rules under section 10L(15) for each foreign asset disposed.

21 My entity's foreign sourced disposal gains are kept outside Singapore. Will the foreign sourced disposal gains be considered as received in Singapore from outside Singapore if it is used to pay Singapore one-tier exempt dividends to shareholders?

No, the foreign sourced disposal gains will not be considered as received in Singapore if such gains are kept outside Singapore and are used to pay Singapore one-tier dividends. This is subject to the condition that the Singapore one-tier dividends are paid directly into the shareholders' bank account and does not involve any physical remittance, transmission or bringing of funds into Singapore by the entity for the dividend payment.

18. Updates and Amendments

	Date of amendment	Amendments made
1	9 December 2024	• Editorial changes made to various paragraphs; • Paragraphs 8.7 and 8.8 are revised to paragraphs 8.12 and 8.13. • Updated footnote 16 on full-time employees; and • Included additional FAQs 2, 3, 8, 15, 17 to 22.
2	6 June 2025	• FAQ 22 (A Singapore company sells a foreign asset and receives a promissory note as consideration. The note document is brought into Singapore. Is this considered as remittance of the gain from disposal of the foreign asset?) has been removed pending further review.

Annex A – List of Assets which are Determined to be Situated Outside Singapore

The situation of property, and any right or interest therein, is determined to be situated outside Singapore as follows:

(a) any immovable property, or any right or interest in immovable property, is physically located outside Singapore;

(b) any tangible movable property, or any right or interest in such property, that is not the subject of any paragraph below, is physically located outside Singapore;

(c) ship or aircraft, or any right or interest in a ship or aircraft, is situated outside Singapore if the owner, or the person entitled to the right or interest, is resident in a jurisdiction outside Singapore;

(d) a secured or unsecured debt (other than a judgment debt or securities), or any right or interest in such secured or unsecured debt, is situated outside Singapore if the creditor is resident in a jurisdiction outside Singapore;

(e) a judgment debt, or any right or interest in a judgment debt, is situated outside Singapore if the judgment is recorded outside Singapore;

(f) any shares, equity interests or securities issued by any municipal or governmental authority, or by any body created by such authority, or any right or interest in such shares, equity interests or securities, are situated outside Singapore if the authority is established outside Singapore;

(g) subject to paragraph (*f*), any shares in or securities issued by a company, or any right or interest in such shares or securities, are situated outside Singapore if the company is incorporated outside Singapore;

(h) subject to paragraph (*f*), any equity interests in any entity which is not a company, or any right or interest in such equity interests, are situated outside Singapore if the operations of the entity are principally carried on outside Singapore;

(i) subject to paragraph (*f*) (and despite paragraphs (*g*) and (*h*)), any registered shares, equity interests or securities, and any right or interest in any registered shares, equity interests or securities, are situated outside Singapore if they are registered outside Singapore or, if registered in more than one register, if the principal register is situated outside Singapore;

(j) goodwill relating to a trade, business or profession is situated outside Singapore if the trade, business or profession is principally carried on outside Singapore;

(k) any IPR, or any licence or other right in respect of any IPR, is situated outside Singapore if the owner of the IPR, licence or right is resident in a jurisdiction outside Singapore;

(l) any intangible movable property, or any right or interest in any intangible movable property, that is not the subject of any paragraph above, is situated outside Singapore if the ownership rights in respect of the property, right or interest is primarily enforceable in a jurisdiction outside Singapore.

Annex B – Guidance[33] on the Core Income Generating Activities in relation to the Economic Substance Requirement for Each Sector

The table below covers examples of core income generating activities of some industries in relation to the economic substance requirement.

S/N	Industry	Core income generating activities
1.	Holding company regimes	To the extent that holding company regimes provide benefits only to equity holding companies, the substantial activity requirement requires, at a minimum, that the companies receiving benefits from such regimes: • Meet all applicable corporate law filing requirements for the relevant YA • Have the substance necessary to engage in holding and managing equity participations (for example, by showing that they have both the people and the premises necessary for these activities)
2.	Headquarters regimes	• Making relevant management decisions • Incurring expenditures on behalf of entities in the same group • Co-ordinating group activities
3.	Distribution and service centre regimes	• Transporting and storing goods • Managing the stocks and taking orders • Providing consulting or other administrative services
4.	Financing or leasing regimes	• Negotiating and concluding funding terms • Identifying and acquiring assets to be leased (in the case of leasing) • Setting the terms and duration of any financing or leasing • Monitoring and revising any agreements • Managing any risks
5.	Fund management regimes	• Taking decisions on the holding and selling of investments • Calculating risks and reserves

[33] This guidance is extracted from Annex D of the Harmful Tax Practices- 2017 Progress Report on Preferential Regimes.

		• Taking decisions on currency or interest fluctuations and hedging positions • Preparing relevant regulatory or other reports for government authorities and investors
6.	Banking and insurance regimes	<u>Banking:</u> • Raising funds • Managing risk including credit, currency and interest risk • Taking hedging positions • Providing loans, credit or other financial services to customers • Managing regulatory capital • Preparing regulatory reports and returns <u>Insurance:</u> • Predicting and calculating risk • Insuring or re-insuring against risk • Providing client services
7.	Shipping regimes	• Managing the crew (including hiring, paying, and overseeing crew members) • Hauling and maintaining ships • Overseeing and tracking deliveries • Determining what goods to order and when to deliver them • Organising and overseeing voyages

Annex C – Example of a Transitional Measure for Tracking and Tracing of Expenditures of IP Assets[34]

Company A is a technology company that sells products which use multiple IP assets that it has developed. Prior to 2024, Company A did not track and trace either expenditures or income to individual IP assets or products, but it does have information on the overall R&D expenditures that it incurred, as well as its overall expenditures for related party outsourcing and its overall acquisition costs for 2022 and 2023. Company A can track and trace to product families starting in 2024. Company A's expenditures are listed below.

Basis Period	Expenditures
2022	Total qualifying expenditures: $5m Total expenditures: $10m
2023	Total qualifying expenditures: $3m Total expenditures: $3m
2024	Total qualifying expenditures: $2m Qualifying expenditures for product family A: $0.4m Qualifying expenditures for product family B: $1.6m Total expenditures: $5m Total expenditures for product family A: $2.4m Total expenditures for product family B: $2.6m
2025	Total qualifying expenditures: $2m Qualifying expenditures for product family A: $1.3m Qualifying expenditures for product family B: $0.7m Total expenditures: $3m Total expenditures for product family A: $2m Total expenditures for product family B: $1m
2026	Total qualifying expenditures: $1m Qualifying expenditures for product family A: $0.8m Qualifying expenditures for product family B: $0.2m Total expenditures: $1.6m Total expenditures for product family A: $0.8m Total expenditures for product family B: $0.8m

Company A uses the three-year "average" as a transitional measure. The nexus ratio would be calculated as follows:

[34] This example is modified from the example provided in Annex A of the BEPS Action 5 Report.

In 2024, Company A calculates the nexus ratio using the average of all of its R&D expenditures over three years. Total R&D expenditure for 2022 to 2024 is $18m.

The nexus ratio for 2024 would be $10m x 130% / $18m = 0.72. For purposes of calculating the three-year average, this ratio does not include any expenditures incurred before 2022, even if the R&D to create IP asset began before that time.

In 2025, Company A again calculates the nexus ratio using the average of all of its R&D expenditures because it did not yet have three years of expenditures tracked to product families. Total R&D expenditures for 2023 to 2025 is $11m. The ratio for 2025 would be $7m x 130% / $11m = 0.83.

In 2026 and all subsequent years, Company A would transition to a cumulative approach using expenditures for product family. Total R&D expenditure on Product Family A for 2024 to 2026 is $5.2m. The nexus ratio for Product Family A in 2026 would therefore be $2.5m x 130% / $5.2m = 0.63. All subsequent qualifying and overall expenditures for Product Family A will be added to that ratio in future years.

Total R&D expenditure on Product Family B for 2024 to 2026 is $4.4m. The nexus ratio for Product Family B in 2026 would be $2.5m x 130% / $4.4m = 0.74. All subsequent qualifying and overall expenditures for Product Family B will be added to that ratio in future years.

Annex D – Computation of Foreign-sourced Disposal Gains

Entity A (with a 31 December financial year-end) acquired shares in Company B, a foreign company, on 1 January 2015 for $200,000. To acquire the shares, Entity A obtained a loan of $100,000, with 1% interest payable per annum.

On 1 January 2024, the value of the shares is $180,000.

On 31 December 2030, Entity A disposes its shares in Company B for $300,000. To dispose the shares, Entity A incurs legal fees of $5,000 and realised foreign exchange loss of $1,000 while making the payment of legal fees. Entity A does not meet the economic substance requirement for the year 2030.

On 1 January 2031, Entity A remits a gain of $20,000 into Singapore.

The amount subject to tax is calculated as follows:

Gain subjects to tax
Sales proceeds – Historical cost = $300,000 - $200,000 = **$100,000**

Total allowable expenditure

S/N	Description	Remarks	Amount ($)
1	Revaluation loss of $20,000	Not deductible as it is an unrealised loss	-
2	Interest expense of $16,000 (Financial Year 2015 to 2030, 16 years)	Deductible, if deduction had not been claimed in prior years	$16,000
3	Legal fees of $5,000	Deductible	$5,000
4	Foreign exchange loss re: payment of legal fees of $1,000	Deductible	$1,000
		Total	**$22,000**

Amount subjects to tax in YA 2032
Gain received in Singapore = $20,000
Apportionment of total allowable expenditure = $20,000 / $100,000 x $22,000
= $4,400
Amount subject to tax in YA 2032 = $20,000 - $4,400 = **$15,600**

Annex E – Illustration of the Utilisation of Losses

Entity A has the following acquisition and disposal of four foreign fixed assets:

- Acquired Foreign Asset A at $200,000 during the financial year 2020 and disposes it at $100,000 during the financial year 2023;
- Acquired Foreign Asset B at $300,000 during the financial year 2021 and disposes it at $150,000 during the financial year 2024;
- Acquired Foreign Asset C at $500,000 during the financial year 2023 and disposes it at $800,000 during the financial year 2026; and.
- Acquired Foreign Asset D at $600,000 during the financial year 2023 and disposes it at $400,000 during the financial year 2027.

a) Assuming Entity A does not meet the economic substance requirement for all the financial years (i.e., 2023, 2024, 2026 and 2027):

- The loss of $100,000 from the disposal of Foreign Asset A is not available for set off as section 10L comes into effect from 1 January 2024;
- The loss of $150,000 from the disposal of Foreign Asset B is only available for set off against the disposal gain from Foreign Asset C in the financial year 2026;
- The gain of $300,000 from the disposal of Foreign Asset C, if received in Singapore, is subject to tax and can be set off by the loss on Foreign Asset B or trade loss in the year of remittance; and
- The loss of $200,000 from the disposal of Foreign Asset D is available to set off remittance of gains in future years (i.e., YA 2028 onwards). For example, if the disposal gain of $300,000 from Foreign Asset C is received in Singapore in the financial year 2026 (YA 2027), the loss of $200,000 on Foreign Asset D cannot be set-off against the gain of $300,000. However, if the disposal gain of $300,000 from Foreign Asset C is received in Singapore in the financial year 2029 (YA 2030), the loss of $200,000 on Foreign Asset D can be set-off against the gain such that only $100,000 will be subject to tax under section 10L.

b) Assuming Entity A meets the economic substance requirement for the financial years 2023 and 2024 but not for the financial years 2026 and 2027:

- The tax treatment will be the same as described in (a) above, except that the loss of $150,000 from the disposal of Foreign Asset B will not be available for set off against any gain that is subject to tax under section 10L, because the loss of $150,000 would not have been taxable under section 10L had it been a gain.