# 1. Subject:

Whether:

- a. the gains arising from the transfers of partial interests in the Property (as defined below) to Company B and Company C will be regarded as capital in nature, and therefore will not give rise to an income tax liability for Company A; and
- b. the date of conversion of the remaining interests in the Property owned by Company A (following the abovementioned transfers) from a capital asset to trading stock will be the date of issuance of the Written Permission by the Urban Redevelopment Authority ("URA") allowing the redevelopment of the Property. Accordingly, the open market value of the interests in the Property owned by Company A as at the date of issuance of the Written Permission will be treated as the cost of the interests in the Property owned by Company A as provided under section 32A(1) of the Income Tax Act 1947 (2020 Revised Edition) ("ITA").

# 2. Relevant background and facts:

- a. Company A is currently the sole owner of a property which comprises a commercial office building on land that is situated in Singapore ("**Property**").
- b. Company A had developed the Property for long-term investment purposes to generate rental income. Company A has been deriving rental income and other ancillary income (e.g. car park income) from the Property and is assessed to tax under section 10(1)(a) of the ITA, subject to provisions under section 10D.
- c. It is intended that the Property will be demolished and redeveloped into a mixed-use development comprising 3 components of different usage ("**Project**").
- d. Each component is intended to be held by a separate company as follows:

Interests in the Property	Owner
Component 1	Company A
Component 2	Company B
Component 3	Company C

- e. For the purpose of the Project, Company B and Company C will each acquire partial interests in the Property. With such acquisition, Company A, Company B and Company C will jointly own and redevelop the Property. After the Project is completed, each of the 3 companies will own their respective components.
- f. Company A has not undertaken any other similar transactions prior to the current contemplated transfers of partial interests in the Property.
- g. No supplementary improvement works were undertaken by Company A for the purpose of improving the marketability of the Property.
- h. The transfers of the partial interests in the Property from Company A to Company B and Company C are undertaken for bona fide commercial reasons.

I. THE SEY	uence of events are as follows:
Date	Event
Date V	Application for Written Permission was submitted to URA.
Date W	In-principle approval was obtained from URA subject to payment of Differential Premium (" <b>DP</b> ").
	Singapore Land Authority (" <b>SLA</b> ") issued a letter of offer in respect of the proposed lifting of title restriction in respect of the land (" <b>DP Letter</b> ").
Date X	<ul> <li>Passing of Directors' Resolution in respect of the following, amongst others:</li> <li>(i) approving the redevelopment of the Property for which Component 1 shall be owned and developed by Company A for sale;</li> <li>(ii) approving the execution of the Sale and Purchase Agreement between Company A and each of Company B and Company C in respect of the transfers of the partial interests in the Property (i.e. Component 2 and Component 3).</li> <li>It was stated in the Directors' Resolution that Company A intends to accept the DP Letter upon the terms and conditions thereof and sign the acceptance to the DP Letter.</li> </ul>
Date Y	Payment of the DP.
Date Z	Issuance of Written Permission by the URA.

i. The sequence of events are as follows:

# 3. Relevant legislative provisions:

a. Income Tax Act 1947 (2020 Revised Edition) – Sections 10(1) and 32A

### 4. The rulings:

- a. The gains arising from the transfers of the partial interests in the Property (i.e. Components 2 and 3) to Company B and Company C will be capital in nature and hence not subject to tax under the provisions of the ITA.
- b. The date of conversion of Component 1 from a capital asset to trading stock will be Date X. Accordingly, the open market value of Component 1 on Date X will be treated as the cost of Component 1 in the Property owned by Company A (i.e. cost of the trading stock) under section 32A(1) of the ITA.

### 5. Reasons for the decision:

- a. Based on balance of facts and an analysis of the badges of trade, the gains arising from the transfers of the partial interests in the Property (i.e. Components 2 and 3) to Company B and Company C are capital in nature.
- b. The date of the Directors' Resolution approving the development of Component 1 for sale by Company A is the date that the period of contemplation has passed and there is a committed plan of actions.

## 6. General Reference:

a. Taxpayers may refer to the IRAS e-Tax Guide "Tax Treatment on Appropriation of Trading Stock for Non-Trade or Capital Purposes and Conversion of Non-Trade or Capital Assets to Trading Stock" ("e-Tax Guide") for further guidance. In particular, paragraph 7 and Annex B2 of the e-Tax Guide provide guidance on the tax treatment when a non-trade or capital asset is converted to trading stock.

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