

Advance Ruling Summary No. 3/2024
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1. Subject:

Whether:

- a. The income from the sale of electricity generated from solar systems (“**Systems**”) installed on the roof tops of a real estate investment trust (“**REIT**”)’s buildings falls within the scope of tax transparency treatment under Section 43(2) and Section 43(2A)(a)(i) or 43(2A)(a)(ii) of the Income Tax Act 1947 (2020 Revised Edition) (“**ITA**”).
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2. Relevant background and facts:

- a. The REIT is listed on the Singapore Stock Exchange.
 - b. As part of its environmental, social and governance initiatives, the REIT entered into an arrangement with an energy solutions provider for the installation of solar panels on the roof tops of selected properties from its real estate portfolio.
 - c. Under the arrangement, the energy solutions provider will sell the completed rooftop Systems and cable network which is connected to the national electricity transmission system (i.e., the “**Grid**”) to the REIT. The REIT will be the legal owner of the Systems while the energy solutions provider will design, construct, test, commission and maintain the Systems at its own expense.
 - d. The REIT’s generated electricity from the Systems will be exported and sold solely to the Grid through the Energy Market Company (“**EMC**”), the operator of Singapore’s wholesale electricity market, at the Uniform Singapore Energy Price. Under the prevailing electricity market regulations, the REIT is not allowed to consume the electricity generated.
 - e. The REIT expects to receive income from the sale of electricity generated from the Systems on a recurring basis over the expected useful life of the Systems.
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3. Relevant legislative provisions:

- a. Income Tax Act 1947 (2020 Revised Edition) – Sections 43(2), 43(2A)(a)(i) and 43(2A)(a)(ii)
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4. The ruling:

- a. The income from the sale of electricity generated from the Systems does not fall within the scope of income qualifying for tax transparency treatment under Sections 43(2A)(a)(i) and 43(2A)(a)(ii) of the ITA.
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5. Reasons for the decision:

- a. The income is derived from the sale of electricity to the Grid through the EMC. The electricity is generated from the Systems and the energy solutions provider is solely responsible for the installation, operation, and servicing /maintenance of the Systems where required. The income is not income from the management or holding of immovable property.
 - b. The sale of electricity is also not an activity ancillary to the REIT's primary activity of managing or holding immovable properties. For tax transparency purpose, "income that is ancillary to the management or holding of immovable property" should generally be income from activities that form part of the rental activities of the REIT. The income derived from the sale of electricity to the Grid through EMC has no relation to the leasing of the properties.
 - c. The electricity generated from the Systems is solely for sale to the Grid through EMC and the REIT is not allowed to consume the electricity generated. The income derived from the sale of electricity to the Grid is not income derived in conjunction with the core activities of the business carried on by a REIT. Hence, it is not income that is ancillary to the management or holding of immovable property.
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