Advance Ruling Summary No. 6/2025
Published on 2 May 2025

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1. Subject:

Whether the novation of Company A's Agreements to Company B due to the transfer of certain business segment ("**Business Segment Y**") as part of the internal group restructuring (in the manner as described in paragraph 2e) is a capital and non-taxable transaction for Company A.

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2. Relevant background and facts:

a. Company X is the ultimate shareholder of both Company A and Company B. Company X is the ultimate holding company of X Group.

b. Company A is a subsidiary of the A Group but Company B is not part of the A Group.

c. X Group intends to divest its investment in A Group. Prior to the said intended divestment, certain agreements ("**Agreements**") must be novated from Company A to Company B to comply with an authority's directive.

d. Company A entered into the Agreements to conduct trading business in Business Segment Y. There was no intention for Company A to trade in the Agreements at the time of entering into them.

e. Company A shall transfer all its rights and obligations under the Agreements to Company B, in consideration of Company B issuing a promissory note to Company A for a consideration sum equivalent to the fair market value of the novated Agreements.

f. Except for the Agreements, there will be no inventories, associated assets and/or liabilities to be transferred from Company A to Company B.

g. There is no profit-seeking motive at the time of novation.

h. The novation of the Agreements in the arrangement is the second novation of agreements by Company A.

i. Subsequent to the novation, Company A will cease to operate Business Segment Y.

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3. Relevant legislative provisions:

a. Income Tax Act 1947 ("**ITA**") - Section 10(1)

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4. The ruling:

a. The novation of the Agreements from Company A to Company B as part of the internal group restructuring is a capital transaction. Hence, any gains arising therefrom is not subject to tax under the provisions of the ITA.

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5. Reasons for the decision:

a. The novation of the Agreements from Company A to Company B is regarded as a capital transaction after taking into consideration the following factors:

   (i) Intention of Company A at the time of entering into the Agreements;

   (ii) The circumstances leading to the novation of the Agreements;

   (iii) Frequency of similar transactions by Company A; and

   (iv) Company A will cease to operate Business Segment Y subsequent to the novation of the Agreements.

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