

**1. Subject:**

Whether

- a. The repatriation of branch profits from Company A Singapore Branch ("**SG Branch**") to its head office, Company A, is an example of when foreign income becomes permanently unavailable for subsequent remittance by SG Branch; or if the Comptroller of Income Tax ("**Comptroller**") does not agree,
  - b. The reinvestment of foreign income by Company A in shares of a Singapore-incorporated company ("**Company B**") in Step IV of paragraph 2c below constitutes receipt of foreign income in Singapore.
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**2. Relevant background and facts:**

- a. Company A is incorporated and tax resident in Country X, outside Singapore.
- b. Due to an internal reorganisation, SG Branch will take over the economic ownership of the shares in Company C and Company D<sup>1</sup> from another branch of Company A outside Singapore. SG Branch will carry out substantial economic activities related to these shareholdings, such as making key decisions, managing risks and controlling the shares of Company C and Company D. These shareholdings will be recorded in SG Branch's financial statements.
- c. Subsequent to the internal reorganisation, the steps contemplated are as follows:
  - Step I: On an on-going basis, Company C and Company D will pay dividends to SG Branch. These dividends will be paid from the bank account of Company C and Company D that are located outside Singapore and deposited directly into SG Branch's bank account located outside Singapore.
  - Step II: SG Branch will transfer the funds (which originate from the dividends in Step I) into Company A's bank account located outside Singapore.

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<sup>1</sup> Company C and Company D are incorporated and tax resident in Country Y, outside Singapore.

- Step III: Company A will mainly use the transferred funds for its own purposes (payment of dividend and share buy-back to/from investor in Country X).
  - Step IV: Company A will also use a portion of the transferred funds to fund Company B through the subscription of shares issued by Company B.
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### **3. Relevant legislative provisions:**

- a. Income Tax Act 1947 - Sections 10(25)
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### **4. The rulings:**

- a. The repatriation of SG Branch's branch profits to Company A [in Step II of paragraph 2c] using funds from foreign-sourced dividends from Company C and Company D would render these dividends permanently unavailable for subsequent remittance into Singapore by SG Branch. Consequently, the issue raised in paragraph 1b would not be relevant.
- b. The ruling is subject to the following conditions:
  - i. The dividends declared by Company C and Company D indeed constitute foreign-sourced income of SG Branch for Singapore income tax purposes.
  - ii. The foreign-sourced dividends from Company C and Company D are not remitted to, transmitted or brought into Singapore from the time the foreign-sourced dividends accrue to SG Branch until they are repatriated to Company A as branch profits.
  - iii. The foreign-sourced income is not in fact amounts:
    - applied in or towards satisfaction of any debt incurred in respect of a trade or business carried on in Singapore by SG Branch;
    - applied by SG Branch to purchase any movable property, which is brought into Singapore; or
    - constituting foreign-sourced income of SG Branch, which had already been remitted to, transmitted or brought into Singapore from the time the foreign-sourced dividend income was accrued to SG Branch to the time it was repatriated to Company A as branch profits.

- iv. The transaction must not be a tax avoidance scheme within the ambit of section 33 of the ITA.
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**5. Reasons for the decision:**

- a. SG Branch and Company A are treated as separate entities for Singapore tax purposes. Once SG Branch pays the branch profits to Company A using the funds from the foreign-sourced dividends from Company C and Company D, these dividends would become income of Company A.
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**6. General Reference:**

- a. Taxpayers may refer to the IRAS Website for further guidance on the application of section 10(25) where income from outside Singapore is considered received in Singapore.
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