

**1. Subject:**

- a. Whether the consideration received by Company A from Company B in relation to the transfer of the improvements of licenced Intellectual Property ("**Improvement IP**") should be considered as a capital receipt and therefore not subject to tax.
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**2. Relevant background and facts:**

- a. Company A is incorporated in Singapore. It manages a manufacturing plant in Singapore and oversees the supply chain and distribution of the Group's Product X in specified territories.
- b. Companies A and B are companies of the same Group. Company B owns some of the Group's Intellectual Property (hereinafter referred to as the "**Core IP**").
- c. Pursuant to a license agreement, Company B granted Company A the following rights:
  - i) A non-exclusive right to use, including the right to sublicense, the Core IP for specified territories; and
  - ii) The right to develop and retain legal and economic ownership of all Improvement IP, for which all relevant costs are borne by Company A.
- d. Through Company A's own research and development and marketing activities, Company A developed Improvement IP for use in specified territories. The Improvement IP leverages the Core IP to tailor products, processes and marketing efforts to suit the market needs of the specified territories. Such Improvement IP are used by Company A to generate trade income from its manufacturing activities and distribution of Product X in specified territories.
- e. Pursuant to the restructuring plans of the Group, Company A is no longer responsible for, and no longer has the capability to perform Development, Enhancement, Maintenance, Protection and Exploitation ("**DEMPE**") functions relating to the exploitation of the Core IP and the ownership and exploitation of the Improvement IP. All such responsibility and capability now reside in Company C.

- f. Accordingly,
    - i) Company A and Company B mutually agreed to terminate the license agreement; and
    - ii) Company A transferred all its legal and economic ownership of the Improvement IP to Company B for a consideration.
  - g. The consideration will be reflected under “Other income” as “Gain on sale of intangible assets” in Company A’s Profit & Loss Statement.
  - h. There is no compensation from Company B for the termination of the license agreement.
  - i. Apart from a previous transfer of economic ownership of the Improvement IP related to the business in a specified territory as part of the Group’s divestment of that business, Company A has not transferred any ownership in the Improvement IP.
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### **3. Relevant legislative provisions:**

- a. Income Tax Act 1947 - Section 10(1)(a)
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### **4. The rulings:**

- a. The consideration received by Company A from Company B in relation to the transfer of the Improvement IP is a capital receipt and hence not taxable.
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### **5. Reasons for the decision:**

- a. Company A does not regularly transfer its right, title or interest in the Improvement IP in the ordinary course of its business such that it constitutes as a revenue transaction.
  - b. The giving up of the territorial rights in the specified territories and the transfer of the Improvement IP were undertaken pursuant to a group restructuring to consolidate all relevant IP assets in Company C.
  - c. Company A also represented that there was no compensation from Company B for the termination of the license agreement and thus, the consideration is not compensation for the loss of income or in lieu of trading receipts.
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