Advance Ruling Summary No. 14/2025
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1. Subject:

Whether:

a. SPV 2 meets the economic substance requirement under Section 10L of the Income Tax Act 1947 ("**ITA**") and therefore qualify as an "excluded entity" for the purpose of Section 10L of the ITA.

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2. Relevant background and facts:

a. Company P, incorporated and tax resident in Singapore, is the corporate headquarters of its group of companies. Its operations are managed and performed in Singapore by its employees which includes senior management executives and experienced professionals. The activities of Company P are all directly managed by its employees. It incurs significant amount of local business expenditure, and all the key business decisions are made in Singapore by its directors and employees in Singapore.

b. Company P has significant investments and thus incorporated numerous special purpose vehicles ("**SPVs**") (directly and indirectly) to hold the investments to ring-fence the risk of investments. Company P derives dividend and management fee income.

c. SPV 1 and SPV 2, both wholly owned company of Company P, incorporated and tax resident in Singapore, are two of such SPVs. Company P has effective control over both SPV 1 and SPV 2 as they are regarded as subsidiaries over which Company P has control and their financial statements are consolidated in the financial statements of Company P as per the accounting standards. The activities of SPV 1 and SPV 2 are managed by employees of Company P who also define the core investment strategies implemented by the SPVs.

d. Company P derives economic benefits from the activities carried out by SPV 1 and SPV 2 as their income derived will ultimately be declared as dividends and distributed to Company P.

e. Company P invested in a foreign company and arranged for SPV 2 (which is wholly owned directly by SPV 1) to acquire the shares of the investee company. SPV 2 completed its divestment of its investment in the foreign investee company during the basis period for the Year of Assessment Y.

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3. Relevant legislative provision:

a. Income Tax Act 1947 – Sections 10(1)(g), 10L(8)(d) and 10L(16)

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4. The rulings:

a. SPV 2 will be regarded as an excluded entity for the purpose of Section 10L(8)(d) of the ITA. Accordingly, the gains derived from the divestment of the shares in the foreign investee company during the basis period for the Year of Assessment Y will not be treated as income chargeable to tax under Section 10(1)(g*)* of the ITA when the gains are received in Singapore.

b. The above ruling will apply to the gains derived/to be derived by SPV 2 from any sale or disposal of foreign assets during the basis periods for Years of Assessment Y to Y+4.

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5. Reason for the decision:

a. SPV 2 has satisfied the economic substance requirement under paragraph (b) of the definition of "excluded entity" in Section 10L(16) of the ITA in the basis period in which the divestment of the shares in the foreign investee company occurred.

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6. General Reference:

a. Taxpayers may refer to the IRAS e-Tax Guide "Income Tax: Tax Treatment of Gains or Losses from the Sale of Foreign Assets (Third Edition)" ("**e-Tax Guide**") for further guidance. Paragraph 8 of the e-Tax Guide states the approach and factors that the Comptroller of Income Tax considers when applying the economic substance requirement and determining whether an entity has adequate economic substance in the basis period in which the sale or disposal occurs. Specifically, please refer to paragraphs 8.12 and 8.13 on the application of the economic substance test in cases relating to SPVs.

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