

1. Subject:

- a. Whether the settlement of intercompany loans and interest receivables due to Company A and Company B (collectively, the “**Companies**”), via the endorsement of promissory notes (i.e. the transfer of the right to receive payment from the issuer of the promissory notes) from Company X to the Companies, will result in the underlying foreign-sourced interest income from Company X to be regarded as received in Singapore under section 10(25) of the Income Tax Act 1947 (the “**ITA**”).
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2. Relevant background and facts:

- a. The Companies are incorporated in Singapore.
- b. The principal activity of Company A is investment holding.
- c. Company B is a wholly owned subsidiary of Company A. The principal activity of Company B is general wholesale trade.
- d. Company X is incorporated and tax resident outside Singapore. It is a subsidiary of Company A.
- e. The Companies have extended loans to Company X. The outstanding loan amounts owed by Company X to Company A and Company B, prior to the Completion Date (as defined below), are \$A and \$B respectively. Company A had subjected any interest income arising from the loans to tax when it is received in Singapore. The accrued interest receivable that has been accrued by Company A but has yet to be paid by Company X amounts to \$a. Accrued interest receivable by Company B from Company X amounts to \$b, with no actual interest payments having been received by Company B from Company X to date.
- f. On Date T, the sale and purchase agreement in relation to a sale of shares in Company A and its subsidiaries (the “**Group**”) to an unrelated party was signed (the “**Transaction**”). Prior to the completion of this Transaction (“**Completion Date**”), any outstanding intercompany balances between entities within the Group has to be settled.
- g. The relevant transactions undertaken by the Companies and Company X to settle the above outstanding balances are summarised in the table below:

Steps	Details
1	Company B extends a loan of \$C ¹ to Company A by issuing a promissory note (“ PN1 ”). The purpose of this loan is to finance Company A’s capital injection into Company X. This loan provided to Company A is subsequently forgiven by Company B.
2	Company A will perform a capital injection of \$D into Company X via the following: (a) Endorsing PN1 to Company X; (b) Issuing a promissory note (“ PN3 ”) of \$E (i.e. \$D - \$C) to Company X.
3	Company X partially repays the loan owing to Company A by endorsing PN3 to Company A. Company A then cancels PN3.
4	Company X fully repays the loan owing to Company B by endorsing PN1 to Company B. Company B then cancels PN1.
5	Company Y, an entity within the Group and tax resident outside Singapore, extends a loan of \$F ² to Company X by issuing a promissory note (“ PN2 ”).
6	Company X repays the remaining amount owing to Company A by endorsing PN2 to Company A.
7	Company A then repays an existing interest-free loan of \$F owing to Company Y by endorsing PN2 to Company Y. Company Y then cancels PN2.

h. The key terms of the promissory notes to be issued are as follows:

Promise	<p>The face value of each promissory note shall be payable on demand by presentation of the promissory note.</p> <p>The issuer may, at its election, pay the face value to the payee in the form of a cash payment for an amount equal to the face value or by any other means agreed by the payee in writing (including the endorsement of another promissory note with a face value equal to or greater than the face value of the former promissory note).</p>
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¹ an amount equivalent to the sum of \$B and \$b

² The sum of \$E and \$F is equivalent to the sum of \$A and \$a

Interest rate	Interest is not payable on the promissory notes. The payee is not entitled to receive any amount on the promissory notes other than the face value.
Other key terms	The promissory notes will not be presented, held, saved or stored either physically or electronically (whether retrieved, retrievable, accessed or otherwise) in Singapore.

- i. The promissory notes will be prepared and executed outside Singapore and will not be received or brought into Singapore. Additionally, the endorsement and cancellation of the promissory notes will be done outside Singapore.

3. Relevant legislative provisions:

- a. Income Tax Act 1947 – Section 10(25)
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4. The rulings:

- a. The settlement of the intercompany loans and interest receivables due to the Companies, via the endorsement of PNs 1 to 3 from Company X to the Companies in Steps 3, 4 and 6 of paragraph 2(g) above (whereby the PNs are kept entirely outside Singapore), will not result in the underlying foreign-sourced interest income from Company X to be regarded as received in Singapore under section 10(25) of the ITA and is therefore not taxable under section 10(1) of the ITA.
- b. The tax treatment is subject to the following conditions:
 - (i) The interest receivables due to Company A and Company B indeed constitute the foreign-sourced interest income of Company A and Company B respectively for Singapore income tax purposes;
 - (ii) The foreign-sourced interest income due to the Companies from Company X are not remitted to, transmitted or brought into Singapore from the time the foreign-sourced interest income accrued to the Companies to the time the said interest income were settled via the endorsement of PNs 1 to 3 in Steps 3, 4 and 6 of paragraph 2(g) above; and
 - (iii) The foreign-sourced interest income are 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 the Companies; or

- applied by the Companies to purchase any movable property, which is brought into Singapore.
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5. Reason for the decision:

- a. The settlement of intercompany loans and interest receivables due to Companies, via the endorsement of promissory notes from Company X to the Companies whereby the promissory notes are kept entirely outside Singapore, does not come within the provisions of section 10(25) of the ITA.
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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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Disclaimer

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