**Advance Ruling Summary No. 19/2025**
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## 1. Subject:

a. Whether the transfer of businesses from Branch A is a capital transaction and gains (if any) arising thereon are not subject to tax under the Income Tax Act 1947 (the "**ITA**"), except for:

i) the transfer of inventory (where the rules under Section 32 of the ITA will apply, where applicable);
ii) the computation of balancing adjustments as required under Sections 17 and 20 of the ITA where industrial building allowances ("**IBA**") and capital allowances ("**CA**") respectively were claimed previously; and
iii) the computation of trading receipts as required under Section 19C(5) of the ITA where writing down allowances ("**WDA**") were previously claimed on cost sharing arrangement ("**CSA**") payments made under Section 19C of the ITA.

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## 2. Relevant background and facts:

a. Branch A is the Singapore branch of Company A. It operates two broad business segments – Business Segments X and Y.

b. As part of a global restructuring exercise, Branch A will transfer Business Segment X to Company A and Business Segment Y to Company B.

c. The list of assets to be transferred to Company A and Company B comprises intellectual property rights ("**IPRs**"), inventories, plant and equipment, trade and other receivables, other current assets and a leasehold property (the "**Property**").

d. Branch A will transfer the assets of Business Segments X and Y to Company A and Company B respectively, with most assets transferred at their net book value ("**NBV**") as at the respective dates of transfer. The only exceptions are the IPRs and the Property, which will be transferred at fair market value.

e. Branch A has been making cost-sharing payments as a participant in a CSA for certain IPRs now being transferred to Company A and Company B. These payments include amounts related to research and development for Business Segments X and Y. Branch A had previously claimed WDA on these payments under Section 19C of the ITA (referred as "**Section 19C IPRs**").

f. The Property has been used as a manufacturing and office building for Business Segments X and Y since its acquisition by Branch A. Branch A had claimed IBA on the Property in prior Years of Assessment.

g. Branch A has not disposed of any business or product lines in the past. It also has not disposed of any other property prior to the global restructuring exercise.

h. Following Branch A's transfer of the Business Segments X and Y, Branch A is expected to be deregistered.

i. Company B will carry on Business Segment Y in Singapore.

j. The conditions stipulated under section 32(1)(a) of the ITA would be satisfied in respect of the inventories transferred to Company B.

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**3. Relevant legislative provisions:**

a. Income Tax Act 1947 - Sections 10(1), 17, 19C, 20 and 32

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**4. The rulings:**

a. The transfer of Branch A's Business Segments X and Y to Company A and Company B respectively as part of the global restructuring exercise is a capital transaction.

b. The tax implications arising from the transfer of businesses would depend on the nature of the respective underlying assets being transferred. The tax treatment of the various assets transferred is as follows:

   i) <u>Inventories</u>

   The value at which the inventories are transferred (i.e. NBV as at the date of transfer) will be regarded as the consideration received by Branch A for tax purposes.

   ii) <u>Property, plant and equipment</u>

   The sale of the Property is regarded as capital in nature. In addition, any gain arising from the transfer of the plant and equipment is capital in nature and is therefore not subject to tax.

   The provisions in Sections 17 and 20 of the ITA will apply to determine the amount of balancing charge/balancing allowance arising from the disposal, where applicable.

iii) Trade and other receivables and other current assets

Any gains arising therefrom are capital in nature and not subject to tax.

iv) Section 19C IPRs

The consideration received by Branch A for such IPRs would be treated as a trading receipt and subject to tax under Section 19C(5) of the ITA, but capped at the total amount of Section 19C WDA previously allowed.

v) All other remaining IPRs, including goodwill and other intangibles

Any gains arising therefrom are capital in nature and thus not subject to tax.

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**5. Reasons for the decision:**

a. The transfer of Branch A's Business Segments X and Y to Company A and Company B respectively as part of the global restructuring exercise is regarded as a capital transaction after taking into consideration the following factors:

i) Circumstances for the transfer of the business segments;
ii) Nature of Branch A's operating business and assets; and
iii) Frequency of similar transactions by Branch A.

b. Inventories

As the conditions stipulated under Section 32(1)(a) of the ITA would be satisfied, the value at which the inventories are transferred (i.e. NBV as at the date of transfer) will be regarded as the consideration received by Branch A for tax purposes.

c. Property, plant and equipment

The sale of the Property is regarded as capital in nature, taking into consideration the following factors:

i) The use of the Property since its acquisition;
ii) Frequency of similar transaction by Branch A; and
iii) Circumstances of the realisation.

In addition, the plant and equipment are fixed capital assets employed by Branch A in its business segments. As such, any gain arising from the transfer of the plant and equipment is capital in nature and therefore not subject to tax.

d. <u>Trade and other receivables and other current assets</u>

Branch A is not in the business of buying and selling its trade and other receivables and other current assets. The transfer of these assets is part and parcel of Branch A's transfer of business segments. As such, any gains arising from such transfer are capital in nature and not subject to tax.

e. <u>All other remaining IPRs, including goodwill and other intangibles</u>

The above are capital assets employed by Branch A for the purpose of carrying on its business. The transfer of these assets is part and parcel of Branch A's transfer of business segments as part of the global restructuring exercise. As such, any gains arising from such transfer are capital in nature and thus not subject to tax.

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