Advance Ruling Summary No. 3/2020 Published on 30 Jun 2020

1. Subject:

Whether:

a. Whether Company A may claim a deduction of the expenses it will incur for the acquisition of the distribution business and headquarter functions for the South Asian region (the "relevant business") from its immediate holding company ("Company B") under section 14(1) of the ITA¹; or

b. Whether Company A may claim writing down allowances, over a period of five years, in respect of the expenses it will incur for the acquisition of the relevant business from Company B.

2. Relevant background and facts:

- a. Company A is incorporated in Singapore. Its principal activity is that of providing business support services to Company B, a company incorporated outside Singapore. In return for the services provided, Company A receives an arm's length service fee from Company B.
- b. Company B is considering to transfer the relevant business to Company A, due to internal organisational restructuring for certain business reasons.
- c. This would mean that Company A would, in future, act as the distributor of the goods in the South Asian markets and the headquarter for that region. Company A would be a full-fledged distribution entity performing all the functions and bearing the risks of the relevant business transferred by Company B. Company A's main revenue in future will be from the sale of goods. This represents a significant change to the current operational model for Company A, which only earns a service fee for the support services provided.
- d. There will not be any transfer of tangible or intangible assets from Company B to Company A pursuant to the transfer of the relevant business.
- e. Based on the tax laws of the jurisdiction in which Company B carries on its operations ("Country B"), the transfer of the relevant business is treated as a transfer of functions and Company B has an obligation to pay exit taxes in Country B. On the other hand, Company A is required to pay for the acquisition of the relevant business, and thus, incurring expenses.

¹ Income Tax Act (Revised Edition 2014)

3. Relevant legislative provisions:

a. Income Tax Act (Revised Edition 2014) - Sections 14(1) and 15(1)(c)

4. The rulings:

- a. The expenses that Company A will incur in acquiring the relevant business would not be tax deductible by virtue of section 15(1)(c) of the ITA.
- b. The expenses that Company A will incur in acquiring the relevant business would not qualify for writing down allowances.

5. Reasons for the decision:

- a. Company A will undertake new business activities pursuant to the transfer of the relevant business. This represents a significant change to the current operational model for Company A. The expenses that Company A will incur in acquiring the relevant business are capital in nature, being expenses incurred to start and conduct a new field of trading. Accordingly, the expenses are not allowable, as provided under section 15(1)(c) of the ITA.
- b. The expenses that Company A will incur in acquiring the relevant business would not qualify for any allowances, as there is no specific provision in the ITA that grants allowances in respect of expenditure incurred for the acquisition of a business.

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