

**Advance Ruling Summary No. 16/2021**  
**Published on 1 Oct 2021**

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**1. Subject:**

Whether:

- a. The Subordinated Perpetual Securities (the “Securities”) will be regarded as “debt securities” for the purpose of Section 43N(4) of the Income Tax Act (Chapter 134, Revised Edition 2014) (“ITA”) and Regulation 2 of the Income Tax (Qualifying Debt Securities) Regulations (“QDS Regulations”);
  - b. The Distributions (including any Optional Distribution) (capitalised terms as defined below) payable on the Securities will be regarded as interest payable on indebtedness and eligible for the tax concessions and exemptions available for qualifying debt securities (“QDS”) assuming that the other requisite conditions for the Securities to be QDS are satisfied; and
  - c. The issuer of the Securities (“Issuer”) should be entitled to tax deductions on the Distributions (including any Optional Distribution) as interest in nature, under Section 14(1)(a) of the ITA.
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**2. Relevant background and facts:**

- a. The Issuer is the trustee of a real estate investment trust (“REIT”) listed in Singapore. It issued a tranche of the Securities.
- b. The proceeds from the issue of the Securities are intended to be used for general corporate purposes of the REIT and its subsidiaries.
- c. The key features of the Securities include the following:
  - i. The Securities confer a right to the holders of the Securities (“Securityholders”) to receive fixed rate distributions (“Distributions”), payable semi-annually in arrear (each a “Distribution Payment Date”).
  - ii. The Issuer may, at its sole discretion, elect not to pay a Distribution (or to pay only part of a Distribution) scheduled to be paid on a Distribution Payment Date by complying with certain notice requirements. Distributions that are deferred are non-cumulative and do not accrue interest.
  - iii. The Issuer may, at its sole discretion, and at any time, elect to pay an amount up to the amount of Distribution which is unpaid

("Optional Distribution") (in whole or in part) by complying with certain notice requirements.

- iv. Subject to certain exceptions, if the payments of all Distributions scheduled to be made are not made in full by reason of the exercise of the Issuer's discretion, the Issuer and the subsidiaries of the REIT are not allowed to pay any dividends, distributions or make any other payment on, or redeem, reduce, cancel, buy-back or acquire for any consideration in respect of, any of the Issuer's junior obligations or (except on a pro-rata basis) specified parity obligations, unless and until either a redemption of all the outstanding Securities has occurred, the next scheduled Distribution has been paid in full, or an Optional Distribution equal to the amount of a Distribution payable with respect to the most recent Distribution Payment Date that was unpaid in full or in part, has been paid in full, or an extraordinary resolution by the Securityholders has permitted such payment.
- v. The Securities do not have a fixed redemption date but may be redeemed at the option of the Issuer in certain instances.
- vi. In the event of a winding up of the REIT, the Securityholders are regarded as if they are holders of the REIT's preferred units having an equal right to return of assets in the winding up of the REIT; and rank *pari passu* with the holders of the REIT's preferred units which have a preferential right to return of assets in the winding up of the REIT, ahead of the holders of junior obligations of the REIT.

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**3. Relevant legislative provisions:**

- a. Income Tax Act, Chapter 134 (Revised Edition 2014) – Sections 14(1)(a) and 43N
- b. Income Tax (Qualifying Debt Securities) Regulations

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**4. The rulings:**

- a. The Securities will be regarded as "debt securities" for the purpose of Section 43N(4) of the ITA and Regulation 2 of the QDS Regulations.
- b. The Distributions (including Optional Distributions) payable on the Securities will be regarded as interest payable on indebtedness and will enjoy the tax concessions and exemptions available for QDS provided that the other requisite conditions for the Securities to be QDS are satisfied.
- c. The deductibility of the Distributions (including Optional Distributions) is subject to a detailed examination of the use of the proceeds from the issuance of the Securities. The Issuer will be allowed a tax deduction

under Section 14(1)(a) of the ITA on the Distributions (including Optional Distribution) if such Distributions are incurred on capital (raised through the issuance of the Securities) employed in acquiring the income of the Issuer that is chargeable to tax. This is on the condition that all the requirements under Section 14(1)(a) of the ITA are met and the deduction is not prohibited under any other provisions of the ITA.

- d. The Distributions (including Optional Distribution) will be deductible only when they are legally due and payable and not based on their scheduled Distribution Payment Dates.
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#### **5. Reasons for the decision:**

- a. The facts and representations provided, including the key features of the Securities described in paragraph 2c above, generally support the characterisation of the Securities as “debt securities” for the purpose of Section 43N(4) of the ITA and Regulation 2 of the QDS Regulations.
  - b. Following the characterisation of the Securities as a debt instrument for tax purposes, the Distributions (including Optional Distribution) are regarded as interest payable on indebtedness. The Securities will be regarded as QDS under the ITA and the Distributions (including Optional Distribution) will enjoy the tax concessions and exemptions available for QDS provided that the other requisite conditions for the Securities to be QDS are satisfied.
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#### **6. General Reference:**

- a. Taxpayers may refer to the IRAS e-Tax Guide “Income Tax Treatment of Hybrid Instruments” (“**e-Tax Guide**”) for further guidance. In particular, paragraph 5 of the e-Tax Guide states the approach and factors that the Comptroller of Income Tax considers when determining the characterisation of a hybrid instrument. Paragraphs 7 and 9 of the e-Tax Guide further explains the deductibility of distributions from the issuer to the investor and the timing of deductions by the issuer.
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