1. Subject:

Whether the gross proceeds derived from the disposal of certain investment fall within the scope of "specified income" for the purpose of Section 13X of the Income Tax Act, Chapter 134 (Revised Edition 2014) ("ITA").

2. Relevant background and facts:

- a. Company A is an investment holding company incorporated and tax resident in Singapore. It owns 100% of the shares in Company B, a tax resident in Country B; and Company C, a company incorporated in Country C.
- b. Company A derived dividend income from its investment in Company B. The dividend was deposited directly into an offshore bank account and used for equity injection into Company C.
- c. Company A and Company C intend to apply for the tax exemption scheme under Section 13X of the ITA using a master-feeder fund structure.
- d. Company C will form part of the portfolio of financial assets of Company A under the fund manager's management and which may be disposed of in the course of the fund management activities carried out in Singapore.

3. Relevant legislative provisions:

- a. Income Tax Act, Chapter 134 (Revised Edition 2014) Section 10(25), 13X
- Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010 (No. S 6)

4. The rulings:

- a. The proceeds from the sale of the shares in Company C should not be viewed to consist of two components i.e. the cost of the investment and the appreciation on the investment for the purpose of Section 13X of the ITA.
- b. To the extent that the dividend income from Company B indeed constitute foreign-sourced dividend, when the shares of Company C are sold and

the sale proceeds are received in Singapore, the dividend income from Company B will be taxable in Singapore, unless specifically exempted under the provisions of the ITA. For this purpose, Company A is required to track the dividend income from Company B.

c. The dividend income from Company B will not qualify for tax exemption under Section 13X of the ITA.

5. Reasons for the decision:

- a. For income tax purposes, the reinvestment of the dividend income from Company B in the capital of Company C does not recharacterise the dividend income as the investment cost of Company C.
- b. The dividend income from Company B were derived before Company A is an approved person for the purpose of Section 13X of the ITA and were also not derived from funds of the master fund or the feeder fund that are managed in Singapore by a fund manager in respect of designated investments.

6. General Reference:

a. Taxpayers may refer to the IRAS Website for further guidance on the application of Section 10(25) of the ITA where income from outside Singapore is considered received in Singapore.

Disclaimer

The published summary of the advance ruling is for general reference only. It is binding only in respect of the applicant of the advance ruling and the specified transaction under consideration of the advance ruling. All taxpayers should exercise caution in relying upon the published summary of the advance ruling, as the Comptroller is not bound to apply the same tax treatment to a transaction that is similar to the specified transaction.

Please note that IRAS will not update the published ruling to reflect changes in the tax laws or our interpretations of the tax laws.