

**Advance Ruling Summary No. 2/2022**  
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**1. Subject:**

Whether:

- a. The security tokens issued by a trust (“the Trust”) should be regarded as equity instruments, and hence akin to units in the Trust;
  - b. Distributions from such security tokens should constitute trust distributions in the hands of the Tokenholders and should be treated as identical to trust distributions paid to unitholders for Singapore tax purposes; and
  - c. Singapore tax or withholding tax is applicable on distributions made by the Trust (out of tax-exempt income or gains) to the holders of the security tokens.
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**2. Relevant background and facts:**

- a. The Trust is an unregistered business trust established in Singapore. Its Singapore trustee is Company Z (“Trustee”).
- b. The issued capital of the Trust comprised ordinary units (“Units”) and Class 1 units (“Class 1 Units”) issued in the form of security tokens (“Tokens”). The Tokens are listed on a trading platform.
- c. The Tokens are a tokenised form of the Class 1 Units in the Trust i.e. each holder of a Token (“Tokenholder”) is a holder of a Class 1 Unit. Each Class 1 Unit represented by one Token is equivalent to X number of Units in the Trust.
- d. The rights and obligations of each Class 1 Unit are the rights and obligations of each Token. Each token entitles the holder to X number of votes in a meeting of holders and the right to receive distributions equivalent to that of X number of Units. Save for the number of voting and distributions rights, there is no difference between the legal rights and obligations created by one Unit and one Token.
- e. The Tokenholder (including those holding fractions of a Token) – just as other holders of existing Units – is entitled to an undivided interest in the Trust and rights to the residual profits and assets of the Trust.
- f. The Trustee will maintain a register of both the holders of Units (“Unitholders”) and Tokenholders (i.e. holders of Class 1 Units).

- g. In the event of a winding up of the Trust, the rights of the Unitholders and Tokenholders are equal and rank equally below the creditors of the Trust.
  - h. The Trust is only expected to derive tax-exempt income. The investment returns of the Trust will be pooled for distribution to the investors i.e. Unitholders and Tokenholders. The fund manager of the Trust will apportion the amount available for distribution among the investors on a pro rata basis according to the number of Units and/ or Tokens (i.e. Class 1 Units) held by each Unitholder and/ or Tokenholder, save that each Token (i.e. Class 1 Unit) represents a value equal to X number of Units.
  - i. For accounting purposes, the Tokens are characterised as equity based on the Singapore Financial Reporting Standard 32 Financial Instruments: Presentation. The Units and Tokens are characterised for regulatory purposes as an offering of “units in a business trust” under the Securities and Futures Act (Cap. 289).
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### **3. Relevant legislative provisions:**

- a. Income Tax Act, Chapter 134 (Revised Edition 2014) – Sections 10(1).
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### **4. The rulings:**

- a. The Token will be regarded as an equity instrument for income tax purposes.
  - b. The distributions from the Tokens will be regarded as trust distributions in the hands of the Tokenholders. The tax treatment of the distributions made to the Tokenholders would follow that of the distributions made to the Unitholders.
  - c. The distributions would not be subject to tax in Singapore in the hands of the Tokenholders.
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### **5. Reasons for the decision:**

- a. Each Class 1 Unit represented by one Token is equivalent to X number of Units in the Trust. The Token is a digital representation of the Class 1 Unit in the Trust in the form of a security token. Save for the number of voting and distribution rights, there is no difference between the legal rights and obligations created by one Unit and one Token.
  - b. The distributions made by the Trust to the Tokenholders are distributions to be made out of tax-exempt income derived by the Trust.
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## **6. General Reference:**

- a. Taxpayers may refer to the IRAS e-Tax Guide “Income Tax Treatment of Digital Tokens” (“e-Tax Guide”) for further guidance. In particular, paragraph 7 of the e-Tax Guide sets out the tax treatment of security tokens.

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