Advance Ruling Summary No. 02/2021
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1. Subject:

Whether the conversion of Restricted Stock Units granted under a Stock Incentive Plan following a separation event would be taxable on the employees under section 10(6) of the Income Tax Act.

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2. Relevant background and facts:

a. The Singapore Company was a subsidiary of Co A, a Nasdaq listed company.

b. Co B was a subsidiary of Co A. Through a Separation and Distribution Agreement, Co A would transfer all subsidiaries (including the Singapore Company) and any assets engaged in its non-US related business to Co B and distribute all outstanding shares it owned in Co B to existing shareholders. Co B then became an independent company with its ordinary shares publicly traded.

c. Prior to the separation, Co A had offered certain employees of the Singapore Company the right to participate in a Stock Incentive Plan. Specifically, the employees were granted Restricted Stock Units (RSUs) over shares of Co A's common stock.

d. Pursuant to the separation, the unvested RSU awards held by the employees would convert into Co B's RSU awards based on an adjustment ratio that was intended to maintain the intrinsic value of the RSU awards immediately after the conversion.

e. The employees do not receive any shares, cash or any other benefits with respect to the conversion of the RSU awards. The converted RSU awards will continue to be subject to the same terms, vesting conditions, settlement dates and other terms and conditions that are in effect immediately prior to the conversion of the RSU awards.

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3. Relevant legislative provisions:

Income Tax Act (Revised Edition 2014) ("ITA") - Section 10(6)

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4. The ruling:

The conversion of the RSU awards arising from the separation does not give rise to a taxable event under Section 10(6) in respect of the employees of the Singapore

Company. Consequently, there are no reporting obligations for the Singapore Company under Section 68(2) at the time of the conversion.

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5. Reasons for the decision:

The conversion of the unvested RSU awards pursuant to the separation would not trigger a tax charge as:

(i) The terms of the conversion of the RSU awards did not result in a change in the intrinsic value of the RSU awards immediately after the conversion.
(ii) The employees would not receive any shares, cash or any other benefits upon the conversion of the RSU awards.
(iii) The employees would not receive any payments or benefits provided as consideration for conversion of the RSU awards.

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