

1. Subject:

Whether:

- a. The consideration received by Company A from Company B in relation to the transfer of the improvements of licenced Intellectual Property (“Improvements of Licensed IP”) related to the business in Territory X should be treated as a capital receipt and hence not subject to tax.
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2. Relevant background and facts:

- a. Company A is incorporated in Singapore. It operates a manufacturing plant in Singapore and manages the supply chain and distribution of the Group’s Product Alpha in specified territories (including Territory X).
- b. Companies A and B are companies of the same Group. Company B owns the Group’s Intellectual Property (hereinafter referred to as the “Core IP”).
- c. Pursuant to a license agreement, Company B granted Company A the following rights:
 - i. A non-exclusive right to use, including the right to sublicense, the Core IP for specified territories (including Territory X); and
 - ii. The right to develop and retain economic ownership of all Improvements of Licensed IP.
- d. Through Company A’s own research and development and marketing activities, Company A developed Improvements of Licensed IP for use in the specified territories (including Territory X). The Improvements of Licensed IP leverages the Core IP to tailor products, processes, and marketing efforts to suit the market needs of the specified territories. Such Improvements of Licensed IP are used by Company A for marketing Product Alpha in the specified territories (including Territory X).
- e. The Improvements of Licensed IP are owned by Company A to the extent that Company A bears the costs associated with the development of the Improvements of Licensed IP. Any such improvements that fall outside the agreed scope as set out in the license agreement is part of the intellectual property licensed under the terms of the license agreement.
- f. Under the license agreement, royalties are payable by Company A to Company B. Company A derived sales and royalty income from the use of the Core IP including the Improvements of Licensed IP.

- g. Prior to the Group's divestment of the Product Alpha business in Territory X to a third party purchaser ("the Divestment"),
 - i. Company A's rights to exploit the Core IP related to Territory X were terminated. All other rights under the license agreement will continue to have effect; and
 - ii. Company A transferred to Company B the economic ownership of the Improvements of Licensed IP related to Territory X, since the use of the Improvements of Licensed IP in Territory X will be restricted.
 - h. The above step of transferring the Improvements of Licensed IP from Company A to Company B is intended to facilitate Company B to consolidate all Product Alpha's intellectual property rights related to Territory X and thereafter grant an exclusive, non-transferable, and perpetual license of the intellectual properties related to Territory X to a purchaser as part of the Divestment.
 - i. The Improvements of Licensed IP were transferred for cash consideration. There is no compensation payable to Company A for the partial termination of the rights granted to Company A for Territory X under the license agreement.
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3. Relevant legislative provision:

- a. Income Tax Act 1947 (2020 Revised) – Section 10(1)(a)
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4. The ruling:

- a. The consideration received by Company A from Company B is a capital receipt and hence not taxable.
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5. Reasons for the decision:

- a. The consideration received was due to the loss of the Territory X rights granted under the licence agreement. The giving up of the rights to use the Core IP granted under the license agreement and the assignment of the economic rights that Company A owns in the Improvements of Licensed IP in respect of Territory X were necessary to enable Company B to consolidate all the relevant intellectual property rights to grant the perpetual license to the purchaser in respect of Territory X.
- b. The receipt did not arise from a turnover of the Improvements of Licensed IP as part of Company A's trade or business profits and Company A has

also represented that the consideration is not a compensation for any loss of trade income.

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