

1. Subject:

Whether:

- a. the assignment of an amount receivable from a related company which was made up of unremitted foreign-sourced dividend income, for the purpose of a share capital reduction exercise; and
- b. the payment of a service fee using the unremitted foreign-sourced dividend income,

constitute a remittance or deemed remittance into Singapore under Section 10(25) of the Income Tax Act ("ITA")¹.

2. Relevant background and facts:

- a. Company X is incorporated and tax resident in Singapore.
- b. Pursuant to the sale of certain assets to Company A, Company X received ordinary shares in Company A (the "Shares") in partial settlement of the sales consideration. Company A and Company X are unrelated parties. Company A is incorporated and tax resident in Country A.
- c. Company X entered into a nominee arrangement with Company B. Under the nominee arrangement, Company B holds the Shares in trust for Company X and receives the dividend from the Shares (the "Dividend") on Company X's behalf. Company B and Company X are related parties. Company B is incorporated and tax resident in Country B.
- d. The funds from the Dividend are transmitted directly by Company A into Company B's bank account outside Singapore and kept offshore on Company X's behalf at all times. The funds from the Dividend held on its behalf by Company B are recorded as an amount receivable from Company B in the Company X's books.
- e. Company X intends to:
 - i. assign an amount receivable from Company B to Company X's shareholder in consideration of the redemption and cancellation of its redeemable preference shares. The redeemable preference shares are treated as an equity instrument for Singapore income tax purposes; and

¹ Income Tax Act, Chapter 134 (Revised Edition 2014)

- ii. utilise the remaining balance of the amount receivable from Company B as payment for service fees to Company B for holding the Shares in trust and receiving the Dividend on behalf of Company X.
 - f. There will not be any physical remittance or transmission of funds or bringing of the funds into Singapore by Company X for the proposed share capital reduction exercise and payment of service fees.
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3. Relevant legislative provision(s):

- a. Income Tax Act, Chapter 134 (Revised Edition 2014) - Section 10(25)
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4. The ruling:

- a. The use of the unremitted Dividend in the manner described above for the proposed share capital reduction exercise and payment of the service fees to Company B do not constitute a remittance or deemed remittance into Singapore under Section 10(25) of the ITA.
 - b. The ruling is subject to the following conditions:
 - i. The Dividend indeed constitutes foreign-sourced income of Company X for Singapore income tax purposes;
 - ii. The amount receivable from Company B that will be assigned to Company X's shareholders and paid to Company B as service fees are indeed payments directly to the recipients' accounts for the specified purposes without involving any physical remittance or transmission of funds or bringing of the funds into Singapore; and
 - iii. The amount receivable from Company B are not in fact amounts constituting the foreign-sourced income of Company X which had already been remitted to, transmitted or brought into Singapore from the time the foreign-sourced income were accrued to Company X to the time it was assigned to Company X's shareholders and paid to Company B for the share capital reduction and as service fees respectively.
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5. Reason for the decision:

- a. The use of unremitted foreign-sourced income for a capital reduction exercise and a payment of a non-trade expense where there will not be any physical remittance or transmission of funds or bringing of the funds

into Singapore by Company X for these purposes do not come within the provisions of Section 10(25) of the ITA.

6. General Reference:

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

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