

# Tax Treatment on gain from disposal of equity investment in investee company

This Interactive Guide provides details on the Tax treatment on gain from disposal of equity investment in investee company.

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# Foreword

The Government has extended the tax exemption on gains on disposal of equity investments provided under Section 13Z of the Singapore Income Tax Act which was originally effective till 31 May 2022, to 31 December 2027. The Inland Revenue Authority of Singapore has also updated its e-tax guide - Certainty of non taxation of companies' gains on disposal of equity investments, on 10 December 2020 to cover the above extension and the changes covered under the extension.

We have prepared a helpful interactive guide to assist you in navigating the extension and changes to the tax exemption.



## *How to use this guide:*

*To use this interactive guide, click on the button which corresponds to your answer to the questions related to the Tax treatment of gain arising from the disposal of equity investment in an investee company. There will be "YES" and "NO" buttons that lead to the next set of questions.*

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# Overriding principle

In Singapore, there are no tax on capital gains. Therefore, only gains of an income nature derived by a divesting company on its disposal of equity investment in investee company are taxable.

Section 13Z was introduced to provide upfront certainty on the tax treatment for gain from disposal of equity investment in investee company under certain circumstances.

Under 13Z, gain derived from divesting company from its disposal of equity investment in investee company is deemed to be capital in nature and are not taxable if it meets all the qualifying conditions specified. The scheme is applicable to disposal in equity investment made during the period from 1 June 2012 to 31 December 2027.

Where gain derived from disposal of equity investment in investee company does not qualify for Section 13Z, the determination of whether the gain is capital or income in nature will continue to be based on the facts and circumstances evaluated under the "Badges of trade".



The determination of whether the resulting gain derived by a divesting company is capital or income in nature is based on a consideration of the facts and circumstances of each case. The factors are drawn from established case law principles and consists of:

1. length of ownership of the shares disposed;
2. frequency of similar transactions;
3. Motive of seller;
4. Reasons for the disposal; and
5. Means of financing the purchase.

The above five factors are commonly referred to as the "**Badges of trade**".

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# Flowchart

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Did the divesting company hold at least 20% of the ordinary shares in the investee company for a continuous period of at least 24 months?

YES

NO

# Flowchart

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Was the disposal relating to listed shares?

YES

NO



When was the disposal executed?

Disposal executed **on or after** 1 June 2022

Disposal executed **before** 1 June 2022



## Is/has the investee company...

- in the business of trading immovable properties (situated in Singapore or elsewhere)?

OR

- principal activity that of holding immovable properties (situated in Singapore or elsewhere), where passive or no income is derived?

OR

- undertaken **property development**<sup>1</sup> activities (in Singapore or elsewhere), except where:
  - investment property developed is used by the investee company to carry on its own business to derive trade income; and
  - the investee company did not undertake any property development activity in the past 60 months before the disposal of shares?

YES

NO

*1. The term "property development" is broadly defined as construction activity requiring the approval of the Commissioner of Building Control. If building works are done overseas, need to determine whether would such works require approval from the Commissioner of Building Control if such works were done in Singapore.*





## Is/has the investee company...

- in the business of trading Singapore immovable properties?

OR

- principal activity is that of holding Singapore immovable properties, whereby passive or no income was derived?

YES

NO



Need to determine whether the gain is capital or revenue in nature based on the facts and circumstances under the **“Badges of trade”**. Not taxable if gain is capital in nature.

[VIEW IN FLOWCHART](#)

#### References:

*[IRAS e-Tax Guide](#)*

*[Tax exemption on companies' gains on disposal of equity investments](#)*



Disposal qualified for Section 13Z, and gain was deemed capital in nature and not subject to tax.

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**References:**

*[IRAS e-Tax Guide](#)*

*[Tax exemption on companies' gains on disposal of equity investments](#)*