

Advance Ruling Summary No. 01/2025
Published on 4 Apr 2025

1. Subject:

- a. Whether the one-off payment (i.e. earnout settlement amount) received by the individual shareholder due to the termination of the earnout arrangement in lieu of future earnout payments is capital in nature and not subject to tax under Section 10(1) of the Income Tax Act 1947 (2020 Revised Edition) (“ITA”).
-

2. Relevant background and facts:

- a. The individual was one of the founding shareholders of Singco A and was granted equity in the form of founder shares.
 - b. In year X, Company A was acquired by foreign Company B (“Holdco”), an unrelated party.
 - c. In connection with the acquisition, the individual shareholder received an upfront consideration and contingent upon meeting specific financial Key Performance Indicators, he would receive an earnout consideration (spanning over four years) according to his proportion of shareholdings in Company A.
 - d. Due to an economic downturn, the earnout consideration for the first two years was Nil and the anticipated earnout consideration for the last two years was estimated to be less than the minimum expected amount.
 - e. In year Y, Holdco sold Singco A to foreign Company C with the aim of enhancing shareholder value. As the potential future earnout payments represented a significant liability on the Balance Sheet of Singco A, Holdco decided to settle all the future earnouts with the sellers in exchange for a substantially lower one-off payment (i.e. earnout settlement amount) than the full potential amount. This removed the liability for the payment of future potential earnout payments from Singco A’s Balance Sheet and facilitated the divestment of Singco A to Company C.
-

3. Relevant legislative provisions:

- a. Income Tax Act 1947 (2020 Revised Edition) - Section 10(1)
-

4. The ruling:

- a. The one-off payment (i.e. earnout settlement amount) received by the individual shareholder due to the termination of the earnout arrangement in lieu of future earnout payments is capital in nature and not subject to tax under Section 10(1) of the ITA.

5. Reasons for the decision:

- a. Based on a consideration of the specific facts and circumstances of the arrangements.
-

Disclaimer

The published summary of the advance ruling is for general reference only. It is binding only in respect of the applicant of the advance ruling and the specified transaction under consideration of the advance ruling. All taxpayers should exercise caution in relying upon the published summary of the advance ruling, as the Comptroller is not bound to apply the same tax treatment to a transaction that is similar to the specified transaction.

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