

**Advance Ruling Summary No. 6/2024**  
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**1. Subject:**

- a. Whether the “discount” on Company A’s sale of trade receivables to banks, being non-tax resident persons, in discounting arrangements fall within the meaning of section 12(6)(a)(i) of the Income Tax Act 1947 (“ITA”).
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**2. Relevant background and facts:**

- a. Company A is in the business of trading in commodities. It is incorporated and tax resident in Singapore.
- b. In the course of its trading activities, Company A will record, in its management accounts, trade receivables from its counterparties, as represented by invoices or letters of credit from issuing banks. In order to manage its liquidity and risks, Company A may enter into discounting arrangements with banks.
- c. In year T, Company A entered into a sale and purchase agreement (“**SPA**”) to supply commodities to overseas customers. Payments under the SPA are to be effected by letters of credit (“**LC**”) confirmed by mutually agreed confirming banks. The confirming banks agreed by the parties of the SPA are based overseas.
- d. Some of these confirming banks offer discounting arrangements to Company A (“**Discounting Banks**”). Company A, may, on a transactional basis, depending on its liquidity needs and credit risk assessment, enter into discounting arrangements with such Discounting Banks.
- e. For the discounting arrangements in relation to transactions under the SPA, the Discounting Bank and the confirming bank for the LC would always be the same bank.
- f. Under the discounting arrangements, Company A will sell its trade receivables, as represented by LC, at a “discount” to the Discounting Banks. Company A will receive immediate payment of the amount payable under an LC from the Discounting Banks, albeit at a lower amount (i.e. LC amount, less the “discount”) (“**Net Payment**”) than what it would have otherwise received had it waited till the end of the credit term. In return for taking on the counterparties’ credit risks from Company A, the Discounting Banks will earn a margin equivalent to the “discount” amount (i.e. the LC amount collected at the end of the credit term from the counterparties or issuing banks, less the Net Payment made to Company A).

- g. The discounting arrangement is an outright sale of Company A's legal right to receive monies at a future date. When the Discounting Banks make a Net Payment to Company A, Company A will have no rights to the underlying trade receivables.
  - h. The funds representing the underlying trade receivables will flow from the issuing banks to the confirming banks/Discounting Banks and not come into Company A's possession. In the event that the counterparties or issuing banks, for whatever reasons, pay the trade receivables to Company A, Company A is under a fiduciary duty to hold such amounts on trust for and to pay over the entire amount to the Discounting Banks.
  - i. Company A also does not have any right to require a return of the receivables or LC upon repayment of the Net Payment or payment of an ascertainable amount to the Discounting Banks.
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### **3. Relevant legislative provisions:**

- a. Income Tax Act 1947 - Sections 12(6)(a) and 45(1)(a)
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### **4. The rulings:**

- a. The discount in the discounting arrangements that Company A entered into in relation to the transactions under the SPA do not fall under section 12(6)(a)(i) of the ITA. As such, the discount will not be subject to withholding tax in Singapore.
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### **5. Reasons for the decision:**

- a. These discounting arrangements constitute an outright sale of trade receivables and do not give rise to any loan or indebtedness between Company A and the confirming banks/ Discounting Banks. The risk of non-payment of the trade receivables would also be borne by the confirming banks/ Discounting Banks.
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