

Tax alert

Updates from the IRAS e-tax guide *Certainty of Non-taxation of Companies' Gains on Disposal of Equity Investments (Fourth Edition)*

On 14 October 2025, the Singapore Parliament passed legislative amendments to enhance Section 13W of the Singapore Income Tax Act 1947 (ITA).

Section 13W was first introduced in Budget 2012 to provide upfront certainty of non-taxation on gains derived by a divesting company from its disposal of ordinary shares in an investee company, subject to conditions. This is applicable to share disposals made during the period of 1 June 2012 to 31 December 2027.

It was announced during Budget 2025 that the Section 13W scheme shall be enhanced. To provide greater certainty to companies, the sunset date of 31 December 2027 of the scheme will be removed. The following enhancements to the scheme are also introduced and will apply to disposal gains derived on or after 1 January 2026:

- Expand the scope of eligible gains to include gains from the disposal of qualifying preference shares.
- Allow the assessment of the 20% shareholding threshold to be done on a group basis.

The Inland Revenue Authority of Singapore (IRAS) had recently published the updated e-tax guide *Certainty of Non-taxation of Companies' Gains on Disposal of Equity Investments (Fourth Edition)* on 30 September 2025 to provide further guidance on the above enhancements of Section 13W. This alert provides an overview of these enhancements and our key observations.



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The following table summarises the conditions of current scheme and the enhanced scheme:

Conditions	Current scheme: Disposals before 1 January 2026	Enhanced scheme: Disposals on or after 1 January 2026
Eligible shares in the investee company	Only ordinary shares	Ordinary shares and qualifying preference shares
20% shareholding threshold condition	Assessment on a divesting company basis	Assessment on a divesting company or group basis (for companies) ¹
Period of ownership prior to disposal	Shares in the investee company have to be held for a continuous period of at least 24 months ²	

Current Section 13W scheme

Before 1 January 2026, only gains derived by a divesting company from disposal of ordinary shares in an investee company are not taxable if immediately prior to the date of share disposal, the divesting company had held at least 20% of the ordinary shares in the investee company for a continuous period of at least 24 months.

This is applicable to disposal of shares of public or non-public investee company incorporated in Singapore or elsewhere.

Enhanced Section 13W scheme: inclusion of gains from the disposal of qualifying preference shares

Under the enhanced Section 13W scheme, the upfront certainty of non-taxation includes gains from disposal of ordinary shares and qualifying preference shares made on or after 1 January 2026, subject to the divesting company meeting the enhanced 20% shareholding threshold condition in the investee company for a continuous period of at least 24 months.

Qualifying preference shares means shares accounted for as equity by the investee company under the applicable accounting principles³ adopted by the investee company.

Enhanced 20% shareholding threshold condition

Under the enhanced scheme, where the investee company issues preference shares, this condition is met when the divesting company owns 20% of the total amount of paid-up share capital of ordinary shares and qualifying preference shares.

This condition is further enhanced to allow the shareholding threshold to be assessed on a group basis. This means that the shareholding of the divesting company and its related companies within the same group will be considered when determining whether the threshold is met.

The divesting company and its related companies are considered in the same group if:

- More than 50% of the total number of issued ordinary shares in one company are beneficially held, directly or indirectly, by the other company, where one of the companies in the divesting company.

Or

- More than 50% of the total number of issued ordinary shares in each of those companies including the divesting company are beneficially held, directly or indirectly, by a common company.

In determining whether the group of companies has met the 20% shareholding threshold condition, only shares that have been held continuously throughout the relevant 24-month holding period by the divesting company and its related companies will be aggregated for the group basis of assessment.

¹ The group basis of assessment for the 20% shareholding threshold condition does not apply when the divesting company is either a registered business trust or variable capital company.

² The minimum shareholding threshold has to be maintained for every day of the 24 months.

³ Applicable accounting principles, in relation to a company, means:

- The accounting principles adopted by the company.
- Or
- If the company is not required to comply with any accounting principles in preparing its financial statements – the International Financial Reporting Standards (IFRS).

Exclusions from the scheme

The enhanced Section 13W scheme continues to be subject to the exclusions for disposal of shares on or after 1 June 2022⁴, which include:

- Divesting company whose gains or profits from the disposal of shares are included as part of its income based on Section 26 of the ITA.
- Gain from disposals of non-listed shares in an investee company if:
 - The investee company is in the business of trading immovable properties (situated in Singapore or elsewhere).

Or

- The investee company's principal activity is that of holding immovable properties (situated in Singapore or elsewhere), whereby passive or no income is derived.

Or

- The investee company has undertaken property development activities (in Singapore or elsewhere)⁵.

The e-tax guide provides examples to illustrate the application of the scheme to an investee company that has undertaken property development activities.

Our observations

The removal of the sunset clause under the enhanced Section 13W demonstrates Singapore's commitment to providing tax certainty to companies as a holding company location.

From the investor's perspective, investing through preference shares offers preferential economic entitlement and ease of redemption. With the enhancement, these investors now have certainty of non-taxation on gains of disposal of their preference shares, subject to meeting the conditions.

It is critical that the issued preference shares are being accounted for as equity by the investee company under the applicable accounting principles for the shares to be qualifying preference shares.

The calculation of the shareholding threshold on a group basis can be complex especially only shares that have been held continuously throughout the relevant

24-month holding period by the divesting company and its related companies will be aggregated for the group basis of assessment. As such, companies intending to rely on the group basis of assessment should ensure that they assess their eligibility.

Notwithstanding the enhancement to Section 13W, the provisions under Section 10L of the ITA continues to prevail where gains from the sale or disposal of foreign assets (including shares of foreign companies) on or after 1 January 2024 that are received in Singapore by businesses without adequate economic substance in Singapore will be subject to tax in Singapore.

⁴ There are also exclusions of certain investee company for disposal of shares before 1 June 2022.

⁵ An exception to this exclusion is where both of the following conditions are satisfied:

(i) The immovable property developed is used by the investee company to carry on its own business to derive trade income. Such a business includes the business of letting immovable properties.

(ii) The investee company did not undertake any property development activity in the past 60 months before the disposal of shares.

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