Tax neutrality

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Singapore has no capital gains tax, no wealth tax and no inheritance tax. Income tax is charged on income accruing in or derived from Singapore and on foreign income received in Singapore, with a top personal rate of 24 per cent from the year of assessment 2024 and a corporate rate of 17 per cent.[1] For a holder of digital assets the question is therefore whether a gain is a trading profit, taxable under s. 10(1)(a), or a capital gain, untaxed. IRAS answered the question for digital tokens in its e-Tax Guide of 17 April 2020, which classifies tokens as payment, utility or security tokens and treats transactions in payment tokens as barter. Gains are taxed only where the disposal amounts to trading under the badges of trade, while airdrops and hard-fork tokens received for nothing are untaxed.[2] Goods and services tax has not applied to the supply of digital payment tokens since 1 January 2020, when IRAS exempted the exchange of DPTs for fiat or other DPTs and treated payment in DPTs as outside the scope of GST.[3]

Tax neutrality has edges. A founder who receives tokens for services is taxed on their value when received. A company that issues utility tokens is taxed on the proceeds as revenue. A fund or family office that trades actively is a trader whose gains are income unless it qualifies for one of the fund incentives in ss. 13D, 13O or 13U of the Income Tax Act. Since 2023 those incentives require minimum assets, local spending and local investment professionals. Since 1 January 2024, foreign-sourced disposal gains received in Singapore by an entity that is part of a multinational group can be taxed under s. 10L unless the entity has adequate economic substance. The rule was aimed at the European Union's list but is relevant to every holding entity with tokens in a foreign wallet. Part M treats each of these in turn.

Example

A Singapore VCC with a single sub-fund holds 2,000 ETH, stakes them through an institutional staking provider and receives rewards of about 3 per cent a year. The sub-fund is managed by a licensed fund manager and has obtained the s. 13O incentive. The staking rewards are income of the sub-fund but are exempt under the incentive because ETH is a designated investment. The appreciation of the ETH is exempt on the same footing. The VCC is a trader in the sense that it buys and sells regularly, but the incentive makes the characterisation irrelevant for as long as the conditions are met. That is the reason the VCC with an incentive has become the standard Singapore vehicle for a digital-asset fund. Part M, Chapter IV analyses the conditions and what happens when a sub-fund breaches them.

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Notes

1. Income Tax Act 1947 (2020 Rev. Ed.), s. 10(1) (charge to tax) and Part 4; Second Schedule (personal rates, top marginal rate of 24 per cent from YA 2024); s. 43 (corporate rate of 17 per cent).
2. IRAS, e-Tax Guide "Income Tax Treatment of Digital Tokens", first published 17 April 2020, updated 9 October 2020.
3. Goods and Services Tax Act 1993, Fourth Schedule, Part I, paragraph 1A (exempt supplies of digital payment tokens), in force 1 January 2020; IRAS, e-Tax Guide "GST: Digital Payment Tokens", 19 November 2019.

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