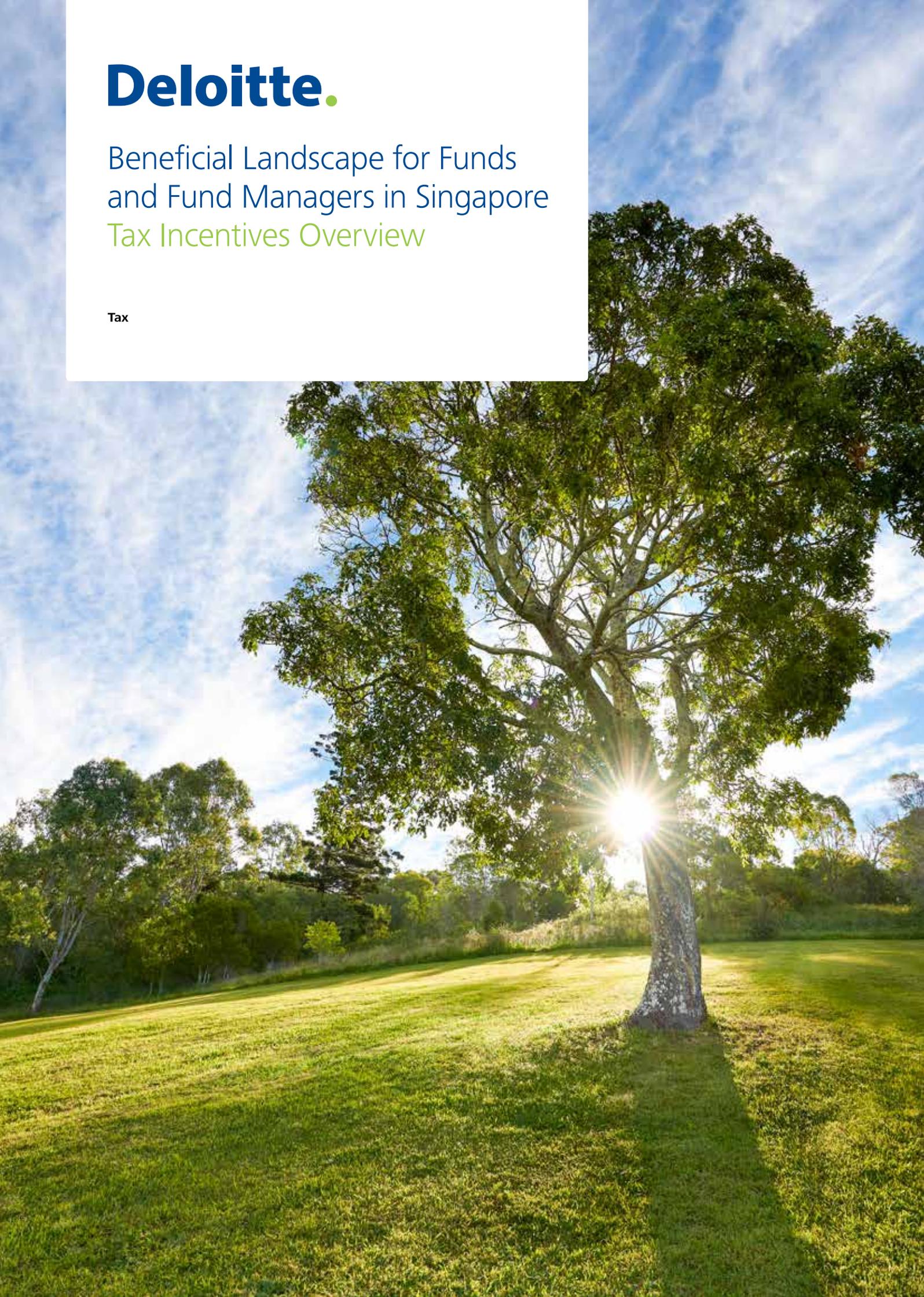




# Beneficial Landscape for Funds and Fund Managers in Singapore

## Tax Incentives Overview

Tax



Singapore is a key location for managers of private equity, real estate and hedge funds to be based in, especially for investments into the Asia Pacific region. Singapore is also increasingly being used as a preferred location for fund vehicles (“funds”).

The outstanding growth of the fund management industry in Singapore can be attributed to several factors, including the ease of doing business in Singapore and attractive tax incentives for funds and fund managers. Outside of the traditional offshore funds jurisdictions such as the Cayman Islands, Singapore is regarded as having one of the most attractive regulatory and tax regimes for funds and fund managers.

#### **Singapore tax exposure of funds managed by a Singapore fund manager**

Funds which are managed by a Singapore based fund manager may be liable to tax in Singapore due to the activities of the fund manager in managing the investments of the fund. The fund manager may create a taxable presence in Singapore for the fund (whether onshore or offshore) and, therefore, certain income and gains derived by the fund may be considered as Singapore sourced and liable to tax in Singapore. However, such tax liability could be eliminated under Singapore’s tax incentive schemes for funds provided that certain conditions are met.

#### **Tax incentive schemes in Singapore for funds**

There are tax incentive schemes applicable to funds managed by fund managers in Singapore under which “specified income” (includes gains) derived by the fund from “designated investments” is exempt from tax. The list of designated investments covers a wide range of investments, including stocks, shares, securities and derivatives. A key exclusion is immovable property in Singapore. The list is constantly revised to keep abreast of the market changes and new financial instruments.

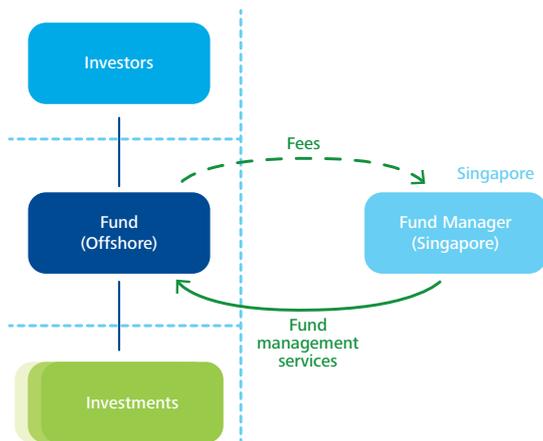
To qualify for the tax incentive schemes, the fund manager must be registered with the Monetary Authority of Singapore (“MAS”) as a Registered Fund Manager or hold a Capital Markets Services (“CMS”) licence for fund management or be expressly exempted from holding a CMS licence.

The three main tax exemption schemes for funds in Singapore are:

- The Offshore Fund Tax Exemption Scheme
- The Onshore (Singapore Resident Company) Fund Tax Exemption Scheme
- The Enhanced Tier Fund Tax Exemption Scheme

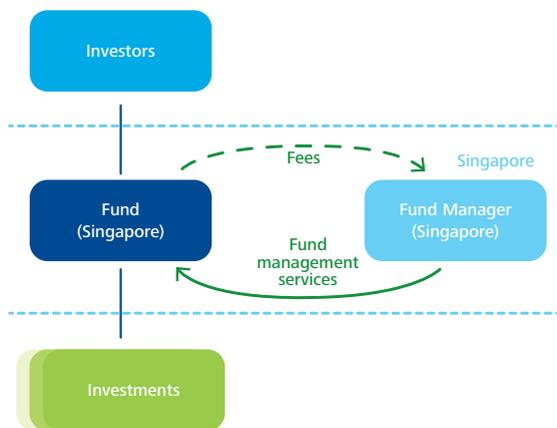
The exemption schemes are currently available until 31 March 2019, unless further extension is granted. All funds that are subject to the above tax incentive schemes as at 31 March 2019 can enjoy the tax exemption for the life of the fund, subject to the funds continuing to meet the relevant schemes’ conditions.

The key features and conditions of these tax incentive schemes are summarised below. This summary should not be regarded as a complete analysis of all the tax considerations relating to this area. We would recommend that specific advice should be taken in relation to any intended activities in Singapore.



## 1. The Offshore Fund Tax Exemption Scheme (Section 13CA of the SITA<sup>1</sup>)

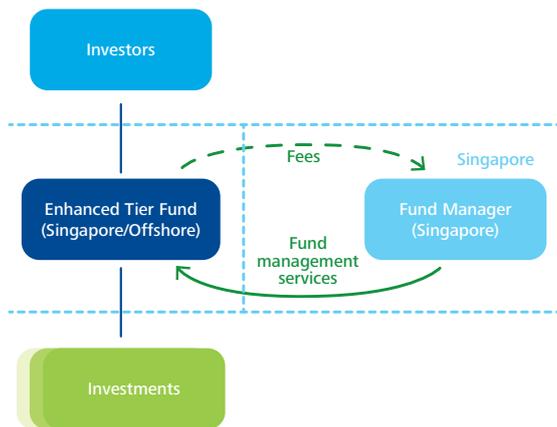
- **Fund's legal form:** Companies, trusts and individuals. A limited partnership cannot be a qualifying offshore fund since it is treated as a transparent entity for Singapore tax purposes. The applicable tests to determine if a fund is a qualifying fund would thus be applied at the level of the partners of the limited partnership. The partners in such limited partnerships would need to meet the qualifying conditions.
- **Fund's residence:** Must not be tax resident in Singapore, must not have any presence in Singapore (other than the Singapore fund manager and/or Singapore based trustee if the fund is organised as a trust) and must not be 100% beneficially owned, directly or indirectly, by Singapore investors.
- **Fund manager:** Singapore-based and registered with the MAS or holding a CMS licence or expressly exempted from holding a CMS licence.
- **Investors:** Non-qualifying investors (i.e. Singapore non-individuals investing above a certain percentage in the fund) would need to pay a penalty to the Singapore tax authorities.
- **Distinctive features:** No approval needed from the MAS.



## 2. The Onshore Fund Tax Exemption Scheme (Section 13R of the SITA)

- **Fund's legal form:** Company incorporated in Singapore.
- **Fund's residence:** Must be Singapore tax resident. The onshore fund must not be 100% beneficially owned by Singapore investors (excluding another approved fund holding 100% of the shares in the onshore fund).
- **Fund manager:** Singapore-based and registered with the MAS or holding a CMS licence or expressly exempted from holding a CMS licence.
- **Additional requirements:**
  - At least S\$200,000 business spending per year
  - Must use a Singapore-based fund administrator
  - No change in investment strategy after approval
- **Investors:** Non-qualifying investors (i.e. Singapore non-individuals investing above a certain percentage in the fund) would need to pay a penalty to the Singapore tax authorities.
- **Approval requirement:** Approval required from the MAS.
- **Distinctive features:** Access to the Singapore Double Tax Treaty network (currently 76 comprehensive double taxation treaties in force).

<sup>1</sup> Singapore Income Tax Act



### 3. The Enhanced Tier Fund Tax Exemption Scheme (Section 13X of the SITA)

- **Fund's legal form:** Company, trust (exceptions apply) and limited partnerships (no look-through).
- **Fund's residence:** Can be offshore or onshore (no restriction on investments by Singapore investors).
- **Fund manager:** Singapore-based and registered with the MAS or holding a CMS licence or expressly exempted from holding a CMS license.
- **Additional requirements:**
  - Minimum fund size of S\$50 million (committed capital concession available for real estate, infrastructure and private equity funds) and at least S\$200,000 local business spending per year ("economic conditions")
  - Singapore-based fund administrator if the fund is a Singapore incorporated and resident company
  - No change in investment strategy after approval
  - Cannot concurrently enjoy other tax incentives
  - To rely on the committed capital concession discussed above a component of payments made to the fund manager must be charged based on the committed capital (i.e. undrawn amounts included)
- **Investors:** No restrictions on Singapore investors
- **Approval requirement:** Approval from the MAS.
- **Distinctive features:**
  - Can apply to onshore and offshore limited partnerships as well as companies
  - May be able to access Singapore's Double Tax Treaties (e.g. where the fund is a Singapore resident corporate entity)
  - Can also apply to a Master-Feeder structure, including one that holds investments via special purpose vehicle(s), i.e., all entities within the structure would be covered collectively without being required to meet the economic conditions separately. Other conditions would need to be satisfied to apply the economic conditions on a collective basis

### Fund Management Incentive

Fee income derived by a Singapore fund manager from managing or advising a fund is subject to Singapore income tax at the prevailing corporate income tax rate (currently 17%). However, under the Financial Services Incentive - Fund Management ("FSI-FM") scheme, a concessionary tax rate of 10% applies on fee income derived by an approved Singapore fund manager from the provision of prescribed fund management or investment advisory services to a qualifying fund in respect of designated investments.

The incentive is subject to application and negotiation with the MAS. For new applicants to qualify for a minimum five year award, the general qualifying criteria are as follows:

- a) the fund manager must be registered with the MAS or hold a CMS licence or expressly exempted from holding a CMS licence in respect of its fund management activities; and
- b) the fund manager must employ at least three investment professionals;
- c) The fund manager must have a minimum Asset Under Management ("AUM") of S\$250 million. Based on current regulatory conditions, a Registered Fund Manager should only be able to manage monies of not more than S\$250million. As such, a fund manager with a Registered Fund Manager status may have difficulties qualifying for the FSI-FM incentive.

The MAS may also consider other factors, for example, projections for growth in professional headcount, AUM and business spending when considering the granting of the incentive.

### Summary of the Tax Incentives

	Offshore funds (Offshore companies or trusts)	Onshore fund (Singapore resident company)	Enhanced Tier Fund (Company, trust or limited partnerships)
Prior approval from the MAS	No	Yes	Yes
Appointment of prescribed Singapore fund manager		Yes	
Exemption from "Specified Income" from "Designated Investments"		Yes	
Availability of Singapore tax treaties #	No	Yes	Depends
Restriction on investor threshold	Yes	Yes	No
Minimum AUM	No		Yes
Minimum total business spending and other requirements	No	Yes	
Singapore reporting requirements	Yes		No
- Annual Statements to investors			No
- Tax Authorities (for Non-Qualifying investors)	Yes		No
Singapore income tax filing *	No	Yes	

# Subject to meeting the requirements of the foreign jurisdictions

\* Current position generally taken

# How Deloitte can help you

We are able to assist with both tax and non-tax (regulatory) services at each phase of the fund structure set up and maintenance.

## Tax services

- Review and advise on the contemplated fund structure
- Advise on Singapore income tax and GST implications to the fund(s), fund managers and investors
- Recommend alternative fund investment and fund management structures to enhance the overall tax efficiency
- Advise on applicable Singapore tax incentives and/or exemptions
- Advise on effective exit strategies

## Design Phase

## Regulatory services

- Advise on Singapore regulatory requirements (e.g. necessity for the fund manager to register with the MAS or obtain the CMS license)
- Assist to develop risk management and compliance policy and framework

- Assist to obtain tax incentives in Singapore, including attending meetings with the MAS
- Review the Private Placement Memorandum from a tax perspective
- Draft and review tax comments for inclusion in the Private Placement Memorandum and/or other fund offering documents

## Implementation phase

- Assist with exempt notifications, new licence applications and licence upgrade applications
- Review application information and handle queries from relevant authorities

- Provide corporate tax and Goods and Services Tax compliance services
- Assist to complete Annual Declarations for the funds and fund manager
- Assist to obtain certificate of residence
- Provide other ad-hoc tax advisory work in relation to the fund structure

## Operations phase

- Customised compliance support, such as regulatory compliance review, review of regulatory filings and reporting etc.

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