



Business Tax Alert

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Greetings from your tax team at Deloitte Singapore. We are pleased to update you on the following Singapore tax development:

[Extension of Enhanced-Tier Fund Tax Incentive Scheme](#)

On 29 May 2015, the MAS issued a circular (FDD Cir 05/2015) (the “ETF Circular”) in which it provides guidance on the extension of the Enhanced-Tier Fund (“ETF”) tax incentive scheme to SPVs. This extension was announced in Budget 2015 and seeks to recognise fund structures that hold their investments via special purpose vehicles (SPV) as a consolidated vehicle for tax incentive application purposes.

The Singapore Government introduced the ETF tax incentive scheme in Budget 2009 to grant tax exemption (enacted under Section 13X of the ITA) to fund vehicles managed by Singapore-

based fund managers, subject to the fund vehicles fulfilling certain conditions^[1], including the following economic commitments:

- a) Have a minimum fund size of S\$50 million at the point of application; and
- b) Incur at least S\$200,000 of local business spending (“LBS”) in each basis period relating to any year of assessment.

In 2010, the Singapore Government amended the ETF tax incentive scheme to treat master and feeder funds as one fund structure for tax incentive application purposes. In addition, master-feeder fund structures consisting of a single master fund would only be required to have a fund size at the date of application of S\$50 million and incur S\$200,000 of annual LBS, provided that the feeder funds do not derive taxable income and/or do not trade. Otherwise, the fund size requirement and the LBS requirement would increase by S\$50 million and S\$200,000, respectively, for each feeder fund that derives taxable income and/or trades.

From 1 April 2015, the Singapore Government made additional amendments to the ETF tax incentive scheme to allow “master and feeder funds and SPVs within a master-feeder fund structure to apply for the scheme and meet the economic conditions on a collective basis.”^[2] The MAS provided guidance on the application of such amendments in the ETF Circular. Under the ETF Circular, a master-feeder-SPV or master-SPV fund structure may apply on a consolidated basis for the ETF tax incentive scheme if the following^[3] conditions are met:

- a) the master fund must be a Singapore incorporated / constituted / registered entity, as the case may be, and is regarded as a Singapore tax resident for each basis period;
- b) the SPVs must be set up as companies and are wholly owned by the master fund; and
- c) the economic commitments have to be met on a multiple-fold basis.

The ETF Circular includes three examples that illustrate the application of these conditions. As illustrated by the examples, the fund size requirement and the LBS requirement under the ETF tax incentive scheme increases by S\$50 million and S\$200,000 respectively, for each SPV included in the ETF tax incentive application.

¹ Please refer to FDD Cir 06/2014 dated 30 May 2014 for more details on the ETF scheme.

² Budget 2015. Annex A-6: Tax Changes.

³ These are in addition to existing conditions under the ETF scheme.

The ETF Circular also describes certain administrative requirements applicable to the amendments to the ETF tax incentive scheme described below:

- i. MAS approval is required to approve the addition of SPVs to existing master-feeder-SPV or master-SPV fund structures that currently benefit from the ETF tax incentive scheme.
- ii. The MAS must be given advance notice of an entity's withdrawal from the ETF tax incentive scheme to ensure economic commitments are revised downwards.
- iii. A master-feeder-SPV or master-SPV fund structure enjoying the ETF tax incentive scheme may submit a single tax return to the CIT (unless the master-feeder-SPV or master-SPV structures derive taxable income, in which case separate income tax returns are required to be filed for the respective entities within the fund structure), as well as a consolidated annual declaration to the MAS.

Prior to this amendment to the ETF tax incentive scheme, Singapore-domiciled SPVs were required to separately apply for a fund tax incentive. Otherwise, such SPVs may incur Singapore income tax exposure on their underlying investments. In addition, each incentivised SPV is required to file an annual income tax and regulatory return to the relevant Singapore authorities.

The requirement to submit tax incentive applications and file income tax and regulatory returns for multiple SPVs leads to additional costs and increases the compliance burden for the fund group. As such, the extension of the ETF scheme to recognise master-feeder-SPV and master-SPV fund structures (albeit currently restricted to master funds set up in Singapore) as a consolidated vehicle for incentive application and tax return filing purposes should alleviate the aforementioned concerns to a certain extent. Also, as the LBS condition can now be met on a collective basis, there is no need to ensure that the Singapore SPV individually meets the minimum S\$200,000 LBS or \$50 million fund size (only for Section 13X incentive) requirements, unlike the case if the SPV is to apply for the Section 13R^[4] or 13X tax exemption individually.

⁴ Tax exemption for qualifying resident funds. Section 13R tax incentive might be more beneficial for SPVs in certain situations as it does not have a minimum fund size requirement.

Finally, non-Singapore domiciled SPVs generally do not require separate applications for tax incentive because of the Section 13CA fund exemption^[5]. However, we note that the examples in the ETF Circular refer to Singapore SPVs and overseas SPVs.

Find out more

Please contact the following persons or your usual Deloitte contact if you require any clarification or assistance in relation to this newsletter.

Name	Contact Number	Email
Low Hwee Chua (Singapore Leader)	+65 6216 3290	hwlow@deloitte.com
Michael Velten (Financial Services Tax Leader)	+65 6531 5039	mvelten@deloitte.com
Ajit Prabhu	+65 6530 5522	aprabhu@deloitte.com
Daniel Ho	+65 6216 3189	danho@deloitte.com
Kylie Luo	+65 6216 3341	kluo@deloitte.com
Lee Tiong Heng	+65 6216 3262	thlee@deloitte.com
Linda Foo	+65 6530 5562	lfoo@deloitte.com
Dr. Michael Pfaar	+65 6530 8038	mpfaar@deloitte.com
Ong Siok Peng	+65 6216 3257	spong@deloitte.com
Steven Yap	+65 6530 8018	skyap@deloitte.com
Steve Towers	+65 6216 3227	stowers@deloitte.com
Wong Chee Ming	+65 6530 5595	cwong@deloitte.com

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⁵ Prima facie, a non-Singapore SPV should be able to avail itself under the Section 13CA fund exemption scheme if it is held to derive Singapore-sourced income, on the assumption that the non-Singapore SPV is a qualifying fund which is held by a qualifying investor (a Section 13X fund is a qualifying investor for Section 13CA purposes).

6 Shenton Way, OUE Downtown 2, #33-00,
Singapore 068809

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