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Updates to Singapore's Fund Tax Incentives

As part of Budget 2024, Lawrence Wong, Singapore's Deputy Prime Minister and Minister for Finance, announced a review of the conditions applicable to the fund tax incentive schemes under Sections 13D, 13O, and 13U of the Income Tax Act 1947 (**13D**, **13O** and **13U** respectively).

On 1 October 2024, the Monetary Authority of Singapore (**MAS**) published Circular FDD Cir 10/2024 (the **Circular**), which details the revised conditions applicable to each of the incentive schemes with effect from 1 January 2025 (unless otherwise stated). The Circular also summarises the application and conditions of the new Section 13OA incentive (**13OA**) that will be legislated through the forthcoming Income Tax (Amendment) Act 2024.

Highlights and our comments appear directly below, and are followed by a summary of the technical details of the measures.

Highlights

In the Circular, the MAS explains that the revised measures are intended to ensure that the incentive conditions are relevant to and commensurate with the growth of Singapore's asset and wealth management industry.

The revisions mostly comprise refinements, to help ensure that the incentives flexibly and effectively take account of a variety of use cases. Stakeholders will be happy to learn that there are no unwelcome surprises.

It is particularly interesting to note that:

- The assets under management (**AUM**) requirement applicable to 13U remains as SGD 50 million, but that requirement needs to be satisfied not only at the time of application for a 13U award, but also at the end of each basis period thereafter.
- With effect from 1 January 2025, the AUM of a fund will no longer be computed based on its net asset value (NAV). Instead, AUM will be measured with reference to the value of investments held by the fund that qualify as Designated Investments (**DI**).
- A 13O fund will be required to have AUM of SGD 5 million at the end of each basis period.
- The MAS has not explained how it expects those conditions to be satisfied by closed-ended funds nearing the end of their lives, but the MAS has acknowledged concerns expressed during industry discussions about that issue, and the need for further discussion and clarification.
- The business spending requirement applicable to 13O, 13OA and 13U award holders will be revised so that the amount applicable will vary between SGD 200,000 and SGD 500,000 depending upon the AUM.
- A new 'closed-end fund' election will be made available for 13O, 13OA and 13U non-Single Family Office (**non-SFO**) applicants which, subject to conditions, will provide AUM and business spending simplifications to better tailor the use of the incentives in closed-ended contexts.
- 13D will remain self-administered but will become subject to a new requirement that the Singapore fund manager employs at least one investment professional.
- Other than as stated, no changes will be made to the conditions applicable to Single Family Office (**SFO**) applicants, as those have previously and recently been revised.
- There are no changes to the list of DI save through the addition of a new item (za) to add real estate investment funds constituted in any form. The effective date of this change is backdated to 19 February 2022. There are no changes to the list of Specified Income (**SI**).

Our comments

The refinements to the tax incentive schemes are welcomed and we expect them to add to Singapore's utility as an investment management hub.

The MAS has accommodated industry feedback to help ensure that the incentives are sensitive to the variety of ways in which investors and managers across different asset classes and strategies use incentivised investment vehicles.

Whilst the changes might help Singapore attract greater volume of investments managed from Singapore, the additional flexibility incorporated into the schemes will also be of interest to managers managing existing funds from Singapore.

Changes to the schemes to take account of their application in closed-ended contexts is particularly welcomed given clarifications with respect to use of interest-free loans for capitalisation purposes and the mode of reporting AUM.

In our view, the package of measures helps ensure relevance and flexibility of practical application, and strikes a good balance with the economic spin-off benefits that might be expected from greater utility of these incentivised fund vehicles.

Technical details of the measures

130 Tax Incentive

The MAS has announced the following updates to the 130 incentive:

- The condition that a 130 fund must be a newly set-up company (i.e. not a company that was previously carrying on a business in Singapore, where that business in Singapore generated income that would not have been tax-exempted) will be removed. This is to cater for applicants with investments at the point of application.
- The 30/50 qualifying investor rule will be waived for 13D trusts and unit trusts that are investors in 130 funds, with effect from Year of Assessment (**YA**) 2025. This is so that 13D trusts and unit trusts are not inadvertently discouraged from investing in a 130 fund.
- The approval requirement for a revised investment strategy to be approved by MAS will be removed. This is because the MAS recognises that changes in investment strategy for bona fide commercial reasons are common. However, 130 funds will still be required to update the MAS of any change in investment strategy.
- While the economic criteria for SFO funds will remain the same, non-SFO funds will be subject to the following revised economic criteria:
 - (a) The fund management company directly managing or advising the non-SFO fund must employ at least 2 investment professionals (**IP**).
 - (b) The non-SFO fund must have AUM in DI at the end of each financial year end (**FYE**) of least SGD 5 million.
 - (c) The local business spending (**LBS**) requirement for non-SFO funds will be tiered according to AUM in DI:

AUM in DI at FYE (SGD)	LBS (SGD)
Less than 250 million	200,000
250 million to 2 billion	300,000
More than 2 billion	500,000

The new concept of AUM in DI is expected to help address concerns about measuring AUM with reference to Net Asset Value (**NAV**), which was found to be problematic to the extent incentivised vehicles received investment funds as loan capital (including through use of interest-free loans).

- To facilitate the transition the new conditions will be phased in as follows:

Awards beginning between 1 January 2025 and a financial year (FY) ending in 2026:

- The new AUM in DI requirement must be met by the end of the third year of the incentive and maintained in every FY thereafter (save where subject to relaxation—see below).
- The new IP and tiered LBS requirements must be met from FYs ending in 2027 (YA 2028).

Awards beginning in FY ending in or after 2027:

- The new AUM in DI requirement must be met by the end of the third year of the incentive and maintained every subsequent FY (save where subject to relaxation).
- The new IP and tiered LBS requirements must be met from the first year of the incentive.

Existing 13O non-SFO funds with awards commencing pre-1 January 2025

- Such funds are given a grace period and are only required to fulfil all the updated economic criteria in (a), (b) and (c) above from FY ending in 2027.
- For the avoidance of doubt, such funds must continue to fulfil the SGD 200,000 total business spending requirement (in lieu of the tiered LBS requirement) in FYs prior to FY2027.

13OA Tax Incentive

- The new 13OA incentive that will be legislated through the forthcoming Income Tax (Amendment) Act will effectively extend the 13O incentive to funds constituted as limited partnerships (**LP**) registered under the Limited Partnerships Act 2008.
- The MAS explains in the Circular that the new scheme is intended to cater to smaller private equity and venture capital funds, albeit the incentive shall not be limited to such cases.
- A partner of an LP approved under the 13OA scheme will benefit from tax exemption in respect of its share of SI in respect of DI derived by the 13OA fund, subject to meeting relevant conditions:
 - The new and updated requirements and grace periods (as above) applicable to a 13O fund shall also apply to a 13OA fund.
 - The general partner of the 13OA fund will be held responsible for meeting the incentive conditions and will be responsible for submitting the annual declaration regarding the fund's compliance with the conditions of the 13OA scheme.
- The incentive conditions will apply at the LP fund level and will not apply at each of the partners' level (i.e., no look-through treatment/the LP shall be treated as being opaque for that purpose only).

13U Tax Incentive

The MAS has announced the following updates to the 13U Tax Incentive:

- Removal of the additional minimum LBS and AUM in respect of special purpose vehicles (**SPVs**) and trading feeder funds. This follows the

MAS's recognition that there may not always be a strong correlation between a fund's AUM or LBS and the number of SPVs or trading feeder funds used in an investment holding structure. A group covered by the 13U award shall be considered a single notional entity.

- Like the 13O, the approval requirement for revised investment strategy to be approved by MAS will also be removed. However, 13U funds should notify the MAS of any change in investment strategy.
- For 13U awards granted singular awards under the master/feeder/SPV scheme, addition of feeder fund(s) or SPVs to the fund structure will still require approval by the MAS.
- The updated economic criteria to be met for the 13U tax incentive are:
 - AUM in DI for non-SFO funds as at the point of application and at the end of each FYE must be at least SGD 50 million.
 - LBS requirement:

AUM in DI at FYE (SGD)	LBS (SGD)
Less than 250 million	200,000
250 million to 2 billion	300,000
More than 2 billion	500,000

- All 13U funds (new and existing) must satisfy the updated economic criteria above by FYE 2027. For the avoidance of doubt, existing non-SFO 13U funds (i.e. award commencing pre-1 January 2025) must continue to fulfil the minimum LBS requirement of SGD200,000 and 3 IP requirement in the FYs prior to FY2027.

New 'closed-end fund' treatment for 13O, 13OA and 13U Funds

- Funds will now have an option to voluntarily elect to be treated as a closed-ended fund, in recognition that closed-ended funds may have declining LBS and AUM in the later part of their fixed lifespan.
- Upon such election:
 - The AUM requirement will only need to be satisfied for the first 5 incentive years, and such requirement will be waived from the sixth incentive year onwards.
 - The annual LBS requirement may be satisfied on a cumulative basis up to the 10th incentive year and will be waived from the 11th incentive year.
 - The fund is required to have its award revoked with effect from the end of its divestment phase, or the day immediately after its 20th incentive year, whichever earlier.

Such election by a 13O, 13OA, or 13U fund applicant is irrevocable.

- A fund may opt-in for such closed-ended fund treatment at any time. Existing funds may also apply for the "closed-end fund" treatment and such an application would entail the revocation of the existing incentive award and application for a new award.

- At the point of election, the fund will be required to declare its expected lifespan and must update MAS in writing if there are subsequent changes to the lifespan of the fund.

13D Tax Incentive

- The 13D tax incentive will remain self-administered.
- There will be a revision of economic criteria for both SFO and non-SFO cases to ensure that 13D funds have a minimum level of economic substance in Singapore. A 13D fund must be managed or advised directly by a fund management company in Singapore with at least 1 IP (no salary requirement imposed) in each FY with effect from FY ending in 2027.
- The 30/50 qualifying investor rule will be waived for 13D trusts and unit trusts that are investors in 13D funds, with effect from YA2025. This is so that 13D trusts and unit trusts are not inadvertently discouraged from investing in another 13D fund.

DI List

The DI list will remain the same but will be updated to clarify that real estate investment funds may take any form, including foreign vehicles and non-legal entities akin to undertaking or contractual arrangements. This is in line with the policy intent to incentivise income arising from real estate collective investment vehicles, regardless of their form.

Contacts

Should you have any comments or questions arising from this newsletter, please contact either the listed contacts below, or any member of the [Singapore Tax & Legal team](#). We would welcome the opportunity to discuss these developments with you.



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