SINGAPORE BRIEFING

TAX INCENTIVES FOR FUNDS IN SINGAPORE

August 2018

Tax Incentives for Funds and Fund Managers in Singapore

Singapore is a key location for fund managers of private equity, real estate and hedge funds to be based, especially for investments in to the Asia Pacific region. Singapore is also increasingly being used as the 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 international offshore centers such as the Cayman Islands, Singapore is regarded as having one of the most attractive tax regimes for funds and fund managers.

Singapore Tax Exposure to 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, 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.

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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. There are certain notable exclusions including certain Singapore-sourced interest income, distributions from REITs and income in respect of real property in Singapore.

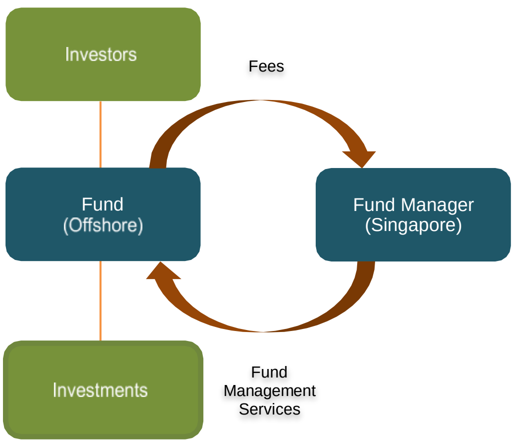
To qualify for the tax incentive schemes, the fund manager must be either; registered with the Monetary Authority of Singapore ("MAS") or holds a capital markets services ("CMS") licence; or is a company that is exempted under the Securities and Futures Act (Cap.289) from holding a capital markets services licence. As such, these fund tax exemption schemes can be beneficial, and are indeed popular, with Family Offices, where a Singapore family office entity benefits from the exemption.

The three main tax exemption schemes for funds currently available until 31 March 2019 in Singapore are:

- The Offshore Fund Tax Exemption Scheme [Section 13CA]
- The Onshore Fund Tax Exemption Scheme [Section 13R]
- The Enhanced Tier Fund Tax Exemption Scheme [Section 13X]

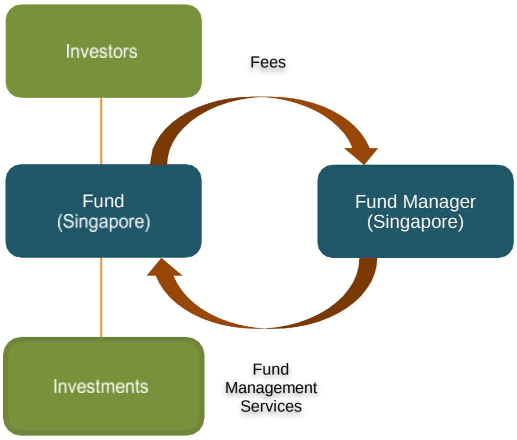
The key features and conditions of these tax incentive schemes are summarized below. This summary should not be regarded as a complete analysis of all the tax considerations relating to this area. We would recommend that specific advice should be taken in relation to any intended activities in Singapore.

1) The Offshore Fund Tax Exemption Scheme [Section 13CA]



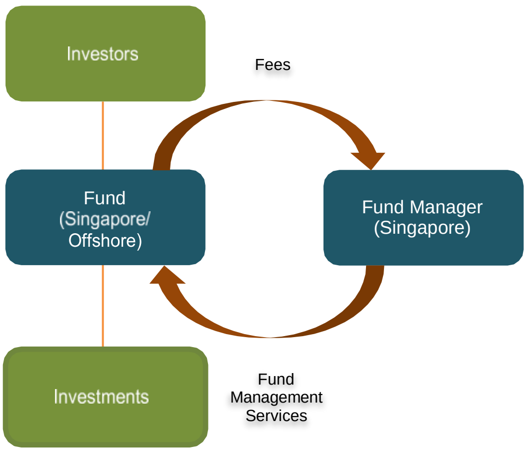
- **Fund's legal form**: Companies, trusts and individuals. A limited partnership cannot be a qualifying offshore fund since it is treated as a transparent entity for Singapore tax purposes. The partners in such limited partnerships would need to meet the qualifying conditions.
- **Fund's residence**: Must not be resident in Singapore, must not have any presence in Singapore besides the fund manager.
- **Fund ownership**: Must not be 100% beneficially owned, by Singapore citizen or resident individuals, resident companies or Singapore PE of a non-resident company. Non-qualifying investors (i.e. Singapore non-individuals investing above a certain percentage in the fund) would need to pay a penalty (effectively a tax although it is not called tax) to the Singapore tax authorities.
- **Fund manager**: Singapore-based and registered with the MAS or holding a CMS licence or exempt.
- **Fund size**: No restrictions
- **Fund expenditure**: No restrictions
- **Fund administrator**: no restrictions
- **Investment strategy**: No restrictions
- **MAS approval**: No

2) The Onshore Fund Tax Exemption Scheme [Section 13R]



- **Fund's legal form**: Company incorporated in Singapore.
- **Fund's residence**: Constituted and have its administration performed in Singapore.
- **Fund administrator**: Singapore based
- **Fund ownership**: Must not be 100% beneficially owned, by Singapore citizen or resident individuals, resident companies or Singapore PE of a non-resident company. Non-qualifying investors (i.e. Singapore non-individuals investing above a certain percentage in the fund) would need to pay a penalty (effectively a tax although it is not called tax) to the Singapore tax authorities.
- **Fund manager**: Singapore-based and registered with the MAS or holding a CMS licence or exempt.
- **Fund size**: no restrictions
- **Fund expenditure**: At least S$200k local business spending per year.
- **MAS approval**: Yes
- **Investment strategy**: Approval needed from the MAS for a change.

3) The Enhanced Tier Fund Tax Exemption Scheme [Section 13X]



- **Fund's legal form**: All fund vehicles (applicable from 20 February 2018)
- **Fund's residence**: No restrictions imposed.
- **Fund manager**: Singapore-based and registered with the MAS or holding a CMS licence or exempt.
- **Fund size**: Minimum of S$50 million
- **Fund administrator**: Singapore-based fund administrator if the fund is a Singapore incorporated and resident company
- **Fund expenditure**: At least S$200k local business spending per year.
- **Fund ownership**: No restrictions.
- **MAS approval**: Yes, approval on a standalone or consolidated basis allowing for master-feeder, master-SPV structures.
- **Investment strategy**: Approval needed from the MAS for a change.
- Must employ at least three investment professionals earning at least S$3.5k pcm

4) 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 Sector 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 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 is set out below:

a) the fund manager must be registered with the MAS or hold a CMS licence in respect of its fund management activities; and

b) the fund manager must have at least three investment professional employees (earning at least S$3,500pcm and engaging substantially in FSI qualifying activities).

c) the fund manager must have minimum assets under management of S$250m.

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

5) Singapore Variable Capital Company (S-VaCC)

The MAS has issued draft guidance on the S-VaCC framework which is to further improve Singapore's competitiveness as a domicile for global investment funds. An S-VaCC is a new structure designed for collective investment schemes and will accommodate a variety of traditional and alternative asset classes and investment strategies. Some of the benefits have been set out below:

- Current foreign structures can be re-domiciled to Singapore as an S-VaCC.
- The capital will always be equal to the net assets of the company allowing both entry and exit from the fund at its net asset value without solvency declarations.
- A Singapore based licensed or regulated fund manager is required, an S-VaCC cannot be self-managed.
- An S-VaCC could avail itself of a US check the box election, increasing appeal to the US investor market.
- The taxation framework applicable is not yet known, but it is anticipated that there will be access to Singapore's in excess of 80 tax treaties, it is also anticipated that the tax exemption under 13R and 13X, as set out above, will be extended to S-VaCCs. As well as the 10% concessionary rate under the FSI-FM scheme is likely to be extended to approved fund managers managing an S-VaCC.
- The corporate structure of an S-VaCC is unique and removes some of the company law requirements applicable to traditional companies in Singapore. Including the requirements re publicly available information (financial statements, shareholder lists for example)
- Can be used for all types of investment funds in Singapore (mutual, hedge, private equity & real estate funds)

Further details expected from MAS October 2018

Our Team

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Rawlinson & Hunter's Singapore office is headed by our resident Director Peter Milnes. He has over ten years of international experience focused in Asia and the Middle East. Peter has extensive experience in statutory accounting in Singapore, Thailand, Indonesia, UK, US, and France, as well as a depth of knowledge of trust accounting and structuring in various jurisdictions.

Familiar with management reporting in both large MNC's and smaller organisations, Peter has a unique skill base and understanding of the accounting and structuring requirements of large organisations and boutique enterprises & family offices.

Peter is a Fellow Management Accountant (FCMA/CGMA) and a Chartered Accountant of Singapore, with degrees in Economics and Economic History, and has wide-ranging experience working for family offices and major financial institutions.

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Katharine joined the Singapore office in January 2018 having transferred from Rawlinson & Hunter in the UK where she was based in the London office. Katharine was part of the managerial team of the business tax department in London and joins us as Tax Manager.

She has over ten years' experience covering private client tax, all aspects of the taxation of companies and accounting and compliance for corporates with a UK presence. She has experience in providing a full client service addressing both advisory and compliance aspects and delivering a tailored service to clients often with complex interests in the UK, Singapore and overseas jurisdictions.

She holds a Bachelor of Science degree from the University of Leeds (UK) and holds designations including ACA (Institute of Chartered Accountants in England and Wales) and CTA (Chartered Institute of Taxation).

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