SINGAPORE BRIEFING

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Setting up your next fund in Singapore

In deciding the domiciliation of your next fund, many factors are considered. Whilst tax efficiency have always been a key consideration, there are other important considerations as well. Today, we provide a closer look holistically on tax and non-tax factors as to why Singapore may be suitable for funds to be domiciled.

1. Non-tax factors

Non-tax related factors include a stable political system, strategic geographical location, access to foreign investors, and the relative ease of doing business in Singapore as well as the pool of skilled professionals have assisted Singapore to become one of the most attractive global asset and wealth management hubs.

Domiciling a fund in a country such as Singapore where strict laws and regulations provide greater piece of mind for investors. From having renowned international and private banks, international law firms and established service providers to provide audit, accounting and technical support, fund managers can be assured that they would be well-supported.

Even during Covid times, Singapore remains one of the best countries to do business as seen in having established vaccinated travel lanes with countries to facilitate business travels whenever possible.

VCC structure was the missing piece

With the launch of the Variable Capital Company ("VCC") corporate structure in 2020, there is now greater flexibility in choosing the most suitable fund structure when incorporating in Singapore. The VCC is by and large similar to Segregated Portfolio Companies in Cayman, which fund managers are familiar with.

Key features of the VCC as follow:

- Treated as a company and single entity for tax purposes. Re-domiciliation into Singapore is allowed.
- Access to over 90 tax treaties signed between Singapore and its treaty partners.
- Register of members and financial statements are not available to public.
- Section 13O and Section 13U incentives as well as GST remission are available to VCCs.
- Can pay dividends out of its capital, unlike a typical company

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- Suitable used for all types of investment funds in Singapore (mutual, hedge, private equity & real estate funds)
- Can be a standalone or umbrella (with sub-funds) VCC. Sub-funds within a VCC can adopt different investment strategies.
- Assets and liabilities within a Sub-fund are segregated – no cross contagion.
- Needs to be managed by a Permissible Singapore fund manager.
- A VCC could avail itself of a US check the box election, increasing appeal to the US investor market.
- Subject to statutory annual audit requirements.

A VCC grant scheme is made available by Monetary Authority of Singapore (MAS) to defray the start-up costs. The grant will cover up to 70% of qualifying costs incurred for legal, tax, administration or regulatory services up to a cap of S$150k per VCC. The VCC grant scheme is available for application up till 15 January 2023.

As the VCC structure is still relatively new, the MAS had been gathering feedback from the industry to look for ways to improve the scheme. One suggestion is for the VCC structure to be made available to Family Offices as well – we shall keep our fingers crossed on this.

2. Tax factors

Singapore has concluded over 90 double taxation treaties from which tax residents can benefit from. Without a doubt, reduced withholding tax rates on interest and dividends, capital gains tax would help in improving the overall tax efficiency of the fund.

Tax incentives in the fund management industry are discussed in further detail below.

Singapore tax incentive schemes for funds

There are three possible 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 Singapore corporate income tax. For completeness, we have included information the offshore fund as well.

The list of designated investments covers a wide range of investments, including stocks, shares, securities and derivatives. Singapore-sourced interest income has been included in the list of specified income. Certain notable exclusions remain, such as distributions from REITs listed on the Singapore Exchange and income in respect of immovable properties in Singapore (other than those in the business of developing properties). Digital assets (e.g. cryptocurrencies) are currently not included in the specified list as well.

To qualify for the tax incentive schemes, the fund manager must be registered with the MAS or hold a capital markets services (CMS) licence unless it is specifically exempted under the Securities and Futures Act (Cap.289). This exemption may apply in the case of a single family office.

Fund tax incentive schemes

The tax exemption schemes for funds currently available until 31 December 2024 are:

- Basic Tier Fund Tax Incentive Schemes
  - The **Offshore** Fund Tax Exemption Scheme **(“Section 13D”)**
  - The **Onshore** Fund Tax Exemption Scheme **(“Section 13O”)**

- The **Enhanced Tier** Fund Tax Exemption Scheme **(“Section 13U”)**

For a complete picture, tax incentives available for an offshore fund and/or non-resident fund are included.

A S13D fund has to be tax resident and incorporated outside Singapore whereas a S13O fund has to be a company incorporated in Singapore and be a Singapore tax resident. In comparison, there is more flexibility in a S13U structure in terms of the choice of fund vehicle as well as the place of constitution and tax residence.

S13D does not require approval from the MAS, which is in contrast to S13O and S13U. Conditions around licensing for the fund manager equally apply to all three incentives (as set out above), potential investors may seek comfort in the MAS approval of their fund.

Broadly, S13U offers the most flexibility in terms of fund vehicle and tax residency, but this comes at a requirement of having to meet local business spending and a minimum fund size at the point of application.

In comparison, S13O also has a minimum business spend requirement, but does not have a minimum fund size. Notwithstanding the Budget 2019 announcement that S13D and S13O are now available to 100% Singapore beneficially owned structures, the financial penalty regime continues to apply to S13D and S13O for "non-qualifying investors", broadly discouraging investment through Singapore companies.

An overview of the tax incentives is set out below:

	S13D	S13O	S13U
Fund manager	Based in Singapore		
Tax exemption on	"Specified Income" derived from "Designated Investments"		
Validity	Throughout life of fund		
Ownership	Can be 100% owned by Singapore persons		
Location of fund	Offshore	Onshore	Offshore / onshore
Minimum fund size	-	-	S$50 million
Minimum spend	-	S$200,000 p.a.	S$200,000 p.a. (local)
MAS approval	-	Required	Required
Investment professionals	-	-	Fund manager must employ at least three investment professionals
Financial penalty	Non-qualifying investors	Non-qualifying investors	-
Tax residency for fund	Not tax resident in Singapore / no PE in Singapore (other than the fund manager)	In Singapore	In / outside Singapore
Fund vehicle	Foreign fund company; Trust fund; Foreign individual	Singapore incorporated company (includes VCC)	Constituted in all forms (includes VCC)

GST remission

GST may be incurred when funds procure services from GST- registered business. Funds which are not GST-registered are, *prima facie*, not allowed to reclaim GST expenses. Remission for GST was introduced on 22 January 2009, with the latest extension up to 31 December 2024. In respect of qualifying funds, GST remission is available at an annual fixed recovery rate. For the calendar year 2022, the recovery rate is 89%.

3. Looking forward

As Singapore continues to charge ahead with the strengthening its position as a global financial hub, we can look forward to more developments in the funds and banking industry. Two key developments include the issuance of digital bank licenses in December 2020 and granting of licenses to enable the trading of digital payment tokens in late 2021.

Lastly, Singapore will announce its Budget for year 2022 on 18 February 2022, and we shall provide an update once the details are announced.

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