



FUNDS & FUND MANAGERS IN SINGAPORE

Tax Incentives

TAXATION OF FUNDS IN SINGAPORE

An introduction

From a tax perspective, any investment fund structure should meet two key criteria: -

- i. certainty of taxation, i.e. the tax consequences of income/gains from investments and the distributions to investors are clear.
- ii. tax neutrality, i.e. as an investment fund essentially operates as a pooling vehicle, it should not expose investors to a more burdensome taxation than if they were to invest directly.

Generally, tax neutrality of a fund structure means there are:

- no taxes on the income/gains derived by the fund; and
- no taxes on the distributions from the fund to its investors in the location of the fund.

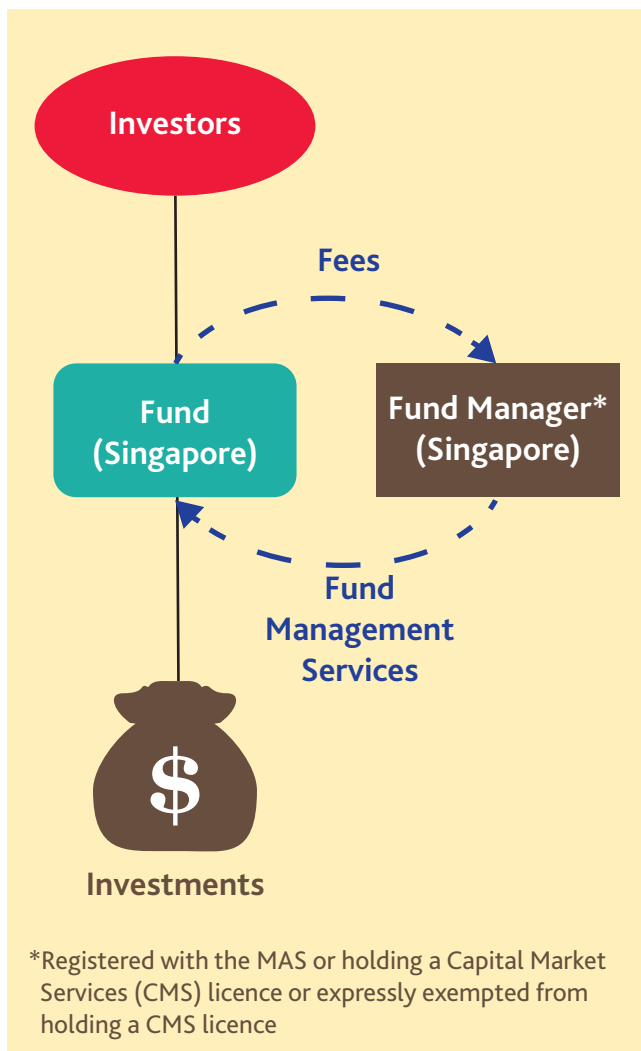
A fund qualifying for or approved under the existing tax exemption schemes in Singapore (SG), should generally meet the above criteria. Specifically, the exemption schemes for the fund are (i) Onshore Fund Tax Incentive Scheme; (ii) Offshore Fund Tax Incentive Scheme; and (iii) Enhanced-Tier Fund Tax Incentive Scheme.

The exemption schemes are currently available up to 31 March 2019, unless further extension is granted. As long as the fund is approved for the above tax incentive schemes before 1 April 2019, it would continue to apply for the life of the fund even if the applicable scheme is not extended beyond this date, subject to the fund continuing to meet the relevant conditions.



ONSHORE FUNDS TAX INCENTIVE SCHEME

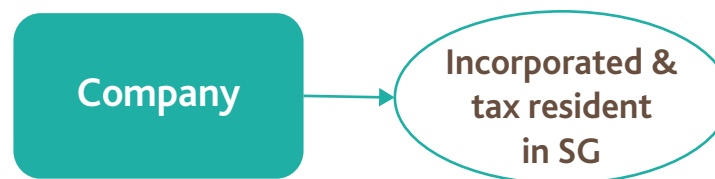
Section 13R of the Singapore Income Tax Act (SITA)



Tax Treatment

Tax exemption on *Specified Income from Designated Investments*, derived by an **Approved Company** arising from funds managed in SG by a fund manager.

Conditions at a Glance – Approved Company



Less than 100% of the value of the Company's issued securities is beneficially owned by persons who are (i) SG citizen; (ii) resident in SG; or (iii) have a Permanent Establishment (PE) in SG.

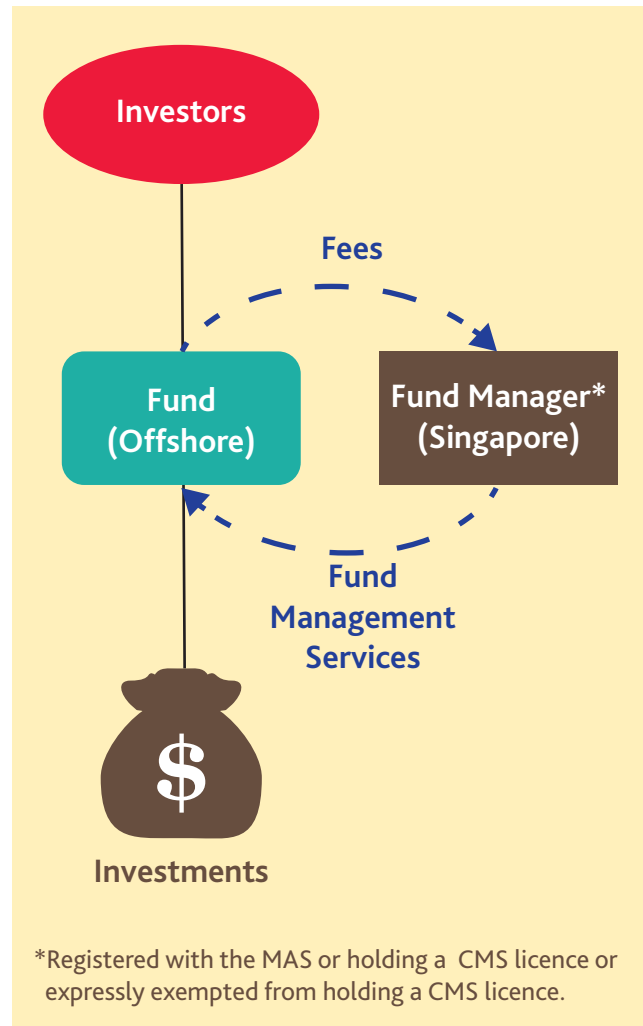
- At least SGD 200,000 local business spending per year.
- No change in investment strategy/objective after approval by the MAS.
- Uses a SG-based fund administrator.
- Approval required from the Monetary Authority of Singapore (MAS).

Non-qualifying investors (NQIs)

On the *Relevant Day* if the NQIs, either alone or together with his associates, beneficially owns issued securities of the Approved Company the value that is greater than the Prescribed Percentage, the NQIs shall be liable to pay the Comptroller of Income Tax (CIT) a financial penalty to be computed in accordance with a specified formula.

OFFSHORE FUNDS TAX INCENTIVE SCHEME

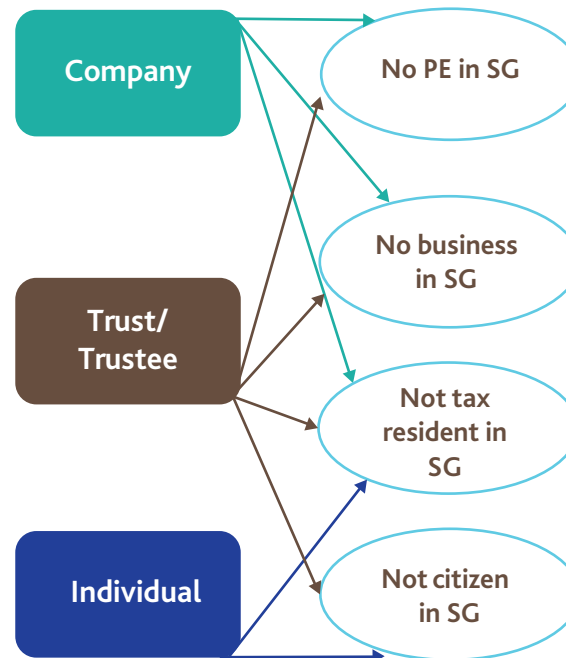
Section 13CA of the SITA



Tax Treatment

Tax exemption on *Specified Income from Designated Investments*, derived by any **Prescribed Person** arising from funds managed in SG by any fund manager.

Conditions at a Glance – Prescribed Person



Less than 100% of the value of the Company's issued securities is beneficially owned by persons who are (i) SG citizen; (ii) resident in SG; or (iii) have a Permanent Establishment (PE) in SG.

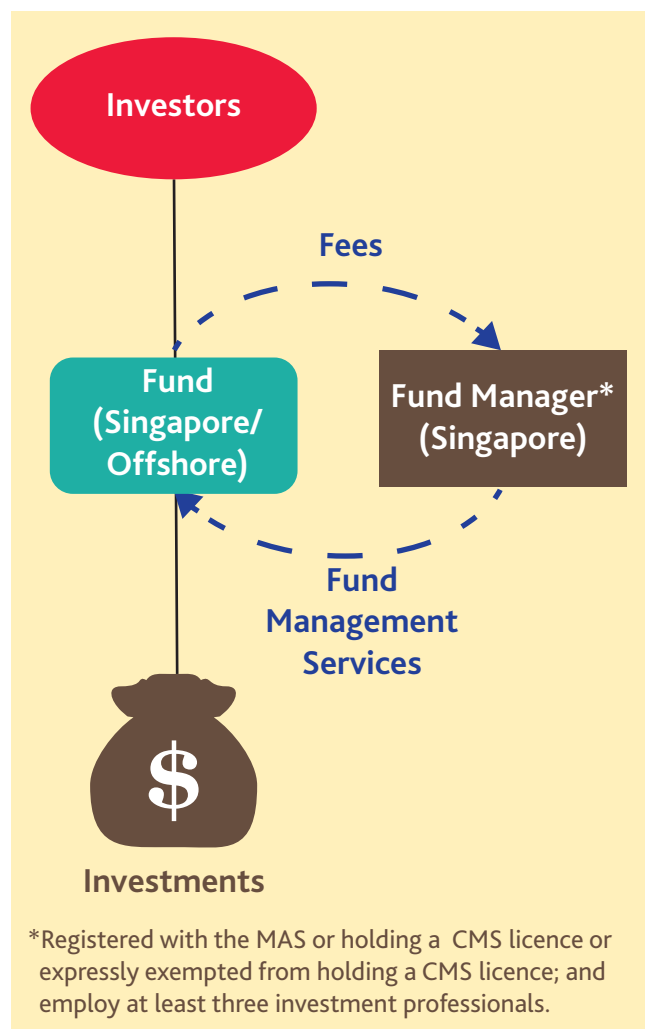
Less than 100% of the value of the Trust is beneficially owned by persons who are (i) SG citizen; (ii) resident in SG; or (iii) have a PE in SG

Beneficial owner of the funds

- No approval required from the MAS.
- On the *Relevant Day* if the NQIs, either alone or together with his associates, beneficially owns issued securities of the Prescribed Person, the value that is greater than the *Prescribed Percentage*, the NQIs shall be liable to pay the CIT a financial penalty to be computed in accordance with a specified formula.

ENHANCED-TIER FUNDS TAX INCENTIVE SCHEME

Section 13X of the SITA



Tax Treatment

Tax exemption on *Specified Income from Designated Investments*, derived by an **Approved Person** arising from funds managed by a fund manager in SG.

Conditions at a Glance – Approved Person

Company

- Have a minimum fund size of SGD 50million at the point of application.
- At least SGD 200,000 local business spending per year
- Uses a SG-based fund administrator if the fund is a SG incorporated and tax resident company
- Cannot concurrently enjoy other tax incentives
- Approval required from the MAS.

Trust/ Trustee

Limited Partnership

- No change in investment strategy/objective after being approved by the MAS
- No restriction on SG tax resident investors and hence the financial penalty is not applicable

Enhancement of the Scheme

- From 1 April 2015, this scheme has been enhanced to allow master and feeder funds and Special Purpose Vehicles within a master-feeder fund structure to apply for the scheme, subject to meeting the relevant conditions on a collective basis.

FINANCIAL SECTOR INCENTIVE FUND MANAGEMENT SCHEME (FSI-FM Award)

Tax Treatment

Generally, for SG tax purposes, fund management fee income derived by a SG fund manager would be subject to income tax at the prevailing corporate income tax rate, i.e. 17%.

Concessionary Tax Rate for Fund Managers

The Financial Sector Incentive (FSI) scheme aims to promote and encourage the development of SG's financial services sector. Under the Financial Services Incentive - Fund Management ("FSI-FM") scheme, fee income derived by an approved SG fund manager from the provision of prescribed fund management or investment advisory services to a qualifying fund in respect of designated investments would be subject to a concessionary tax rate of 10%.

Conditions at a Glance – Approved Fund Manager

Please note that approval is required from the MAS.

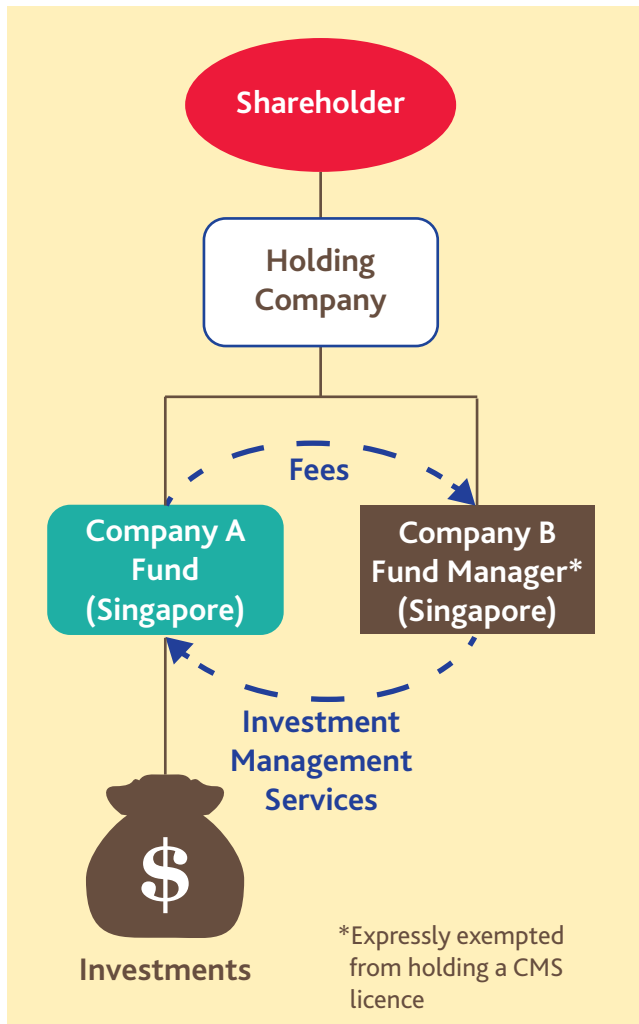
The general qualifying criteria for the renewable five years incentive are as follows: -

- a) the fund manager must hold a CMS licence or expressly exempted from holding a CMS licence in respect of its fund management activities;
- b) the fund manager must employ at least three investment professionals [e.g. who earns more than SGD 3,500 per month, and is engaged substantially in the FSI qualifying activities (e.g. portfolio managers, research analysts and traders)]; and
- c) the fund manager must have minimum Assets Under Management (AUM) of SGD 250 million.

The MAS may consider other factors including projections for growth in professional headcount, AUM and business spending.

FAMILY OFFICE

Applicability of Fund Incentives



Family Office

- Family offices typically are entities which assume day-to-day management and administration of the assets and wealth of high net worth individuals or families.
- The reasons for setting up a family office vary, but generally for the purposes of ensuring a smooth intergenerational transfer of wealth, reducing intra-family disputes, governance and management structure, alignment of interest, potential higher returns, centralisation of risks and services, succession planning, etc.

Applicability of Fund Incentives (a possible structure)

- The Fund may be set up in the form of a SG incorporated company (i.e. Company A), which will be wholly owned by a holding company. The holding company will in turn be owned by an individual Shareholder.
- The Shareholder, owning bankable assets, will inject these assets into the Fund.
- The Shareholder will set up another SG incorporated company (i.e. Company B) which is also wholly owned by the holding company to act as the fund manager of the Fund.
- As both the Fund and Company B are wholly owned by the Shareholder and there are no third party funds under management, Company B should be exempt from the requirement to be licensed or registered under the Securities and Futures Act.
- Subject to certain conditions, the Fund may be able to qualify under the fund incentive schemes (i.e. Section 13R or Section 13X) and enjoy tax exemption.

HOW BDO CAN HELP

Global Private Client Services

Assessment of the current holding structure	Design of the new optimal structure/ update of the existing one	Analysis of the tax efficient way to migrate to the new structure	Implementation maintenance and monitoring	Controversy
<p>FACTORS TO CONSIDER</p> <ul style="list-style-type: none">• Is the current structure tax efficient and allows for succession planning?• What are the reporting obligations associated with the structure and are they complied with?• Is the structure sustainable in the mid and long-term?• Will it be put at risk if the information disclosure requirements are tightened further?	<p>PROCESS</p> <ul style="list-style-type: none">• What is the balance between Client's tax and non-tax objectives?• What is the most sustainable asset holding intermediary vehicle (type, jurisdiction) to reach Client's objectives?	<p>POTENTIAL ISSUES</p> <ul style="list-style-type: none">• Are there any capital gains in the source country upon the transfer of the assets into the new structure to be mitigated?• Will the migration require releasing to the authorities information about the old structure?	<p>GOING FORWARD</p> <ul style="list-style-type: none">• How to implement the structure correctly to make it sustainable?• How to set up the routine processes to duly comply with all reporting/administrative requirements?• How often shall the structure be reviewed to ensure that it is not endangered by the recent legislative developments?	<p>TAX AUTHORITIES</p> <ul style="list-style-type: none">• To effectively respond to queries from the tax authorities in cases where the holding structure is challenged

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