Singapore fund management incentives

March 2014

pwc

Singapore Fund Management Incentives

This paper contains a summary of the tax implications and available incentives for fund managers wishing to operate in Singapore. The summary is not intended to constitute a complete analysis of all the tax considerations relating to this complex area, and specific advice should be taken in relation to any intended activities in Singapore.

Basic tax regime

A person in Singapore who manages a fund (whether offshore or onshore) on a discretionary basis will create a taxable presence for the fund in Singapore. In the absence of a tax treaty or tax incentive, income and gains of the fund due to the activities of a Singapore fund manager will potentially be taxable in Singapore even if the fund is not incorporated in Singapore. However, Singapore's domestic legislation provides safe harbour provisions for such funds, details of which are given below.

Offshore fund regime

An offshore fund managed by a Singapore-based fund manager will be exempt from tax on income from designated investments if the fund is a "prescribed person". A fund will generally qualify as a prescribed person, if it is not resident in Singapore and not 100% owned by Singapore investors.

In addition, each of the investors in the fund needs to be a qualifying "relevant owner" in order to enjoy the tax exemption on their share of the fund's income and gains (please note that this is separate from tax on the fund's distributions). An investor will not be a qualifying relevant owner if, essentially, he is a Singapore based non-individual who owns more than 30% (50% in some cases) in the fund.

The tax exemption covers all income and gains in respect of designated investments, unless they fall within an exclusion list. The list of designated investments includes most types of investment like stocks, shares, securities, derivatives etc. Notably, immovable property in Singapore is excluded.

If the investor is not a qualifying relevant owner, he will have to pay a financial amount to the Singapore tax authority, which is effectively equivalent to the corporate income tax payable on his share of the income and gains of the fund. This payment is regarded as a penalty and not a tax payment. Care should be taken to ensure that tax is not also payable on the investor's share of the fund's income (e.g. when it is distributed and brought into Singapore), as no set-off is available between the two. The best approach is to take steps to ensure that all of the investors in the fund are qualifying relevant owners in the first place.

Singapore resident fund scheme

The Singapore Resident Fund Scheme was introduced to encourage fund managers to base their fund vehicles in Singapore, by giving Singapore based funds the same tax exemptions given under the offshore fund regime (e.g. to a Cayman Islands fund). The main advantage of using a Singapore fund over a tax haven based fund is the access to

Singapore's large tax treaty network, which now stretches to over 70 countries.

An additional advantage of the Singapore Resident Fund Scheme is that the potential double charge that may arise under the Offshore Fund regime (i.e. where both a financial penalty and tax may be paid) should not occur for a Singapore resident fund. This is because dividend payments from a Singapore fund are exempt from Singapore tax.

Specific approval must be sought from the Monetary Authority of Singapore (MAS) to access the tax exemption under the Singapore Resident Fund Scheme and conditions are imposed. In particular, the fund vehicle must be a company and have its administration performed in Singapore.

Enhanced-tier fund scheme

Like the Offshore Fund regime and the Singapore Resident Fund Scheme, the Enhanced-Tier Fund Scheme provides a tax exemption for income and gains on designated investments.

Applying to both Singapore based funds and offshore funds, the Enhanced-Tier Fund Scheme provides greater flexibility to fund managers in sourcing their mandates. The main advantage of this scheme is that there is no restriction on the percentage of Singapore investors in the fund, and the financial penalty is eliminated. In addition, there are fewer restrictions over the choice of fund entity or its place of constitution or residence. As with the Singapore resident fund scheme, MAS approval is required for this status.

Some of the MAS requirements include a minimum fund size of SGD50 million at the time of application, and the need to file a tax return every year, whether the fund is constituted in Singapore or not. Generally, this should be a nil return, of course.

Fund management incentive

The Financial Sector Incentive for fund managers, the FSI-FM award, aims to promote fund management activities in Singapore. The award provides a concessionary tax rate of 10% for fund management and investment advisory activities, subject to certain conditions being met. For new applicants to qualify for a minimum 5 year award, the qualifying criteria are that the applicant:

i. must be registered with or licensed by the MAS to carry out fund management or investment advisory activities in Singapore under the Securities and Futures Act;

ii. must have minimum assets under management of at least SGD 250 million; and

iii. must have at least three professional staff engaged in fund management or investment advisory services. 'Professional' is defined as a person that earns more than SGD 3,500 per month, and is engaged substantially in the FSI qualifying activity (e.g. portfolio managers, research analysts and traders).

In addition, when assessing the eligibility of the applicants for the FSI-FM award, the MAS may also take into consideration factors such as growth targets for assets under management, business spending and the number of professionals employed by the applicant.

Summary

Singapore provides a conducive and tax efficient environment to carry on fund management activities by providing a safe harbour to the fund and a beneficial tax rate for the fund manager's own income. Although the choices appear fairly straightforward, the devil, as always, is in the detail and no one size fits all. As a result, none of this should be tried at home, at least not without professional guidance.

How PwC can help you

PwC is a global market leader for tax services. Our tax practice is among the largest in Singapore. With more than 250 tax professionals and partners, we help individuals and businesses with tax strategy, planning and compliance, while also delivering a wide range of business advisory services. From fund management, treasury, transfer pricing to international tax planning, our specialist team of Investment Management tax experts can help provide you with the ideal tax solution to fit your particular business strategy.

Your PwC contacts:

Anuj Kagalwala	Partner	anuj.kagalwala@sg.pwc.com	65 6236 3822
Lim Maan Huey	Partner	maan.huey.lim@sg.pwc.com	65 6236 3702
Tan Hui Cheng	Partner	hui.cheng.tan@sg.pwc.com	65 6236 7557

pwc

Visit our Singapore tax website at www.pwc.com/sg/tax

8 Cross Street, #17-00 PWC Building, Singapore 048424 • Tel: 65 6236 3388 • Fax: 65 6236 3715