

Singapore Fund Management Incentives



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This paper contains a summary of the tax implications and available incentives for fund managers wishing to operate in Singapore. This 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 on a discretionary basis (whether offshore or onshore) 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 that fund manager will potentially be taxable in Singapore. However, the Singapore domestic legislation provides tax exemption to 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 specified income from designated investments if the fund is a qualifying fund. For a fund to be a qualifying fund, in general, it should not be resident in Singapore. In addition, it cannot be 100% owned by Singapore investors.

Specified income generally covers income and gains in respect of designated investments and the list of designated investments includes most types of investment like stocks, shares, securities, etc. Notably, immovable property in Singapore is excluded from the list.

Even though the fund is a qualifying fund, its investors still need to be qualifying investors in order to enjoy tax exemption on their share of the fund's income and gains (please note that this does not refer to distributions from the fund). A qualifying investor is specifically defined. However, cutting through the detail, a non-qualifying investor broadly covers Singapore corporate entities that beneficially own, alone or with their associates, more than 30% (50% if the fund has 10 or more investors) of the total value of the issued securities of the qualifying fund.

A non-qualifying investor has to pay a financial amount to the Singapore tax authorities which is effectively the corporate income tax on his share of the income and gains of the fund. It is however a penalty and not tax, so care should be taken to ensure that tax is not also payable on this income (e.g. when it is distributed and brought into Singapore), as there is no set-off between the two. This is therefore something to watch, for the offshore fund.

Singapore resident fund scheme

This scheme was introduced to encourage fund managers to base their fund vehicles in Singapore by giving the same tax exemptions (as for qualifying funds and qualifying investors described above) to these funds as a Cayman Island fund for example, would enjoy. The main advantage that a Singapore fund has over a tax haven-based fund is the access to Singapore's large tax treaty network with over fifty countries. Specific approval has to be sought from the Monetary Authority of Singapore (MAS), subject to certain conditions. In particular, the fund vehicle has to be a company and have its administration performed in Singapore.

In addition, the potential double charge described above, where both the financial penalty and tax can be paid, should not occur for the Singapore resident fund. This is because dividend payments from an onshore fund are exempt from Singapore tax.

Enhanced-tier fund scheme

Introduced in early 2009, this 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. In other words, the conditions that govern the qualifying fund and its qualifying investors are not relevant. As with the Singapore resident fund scheme, MAS approval is required for enhanced-tier fund status. Some of the MAS requirements include a minimum fund size of SGD50 million at the time of application and a tax return to be filed annually. Generally, this should be a nil return, of course.

Fund management incentive (FSI-FM)

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

- i. must be licensed or exempted from having a capital markets services licence in respect of its fund management or investment advisory activities; and
- ii. must have at least three professional staff engaged only in fund management or investment advisory services. 'Professional' is defined as an executive who earns a basic monthly income of more than SGD 3,500, and is engaged substantially in the FSI qualifying activity.

- iii. In addition, the MAS may also take into consideration factors like growth targets in terms of assets under management, business spending and the number of professionals when assessing the eligibility of the applicants for the FSI-FM award.

As it can be seen, 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 manager's own income. Although the choices are fairly straightforward, there are still many devils in the detail and no one size fits all.

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