

# Enhancements to tax incentives for Singapore's investment management industry

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The 2009 Budget was presented by the Singapore government on 22 January 2009. The following measures announced in relation to the investment management industry generated considerable excitement despite the current market downturn.



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The 2009 Budget proposed certain enhancements to the tax incentive regime applicable to the investment management industry. These are:

## Introduction of an enhanced tier

An enhanced tier (ET), effective from 1 April 2009 to 31 March 2014, has been introduced.<sup>9</sup> ET status entitles FMs and the funds they manage to certain additional benefits, including:

- No restrictions imposed on the residency status of the fund vehicle or its investors;
- Fund vehicles constituted as limited partnerships can be entitled to tax exemption (as opposed to the current regime, which covers only individuals, companies and trusts).

In our view, the ET is a good concept as the existing tax incentive schemes are undisturbed. Thus, this avoids the potential complications of tweaking current rules.

The ET regime benefits Singapore-based FMs as it allows further access to Singapore investors' funds and seems to remove restrictions on the fund and location of the fund vehicle.

An application for ET status must be made to the MAS. The fund must have a minimum fund size of SGD 50m at the point of application. There are additional conditions to be met as well.

## Expansion of specified income and designated investment lists

Not all income derived by qualifying funds and approved Singapore-resident funds is tax exempt. Only 'specified income' derived from 'designated investments' enjoys this tax exemption. Both terms are defined.

The 2009 Budget announcements expand these definitions. The notable additions are qualifying Islamic investments, emission derivatives and adjudicated and non-adjudicated liquidation claims.

## Goods and Services Tax (GST) remission for Singapore funds

The exempt nature and character of fund income is such that Singapore funds generally have a problem registering for GST and, therefore, recovering the input GST on expenses that they incur in Singapore. Consequently, this may result in a 7% tax cost for Singapore funds.

The 2009 Budget announced GST relief for certain Singapore funds. The authorities have since issued a circular on 3 April 2009 on this remission scheme.

Broadly, and based on the circular, funds which meet qualifying conditions will be allowed to claim GST incurred on prescribed expenses based on a fixed recovery rate, without GST registration. The remission applies with effect from 22 January 2009 to 31 March 2014. Certain administrative procedures, however, will apply. The fixed recovery rate will be announced annually and has been set at 93% for the first year of remission.

## Conclusion

The Singapore government's bold initiatives in Budget 2009 indicate that the IM industry is still one of the pillars of growth for the Singapore economy. It also demonstrates the government's preparedness to listen to, and act on, industry feedback.

## Background

Currently, foreign funds managed by fund managers (FM) in Singapore are exempt from tax on specified income from designated investments if certain conditions can be met. Broadly, the main conditions require the funds to be 'qualifying funds' (i.e. not wholly owned by Singapore investors) and the investors of these funds to be 'qualifying investors'. Non-qualifying investors<sup>8</sup> will be subject to 'tax', referred to as a 'financial amount'.

In addition, fund companies incorporated and resident in Singapore, subject to conditions being met, may also be approved by the Monetary Authority of Singapore (MAS) as approved Singapore-resident fund companies. These companies also enjoy tax exemptions for specified income from designated investments.

<sup>8</sup> Generally, non-qualifying investors are non-individual Singapore investors who own substantial stakes in the funds (generally more than 30% or 50%).

<sup>9</sup> On 30th April, the MAS issued a circular providing details of the enhanced tier. Please see <http://www.pwc.com/sg/harvest-investment-management/assets/harv200905.pdf>

# Global Asset Management contacts

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