



Budget 2019

Asset & Wealth Management

Key Proposals

pwc

The Minister of Finance delivered the Singapore Budget 2019 on 18 February 2019.

This was the year of renewal for the asset & wealth management sector. It has been announced that the schemes under Section 13CA, 13R and 13X will be renewed for another 5 years up to 31 December 2024. In addition, the various rules under these schemes have been refined and improved upon.

The Singapore Government has listened to industry feedback and PwC welcomes the announcements. We see the asset and wealth management sector ushering in a new era.

The key refinements are highlighted below. The details will be announced by MAS in May 2019.

13CA and 13R Schemes

Removal of the “not owned 100% by Singapore persons” test

With effect from the year of assessment (YA) 2020, this test will be removed. Accordingly, a fund that is 100% owned by Singapore persons can seek to rely on the 13CA or 13R Scheme. The qualifying investor tests under 13CA and 13R Schemes continue to apply.

Among others, this should be of appeal to Singapore based family offices who may not be able to meet the 13X conditions but can now seek to rely on the 13R Scheme.

No requirement to issue annual statements to qualifying investors

It has been clarified that instead of issuing annual statements to all investors of 13CA or 13R funds, fund managers of such funds can issue annual statements to only non-qualifying investors and publish relevant information on their website for all investors to assess whether they breach the “qualifying investor” test.

Considering that most funds operate in a manner such that there are no non-qualifying investors, this essentially removes an administrative burden. However, do note the need to make the information available on the website.

13R Scheme

Condition to not derive income before 13R application filed now modified

The current rule does not allow a fund to file a 13R application if it has derived income prior to the filing. It has been clarified that this will be modified.

Going forward, funds that have derived incidental income can apply for 13R Scheme. The incidental income should be from (a) warehousing of investments, (b) placement of monies in deposits or money market instruments on a temporary basis and (c) setting up bank accounts in anticipation of commencing operations.

This eases the pressure on a fund to time its 13R application.

13X Scheme

Co-investments allowed in Master-Feeder-SPV and Master-SPV structures

The requirement to have special purpose vehicles (SPVs) in Master-Feeder-SPV and Master-SPV structures (“umbrella 13X structure”) to be wholly-owned by the master fund will be waived where the co-investors investing in the SPVs are compliant with other incentive schemes (i.e. 13CA, 13R, or 13X) or are foreign investors. This change will take effect on or after 19 February 2019.

This is a welcome move since the industry is seeing an increasing number of co-investments and the present rules put co-investments at a disadvantage. The impediment has been removed with this Budget announcement.

Umbrella 13X structure to allow use of SPVs in any legal form and use of more than two tiers of SPVs

The requirement for SPVs in umbrella 13X structure to be set up in the form of companies and restriction to cover only two-tiers of SPVs will be removed. This change will take effect on or after 19 February 2019.

The removal of the above conditions allows fund managers to use entities of any legal forms as the SPVs and create multiple layers of SPVs depending on commercial and other needs provided the economic commitments can be met by the umbrella 13X structure.

Committed capital concession extended to debt and credit funds

On or after 19 February 2019, the committed capital concession to determine fund size, which is currently available for private equity, real estate and infrastructure funds, will be extended to debt and credit funds.

Further, it has been clarified that private equity fund of funds are allowed to rely on the above concession.

13X Scheme for managed accounts

On or after 19 February 2019, the 13X Scheme can now be applied to managed accounts. A managed account refers to a dedicated investment account where an investor places funds with a fund manager without the use of a separate fund vehicle.

The 13X Scheme presently requires applicant fund to be an investment vehicle that does not carry out any active business operations other than investment business, which is typically not met in the context of managed accounts. The specific inclusion of managed accounts under the 13X Scheme should help mitigate the Singapore tax consequences arising from management of offshore managed accounts by fund managers in Singapore.

Withholding tax exemption extended to 31 December 2024

The withholding tax exemption for interest-related payments made by funds under the 13CA, 13R and 13X schemes will be extended to 31 December 2024.

Goods and Services Tax remission extended to 31 December 2024

Goods and Services Tax remission scheme for funds under the 13CA, 13R and 13X schemes will be extended to 31 December 2024.

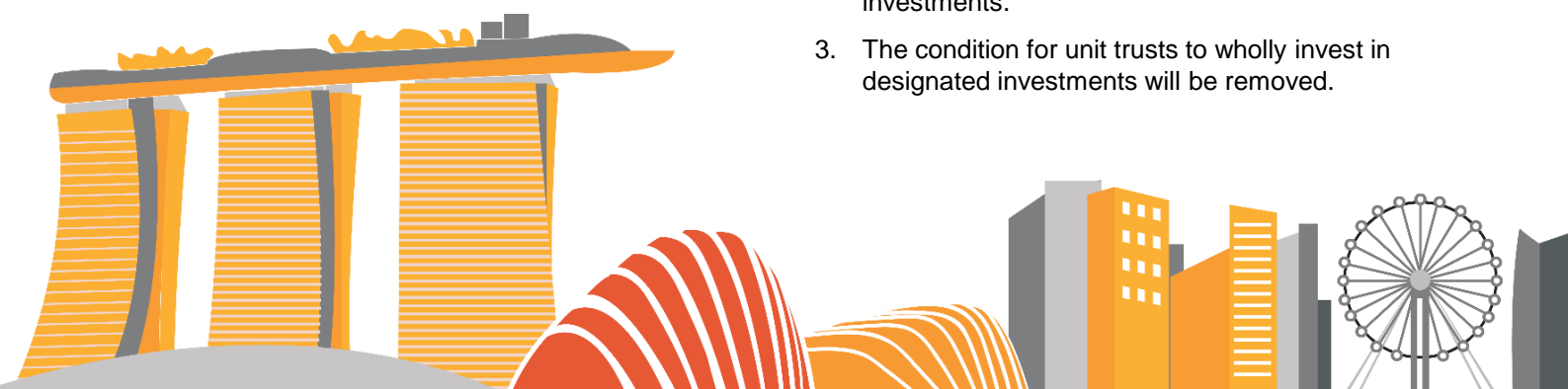
Enhancement to designated investments list

The designated investments list has been expanded as follows on or after 19 February 2019:

1. Currency and counterparty restrictions will be removed. This is expected to apply to the following items.

Designated investment limbs

- a. Securities - (i) denominated in foreign currency issued by foreign governments; (ii) listed on any exchange; (iii) issued by supranational bodies; or (iv) issued by any company (but excluding those in the business of trading or holding Singapore immovable properties (other than the business of property development) and not listed on a stock exchange)
 - b. Foreign currency deposits held outside Singapore with financial institutions outside Singapore
 - c. Deposits held in Singapore with any approved bank as defined in section 13(16) of the Act
 - d. Interest rate or currency contracts on a forward basis, interest rate or currency options, interest rate or currency swaps, and any financial derivative relating to any designated investment or financial index, with certain counterparties
 - e. Loans granted to certain counterparties
2. The list will be expanded to include new items like credit facilities and advances and Islamic financial products that are commercial equivalents of designated investments. Further, it is expected items such as emission allowances, accounts receivable and letters of credit will also be included in the definition of designated investments.
 3. The condition for unit trusts to wholly invest in designated investments will be removed.



Specified income list to include Singapore-sourced interest income

Currently, specified income excludes Singapore sourced interest income (commonly referred to as 12(6) income). With effect from 19 February 2019, such 12(6) income will not be excluded (for example, interest income from loans given to Singapore borrowers may potentially qualify for tax exemption). This change is of particular good news to bonds funds and credit funds. The announcement is in line with the Government's intent to support lending to Singapore businesses.

Investment in S-REITs and REIT ETFs qualify for 10% concessionary rate

Non-resident funds under 13CA and 13X Schemes can now enjoy the 10% concessionary tax rate applicable to qualifying non-resident non-individuals when investing in S-REITs and REIT ETFs. This enhancement will apply to S-REITs and REIT ETFs distributions made during the period from 1 July 2019 to 31 December 2025.

Designated Unit Trust scheme to be subsumed under other schemes

The Designated Unit Trust (DUT) Scheme will be subsumed into the 13CA and 13X Schemes after 31 March 2019. Existing DUT funds will continue to receive the tax deferral benefits under the DUT Scheme on or after 1 April 2019, if they continue to meet all the requisite conditions.

Approved Unit Trust to lapse

The Approved Unit Trust (AUT) Scheme will be allowed to lapse after 18 February 2019. As a transitional measure, existing AUTs will continue to be able to enjoy the tax concession under the AUT Scheme for a period of five years from YA 2020 to YA 2024.

S-REITs, REIT-ETFs and Registered Business Trusts

To continue to promote the listing of REITs and REIT-ETFs in Singapore, the existing tax concessions for S-REITs and REIT-ETFs will be extended till 31 December 2025.

Further, the sunset clause for the tax exemption on S-REITs and REIT-ETFs distributions received by individuals will be removed.

All other conditions for the income tax concessions remain the same.

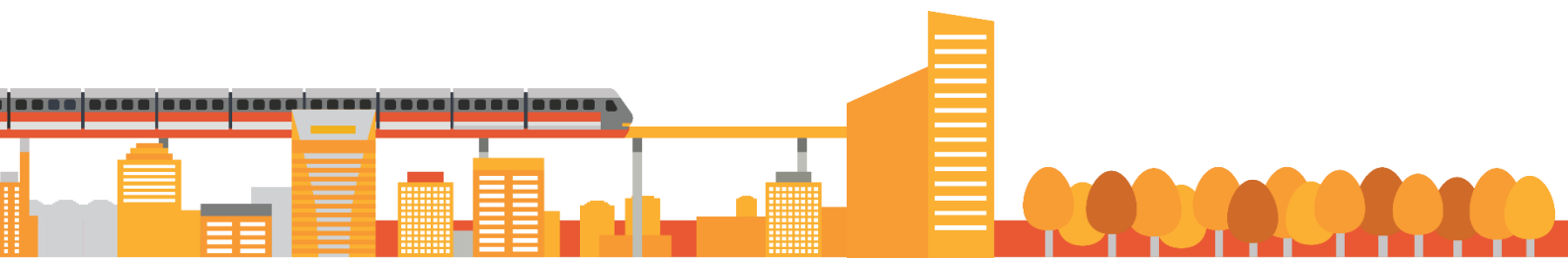
Further, to continue facilitating the listing of S-REITs and Registered Business Trusts in the infrastructure business, ship leasing and aircraft leasing sectors, the existing GST remission will be extended till 31 December 2025. All conditions for the GST remission remain the same.

In conclusion

All in all, this year's Budget is very favourable for the asset and wealth management sector, in particular for those in the debt and credit space. The refinement of the incentive conditions in particular addresses key issues of the current incentive schemes and simplifies the administration of such schemes.

We are optimistic that these changes, along with the implementation of the Variable Capital Company framework in Singapore later this year, will bring Singapore's asset and wealth management sector to the next level.

For more details on Budget 2019 changes, visit pwc.com/sg/en/budget-2019



Contact us



Anuj Kagalwala

Partner, Asset and Wealth Management Tax Leader
PwC Singapore
+65 6236 3822
anuj.kagalwala@sg.pwc.com



Lim Maan Huey

Partner, Asset and Wealth Management Tax
PwC Singapore
+65 6236 3702
maan.huey.lim@sg.pwc.com



Tan Hui Cheng

Partner, Asset and Wealth Management Tax
PwC Singapore
+65 6236 7557
hui.cheng.tan@sg.pwc.com

