

Singapore Budget – Announcement on S-VACCs

Last year, the Monetary Authority of Singapore (MAS) issued a consultation paper on the Singapore Variable Capital Company (S-VACC) framework, which created buzz in the industry. However, tax considerations were not discussed in the paper. The long awaited good news on the tax treatment for S-VACCs are finally released in this year's Budget.

20 February 2018

Tax incentives extended to S-VACCs

It has been announced that the tax incentives under sections 13R and 13X (the “Schemes”) of the Income Tax Act and the Goods and Services Tax (GST) remission for funds approved under these schemes will be extended to S-VACCs.

What does this mean?

Under these schemes, S-VACCs can achieve tax neutrality provided that they derive only “specified income” from “designated investments”. Fund managers approved under the Financial Sector Incentive – Fund Management (FSI-FM) Scheme will also enjoy a 10% concessionary tax rate on income derived from managing S-VACCs approved under the 13R/13X Schemes. S-VACCs will therefore be positioned on a level playing field vis-à-vis the current investment funds approved under 13R/13X Schemes.

S-VACC treated as a single entity for tax purposes

One of the key features of S-VACCs is that it can be set up as a standalone fund or as an umbrella structure with multiple sub-funds and share-classes. In this year's Budget, it has been clarified that S-VACCs will be treated as a company and as a single entity. Further, from a tax administration standpoint, the Budget has clarified that only one set of tax return needs to be filed with the IRAS by each S-VACC whether it is standalone or an umbrella structure. This is a simple and positive approach. This should help reduce costs and administrative burden on fund managers using S-VACCs.

How should 13R and 13X conditions apply to S-VACCs with several sub-funds?

The conditions under the existing schemes continue to apply to S-VACCs. Two of the conditions under the 13X Scheme are that the applicant fund needs to have a minimum fund size of \$50 million at the point of application and an annual local business spend of at least S\$200,000. Since the Budget clarified that a S-VACC will be treated as a company and a single entity for tax purposes, it should follow that the \$50 million condition and the S\$200,000 local business spend condition applies at S-VACC level regardless of the number of sub-funds within the S-VACC. Similarly, the shareholding test and the \$200,000 annual business spending requirement under Section 13R should apply at the S-VACC level rather than at the level of each sub-fund. Whether this interpretation is appropriate will be confirmed once the final details are made available in October 2018.

What more needs to be addressed?

Retail funds set up as S-VACCs may face practical difficulties in meeting the \$50 million fund size condition at the point of set up, though it may cross that level subsequently. Such funds are typically sold to investors through third-party distributors and the fund managers may not have information on the profile of the investors to confirm that the 13R scheme conditions can be met. We hope that in time to come, the 13X conditions for S-VACCs can be tailored to more substance-based conditions to facilitate the uptake for the retail sector.

The current 13R/13X Schemes also provide for withholding tax exemption on interest-related payments made by approved 13R/13X funds, subject to conditions. The Budget was silent on whether this withholding tax exemption would similarly be extended to S-VACCs. We hope this would be clarified in the further details on the tax framework for S-VACCs to be released by October 2018. This could otherwise limit the use of S-VACCs by funds whose strategy involves leverage.

Effective date

The tax changes will take effect on or after the effective date of the S-VACC regulatory framework. The S-VACC regulatory framework is currently going through the legislative process and it is estimated that the tax changes will only take effect in 2019.

A separate matter - Enhancement to the 13X Scheme

As a separate matter, the Budget has also announced that the 13X Scheme which currently applies to funds that are set up as companies, trusts and limited partnerships, has been extended to funds set up in any legal form (with effect from 20 February 2018). This is a positive development since this opens up options for fund managers who may set up funds in other forms such as Limited Liability Partnerships, Luxembourg fonds commun de placement (FCP) and so on. Further details will be released by May 2018.

Conclusion

The Singapore authorities continue to be progressive and supportive of the asset and wealth management industry. In particular, S-VACCs are expected to give an edge to Singapore in becoming the preferred centre to domicile and manage investment funds. We also expect that this will bring about positive spin-offs to the entire financial services ecosystem in Singapore.

Your PwC contacts

If you would like to discuss the impact of these developments, please feel free to reach out to our PwC experts.

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