

Changes to the Singapore fund tax incentive schemes

3 October 2024

On 1 October 2024, the Monetary Authority of Singapore (“**MAS**”) issued a circular (FDD Cir 10/2024) titled “Tax Incentive Schemes for Funds” (the “**Circular**”) providing details of the extension and revisions to the fund tax incentive schemes provided under sections 13D, 13O and 13U of the Income Tax Act 1947 (“**ITA**”) and details of the new fund tax incentive scheme for Singapore limited partnership funds under section 13OA of the ITA (collectively, the tax exemption schemes for funds under 13D, 13O, 13OA and 13U are known as “**Fund Tax Incentive Schemes**” or individually, “**13D Scheme**”, “**13O Scheme**”, “**13OA Scheme**” and “**13U Scheme**”).

The key points of the Circular are summarised below. The enhancements and revisions to the qualifying conditions of the Fund Tax Incentive Schemes apply to non-Single Family Office (“**SFO**”) funds except those pertaining to the 13D Scheme will apply to both SFO funds and non-SFO funds.

Extension of Fund Tax Incentive Schemes and related remission schemes

The expiry date of 13D, 13O and 13U Schemes has been extended to 31 December 2029. In addition, the Goods and Services Tax (GST) remission scheme and withholding tax (WHT) exemption scheme for funds enjoying the 13D, 13O and 13U tax exemption have similarly been extended to 31 December 2029.

Minimum assets under management (“**AUM**”) for both 13O and 13U schemes

The economic conditions for existing and new funds will be revised with effect from 1 January 2025. Subject to the exceptions under the transitional arrangements as outlined below, 13O and 13U funds must meet a minimum AUM requirement as at the end of each Financial Year (“**FY**”) as follows:

- 13O Scheme – S\$5 million in designated investments (“**DI**”)
- 13U Scheme – S\$50 million in DI

With effect from 1 January 2025, the AUM of a fund shall be computed using the value of investments held by the fund that qualify as DI instead of net asset value of the fund.

In general, we expect funds managed by Singapore fund management companies (“**SG FMCs**”) to be able to meet the AUM requirement. However, as the AUM condition needs to be met by end of each FY, possible issues can arise for funds who have divested or have faced redemptions but still need to continue holding the tax incentive. This could be true for open-ended funds and closed-ended funds.

SG FMC managing closed-ended funds could consider moving the standalone 13O and 13U funds along with other fund entities within the fund structure into a Master-SPV or Master-Feeder-SPV 13U structure and/or opt for the closed-ended fund treatment. Please refer to the discussions below. Careful consideration would be required before making a final choice.

In the longer run, it is hoped that MAS provide funds flexibility in how this requirement is to be met taking into account commercial circumstances.

Minimum local business spending (LBS) for both 13O and 13U schemes

Subject to the exceptions under the transitional arrangements as outlined below, the LBS for the FY will be as follows:

AUM in DI as at the end of the FY (S\$)	Minimum LBS for the FY (S\$)
AUM < 250 million	200,000
250 million ≤ AUM < 2 billion	300,000
AUM ≥ 2 billion	500,000

The changes are consistent with Singapore's longstanding tax policy of granting tax incentives to entities with economic substance in Singapore. Setting the economic spend conditions based on AUM is also sensible given most funds use management fees to satisfy this requirement and management fees are often a function of the AUM.

Option for closed-ended funds to fulfil conditions on a cumulative basis for both 13O and 13U Scheme

To provide greater tax certainty for closed-ended funds, closed-ended funds can make an irrevocable election for a "closed-ended fund treatment". Under this option, the fund enjoy flexibility in meeting the AUM and LBS conditions. New funds must make an election at point of application and existing funds may make such an application at any time during the life of the fund. However, any election into the "closed-ended fund" treatment would be considered a new incentive application by the fund. The closed-ended fund treatment is voluntary.

The "closed-ended fund treatment" is summarised below.

- The annual AUM requirement will only have to be met from the fund's first incentive year to the fifth incentive year (inclusive), and will be waived from the sixth incentive year onwards.
- The annual LBS condition will have to be met on a cumulative basis up to the tenth incentive year (inclusive) and will be waived from the eleventh incentive year onwards.
- The fund is required to have its award revoked with effect from the end of its divestment phase, or the day immediately after its 20th incentive year, whichever is earlier, in line with the premise that the fund has a fixed lifespan.

This is indeed a positive change and the Government has taken upon industry feedback in reviewing the changes. There are some areas which need clarification which we expect will be provided by MAS. Such things include clarification on the meaning of "divestment phase" for the purposes of determining the revocation date of the tax incentive award. It is common for funds to be maintained for a few years even after completely disposing its investments (e.g. to fulfil certain warranties in the sales and purchase agreement) before the funds are liquidated. Hence, the divestment phase should include the period from the commencement of disposal of the investments until the liquidation of the fund.

Changes to investment objective / strategy for both 13O and 13U funds

The condition for 13O and 13U funds to invest within the MAS approved investment objective or strategy will be removed. However, do note that the investment objective or strategy of the fund should be within the scope of what the fund is mandated to do under its offering document or investment management agreement (or its equivalent). The funds should continue to update the MAS of any change in its investment strategy.



Specific changes to the 13O Scheme

Revisions to economic conditions

The table below sets out a comparison of the revised conditions based on the commencement dates of the awards for the funds. A grace period will be granted for existing funds with 13O awards commencing prior to 1 January 2025 and these funds will only need to meet the revised conditions with effect from the Year of Assessment ("YA") 2028 (i.e. financial year ending in 2027).

Qualifying conditions	Existing conditions	New awards commencing between 1 January 2025 to FY ending in 2026	New awards commencing from FY ending in 2027 and after	Existing awards commencing prior to 1 January 2025	
				FY ending in 2026 and before	FY ending in 2027 and thereafter
Minimum AUM condition	No minimum AUM condition	<u>First and second year of tax incentive:</u> No minimum AUM condition <u>By the end of the third year of the incentive and as at end of each FY thereafter:</u> S\$5 million in DI		No minimum AUM condition	S\$5 million in DI at the end of each FY
Minimum number of investment professionals ("IPs") employed by the SG FMC throughout the basis period	No minimum IP requirement	<u>For FY before 2027:</u> No minimum IP requirement <u>For FY ending in 2027 and after:</u> 2	2	No minimum IP requirement	2
Minimum annual business spending requirement	S\$200,000 total business spending (TBS)	<u>For FY before 2027:</u> S\$200,000 TBS (no change) <u>For FY ending in 2027 and after:</u> Tiered LBS of S\$200,000 to S\$500,000 based on AUM in DI as at the end of each FY	Tiered LBS of S\$200,000 to S\$500,000 based on AUM in DI as at the end of each FY	S\$200,000 TBS	Tiered LBS of S\$200,000 to S\$500,000 based on AUM in DI as at the end of each FY

Removal of the condition that a 13O fund must be a newly set-up company

Currently, 13O funds cannot acquire investments before the commencement date of the 13O award, with certain exceptions. With effect from 1 January 2025, this restriction will be removed.

This is a simple but significant improvement since the condition caused unnecessary practical issues in timing the funding and filing of 13O applications.

Funds established as a Singapore company, a variable capital company (VCC), or a limited partnership that are not expected to meet the revised conditions under the 13U Scheme (refer to discussion below) may consider applying for the 13O or 13OA Scheme (as appropriate) on or after 1 January 2025. Consideration should be given to other conditions of the 13O or 13OA Scheme such as the investor tracking requirements.

Other changes

With effect from YA 2025, the qualifying investor test under 13O Scheme will be waived for investors that are trusts or unit trusts incentivised under 13D Scheme.

13OA Scheme (New Scheme effective from 1 January 2025)

To cater to private equity and venture capital funds with smaller AUMs which are commonly structured as limited partnerships, a new section 13OA has been introduced for limited partnership funds established and registered in Singapore. The qualifying conditions under the 13OA Scheme are similar to that under the 13O Scheme and will be applied at the partnership level.

Specific changes to 13U Scheme

Revision of economic conditions

For new awards commencing from 1 January 2025, the economic conditions for new and existing awards will be revised as follows:

Award commencement date	Comparison to conditions prior to 1 Jan 2025	New revised conditions
Minimum AUM condition	S\$50 million at point of application	<u>At the point of application and as at end of each FY thereafter:</u> S\$50 million in DI
Minimum number of IPs employed by the SG FMC throughout the basis period	3	3 (no change)
Minimum annual business spending requirement	S\$200,000 LBS	Tiered LBS of S\$200,000 to S\$500,000 based on AUM in DI as at the end of each financial year

Similar to the 13O Scheme, for **13U incentive awarded commencing prior to 1 January 2025**, a grace period will be granted so that the funds will only need to meet the revised conditions with effect from the YA 2028 (i.e. financial year ending in 2027).

Removal of additional minimum AUM and LBS conditions for 13U Master-Feeder, Master-SPV and Master-Feeder-SPV structures

This is perhaps one of the most significant enhancements announced. Currently, under the 13U Master-Feeder, Master-SPV and Master-Feeder-SPV framework, the economic conditions (AUM and LBS) are generally multiplied by the number of entities under the approved 13U structure. For example, if a fund structure comprises one master fund and two SPVs, the fund is subject to AUM requirement of S\$150 million and annual LBS of S\$600,000. Recognising that there is not always a strong co-relation between a fund's AUM and LBS and the number of SPVs or trading feeder funds, the additional AUM and LBS requirement for each additional SPV or trading feeder fund will be removed from 1 January 2025. This means that with effect from 1 January 2025, 13U Master – Feeder, Master-SPV and Master-Feeder-SPV structures will only need to meet one set of economic conditions, collectively.

13D Scheme

Currently, there is no specified economic condition under the 13D Scheme.

With effect from YA 2028 (financial year ending 2027), 13D funds must be managed or advised by a SG FMC which employs at least one IP. There are no minimum salary requirements for this IP (unlike the 13O and 13U schemes).



Specified income from designated investments

The Fund Tax Incentive Schemes provide Singapore income tax exemption on "specified income" derived from "designated investments". The MAS has clarified the following in relation to the list of designated investments:

- Real equity interest¹ in real estate investment funds constated in any form, including real estate funds that are not legal entities (not already covered in other sub-paragraphs of the list of designated investments), other than real estate investment funds that –
 1. Invest in Singapore immovable properties; or
 2. Hold stocks, shares, debt or any other securities, that are issued by any unlisted company that is in the business of trading or holding of Singapore immovable properties (other than one that is in the business of property development).
- A partnership carrying on only investment activities through a Singapore fund manager is not considered to be carrying on a trade, business, profession or vocation in Singapore.

Conclusion

The revision of the conditions is largely positive and anchored around economic substance from a policy perspective. We welcome the announcements and believe that the industry would benefit from these changes.

¹ Equity interest in a real estate fund refers to a right or interest to share in the profits of the fund, and may include units, shares, or securities in the fund.

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