



Tax Bulletin



Newsletter

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Updates to the Financial Sector Incentive (FSI)

In brief

The following tax schemes were first announced in the Singapore Budget 2025 on 18 February 2025:

- An additional concessionary tax rate (CTR) tier of 15% for the Financial Sector Incentive (FSI) schemes; and
- New FSI schemes for fund managers providing an enhanced CTR of 5% and tax exemption for certain types of income according to the listing status and management of listed equities respectively in Singapore.

The Monetary Authority of Singapore (MAS) provided further details in a circular (FDD Cir 05/2025) dated 3 July 2025.

In detail

A. New 15% FSI-basic tier schemes

The following basic tier (BT) awards have been introduced, allowing financial institutions to access a new CTR of 15%:

- FSI-Basic Tier (FSI-BT);
- FSI-Trustee Companies (Basic tier) (FSI-TC-BT);
- FSI-Headquarter Services (Basic tier) (FSI-HQ-BT).

These schemes cover the same qualifying activities as the existing FSI-Standard Tier (FSI-ST), FSI-Trustee Companies (FSI-TC) and FSI-Headquarter Services (FSI-HQ) schemes respectively. In addition, the withholding tax (WHT) exemption for interest payments on qualifying loans made to qualifying non-residents, currently available to FSI-HQ companies, will also apply to FSI-HQ-BT companies during their award tenure.

Applications for the BT awards are open from 19 February 2025 to 31 December 2028 (both dates inclusive), for incentive periods starting from 1 January 2025. Existing FSI-ST, FSI-TC and FSI-HQ award holders may also apply for the BT awards. Their current award will be terminated once the BT award is granted. Each BT award lasts 5 years.

PwC's comments

The BT awards with CTR of 15%

As a member of the OECD / G20 Inclusive Framework, Singapore has introduced a top-up tax regime that is consistent with the Global Anti-Base Erosion Model Rules (GloBE) rules. The introduction of a 15% CTR under the new BT schemes should provide some flexibility for Singapore entities of a group company affected by the GloBE rules, to choose between continuing with their existing incentives with CTR of 10%, 12% or 13.5% and potentially paying a top-up tax, or opting for the higher CTR which may mitigate their top-up tax exposure (although it should be noted that the 15% minimum effective tax rate under the top-up tax regime is computed on a different set of rules so a CTR of 15% will not automatically eliminate the top-up tax exposure).

Such a 15% CTR tier was first introduced in 2024 to incentive regimes targeted at the non-financial services sector such as the Development and Expansion Incentive. With a higher CTR, it is expected that the economic commitments for the BT awards should be lower than those of the FSI-Standard Tier, as was the case with the incentives for non-financial services sector. With that it should offer another avenue for businesses as they adjust their operations in the new tax environment.

That said, to some taxpayers, a marginal reduction of 2% (from the prevailing corporate tax rate of 17%) may not be attractive given that the BT schemes still come with certain economic commitments, as well as compliance requirements (e.g. incentive income classification) which the taxpayers are required to observe throughout the award tenure.

It is thus imperative for businesses to assess the cost and benefits of availing themselves of the BT schemes.

B. New FSI schemes for fund managers

The FSI-Fund Management scheme (renamed FSI-Fund Management (Standard Tier) or FSI-FM-ST) provides a CTR of 10% on income derived from managing or providing investment advisory services to qualifying funds, i.e. fund vehicles approved under sections 13D, 130, 130A and 13U of the Income Tax Act 1947 (ITA).

In August 2024, the Equities Market Review Group was set up to recommend measures to strengthen the equities market development in Singapore. Following this, Budget 2025 introduced two new schemes.

Table 1

New schemes	FSI-Fund Management Listing (FSI-FM Listing)	FSI-Fund Management Singapore Equities (FSI-FM SG Equities)
Purpose	To enhance Singapore's value proposition to fund managers seeking to scale up their activities via public fundraising and grow their investment activities in Singapore.	To support fund managers to launch and manage qualifying funds that invest substantially in Singapore-listed equities.
Tax benefit	CTR of 5% on qualifying income	Tax exemption on qualifying income from approved funds.
Who is eligible	Singapore fund managers (holding a capital markets services licence under the Securities and Futures Act 2001 (SFA) for fund management or that are exempted from holding such a licence); refer to the admission criteria.	
Admission criteria	<p>All the following conditions must be met:</p> <ul style="list-style-type: none"> The fund manager or the holding company of a wholly-owned fund manager achieves a primary listing on a Singapore exchange on or after 19 February 2025; The fund manager has a minimum Assets under Management (AUM) of at least S\$800m, in addition to a minimum number of investment professionals (IPs); and The fund manager is <u>not</u> an approved company or an approved nominee under the scheme for Listing Corporate Income Tax (CIT) Rebate for new corporate listings in Singapore (note the Listing CIT Rebate is administered by Singapore Economic Development Board and Enterprise Singapore). 	<p>All the following conditions must be met:</p> <ul style="list-style-type: none"> The fund manager has a minimum AUM of at least S\$250m, in addition to a minimum number of IPs (as defined); and The fund manager manages or provides investment advisory services to an approved fund. <p>An approved fund refers to a fund that has at least 30% of its AUM invested in Singapore-listed equities (including Registered Business Trusts and Real Estate Investment Trusts) and is approved by MAS. There is no restriction on the number of FSI-FM SG Equities awards that a fund manager may apply for.</p>

Qualifying income	Same scope as the existing FSI-FM-ST scheme.	Fees earned from managing or providing investment advisory services to an approved fund.
Commencement date of award	<p>The later of:</p> <ul style="list-style-type: none"> • 1 July 2025; • the date of application; or • the date when all the admission criteria stated above are met. <p>Application for in-principle approval can be submitted prior to the fund manager's (or its holding company's) date of listing on a Singapore exchange. The award will commence upon the fulfilment of all the admission criteria.</p>	<p>The later of:</p> <ul style="list-style-type: none"> • 1 July 2025; • the date of application; or • the date when all the admission criteria stated above are met.
Scheme duration	Open for applications till 31 December 2028	
Award tenure	5 years per <u>fund manager</u> ; non-renewable	5 years <u>per fund managed by fund manager</u> ; non-renewable
Annual criteria	<p>A fund manager granted the FSI-FM Listing award will concurrently be granted the FSI-FM-ST award, for which 10% CTR will take effect if the fund manager fails to meet any annual criteria and cannot avail of 5% CTR under the FSI-FM Listing award.</p> <p>The fund manager is required to comply with all the following conditions annually.</p> <p>'Listing' condition. The fund manager or the holding company of a wholly-owned fund manager must remain listed on a Singapore exchange for 5 years. If it is delisted during the award tenure, the FSI-FM Listing award will be revoked from the effective date of the award, and the fund manager is liable to pay an additional 5% corporate income tax (being the difference in CTR under the FSI-FM-ST scheme vs the FSI-FM Listing scheme) on the qualifying income (including that from past years) which was previously taxed at 5%.</p>	<p>A fund manager granted the FSI-FM SG Equities award will not be concurrently granted the FSI-FM-ST award. However, the fund manager can separately apply for the FSI-FM-ST award.</p> <p>The fund manager is required to comply with all the following conditions annually.</p> <p>'30% AUM' condition. The fund manager must ensure that the approved fund maintains at least 30% of its AUM invested in Singapore-listed equities throughout the financial year (FY) (calculated based on average monthly percentage and the FY of the fund manager).</p> <p>If the 30% AUM condition is not met in an FY, the award will be suspended for that FY. However, the fund manager may apply the 10% CTR for that year if it also holds FSI-FM-ST and fulfils the relevant requirements.</p>

Annual criteria	<p>‘IP’ condition. If the minimum IP condition is not met in an FY (relevant FY), the award will be revoked from the first day of the relevant FY, but tax benefits enjoyed in previous years are not clawed back.</p> <p>After the FSI-FM Listing award or FSI-FM SG Equities award (as the case may be) is revoked, the fund manager may avail itself of the 10% CTR on the qualifying income derived during the relevant FY and subsequent FYs under the respective award, if it also holds the FSI-FM-ST award and fulfils the relevant requirements.</p>	
	<p>‘Profit distribution’ condition. The fund manager must distribute at least 20% of its after-tax profits as dividend every FY. If the entity fulfilling the ‘Listing’ condition is the holding company of the fund manager, the fund manager must ensure that at least 20% of its after-tax profits is received as dividend by the listed holding company (regardless of the number of intermediate holding companies, if any), which must then also distribute at least 20% of the fund manager’s after-tax profits as dividends. If this condition is not met in an FY, the FSI-FM Listing award will be suspended for that FY.</p> <p>The fund manager may itself avail of the 10% CTR on the qualifying income under the FSI-FM-ST award for that FY if the relevant requirements are met.</p>	<p>‘Net inflow’ condition (applicable to Existing Funds only). For funds set up before 19 February 2025 (Existing Fund), the fund manager must ensure that the approved fund has annual net inflows (i.e. subscriptions less redemptions) of at least 5% of the fund’s AUM in the preceding FY.</p> <p>If the award does not cover an entire FY of the fund manager, the 5% requirement shall be pro-rated.</p> <p>If this condition is not met in an FY, the award will be suspended for that FY. However, the fund manager may apply the 10% CTR for that year if it also holds FSI-FM-ST and fulfils the relevant requirements.</p>

PwC’s comments

FSI-FM listings and FSI-FM SG equities schemes

The success of an equity capital market is contingent on many factors, from having aspiring businesses seeking new capital for expansion, a supportive infrastructure that provides necessary safeguards for capital formation, to market liquidity that facilitates price discovery. Tax incentive alone is not sufficient and would need to be coupled with other measures such as relaxation on listing requirement etc., to create a more vibrant equities market.

That being said, the tax schemes announced are useful and reflect the government's desire to deepen Singapore's equities market to complement the country's standing as a financial hub.

It remains to be seen how easily some of the annual requirements can be met, e.g. the ability of a holding company to distribute at least 20% of profits from its fund management subsidiary may be constrained if the holding company has other businesses that incur losses, thus reducing availability of overall profits for paying dividends.

The Listing condition requires that fund manager or its holding company remains listed for the duration of the incentive. Events beyond the control of the fund manager, such as a takeover, may result in this condition being breached inadvertently. It may be good if the MAS can be given some discretion to waive the claw-back of the tax benefit in bona fide commercial situations.

Market conditions can be volatile and hence to meet the 30% AUM condition, fund managers may have to adjust their AUM mix to ensure continuing compliance which may affect fund raising and capital allocation decisions.

The net-inflow condition could also mean that a fund manager managing funds during the harvesting phase, when capital is being returned to investors, will not benefit from the exemption. In a market downturn when redemption spikes, the exemption is also not available due to factors beyond the fund manager's control.

For administrative efficiency, it would be more attractive to taxpayers if the MAS could consider granting FSI-FM-ST award concurrently upon application of FSI-FM SG Equities scheme, provided that the approved fund also meets the definition of a qualifying fund under FSI-FM-ST award (note that currently, only the FSI-FM Listing scheme comes with a concurrent granting of a FSI-FM-ST award).

Concluding remarks

Over the years, the government has successfully employed tax incentives to complement other economic measures to harness and strengthen the financial and fund management ecosystem in Singapore. The latest refinements reflect adjustments needed in view of global tax developments, as well as to catalyse the growth of a local equity capital market.

The expanded economic toolkit should help to maintain Singapore's competitiveness by offering financial institutions greater flexibility in planning for expansion based on their individual circumstances. In turn, financial institutions should weigh the costs and benefits of these schemes, and their interaction with the global minimum tax regime under the GloBE rules, when they assess the merits and relevance of the schemes to their business.