# Tax Bulletin

## August 2026

### Key changes to the Singapore fund tax incentive schemes

On 31 July 2026, the Monetary Authority of Singapore (MAS) issued a circular FDD Cir 05/2026 titled Fund Tax Incentive Schemes (the 2026 Circular), providing updates to the fund tax incentive schemes under sections 13D, 13O, 13OA and 13U of the Income Tax Act 1947 (the ITA). The 2026 Circular builds on the changes previously announced in MAS Circular FDD Cir 10/2024 (the 2024 Circular). The headline changes are (a) the removal of the annual minimum assets under management in designated investments (AUM in DI) condition for non-single family office (non-SFO) funds, (b) the recalibration of the conditions for single family office (SFO) funds and (c) the removal of the 5% cap for physical investment precious metals (IPMs) in qualifying as designated investments (DI).

This tax bulletin focuses on changes that are relevant to non-SFO funds only, being funds that are not managed by SFOs. Please reach out to your usual PwC contact if you would like to discuss the changes relevant to SFO funds.


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# Key changes

## Removal of annual minimum AUM in DI condition for non-SFO funds

The most significant change for non-SFO funds is the removal of the requirement to maintain an annual minimum AUM in DI under the sections 13O, 13OA and 13U schemes[1] (referred hereafter as the Annual AUM Condition), with retroactive effect from 1 January 2025. This is a welcome development for the funds industry, as certain funds may face practical challenges in maintaining the annual minimum AUM in DI requirement due to divestments or investor redemptions.

Importantly, the removal of the Annual AUM Condition does not mean that all AUM in DI thresholds are no longer relevant. For section 13O and 13OA non-SFO funds, funds must still meet a S$5 million AUM in DI entry condition at the point of application. A grace period up to the end of the third year of assessment (YA) of the award remains available for funds that do not meet that threshold at time of incentive application. If the condition is not satisfied by that time, the 13O or 13OA award will be revoked retrospectively from the commencement date of the award. For section 13U non-SFO funds, the fund must continue to have a minimum AUM in DI of S$50 million at the point of application, with no grace period available.

In addition, for the purposes of the 13O, 13OA and 13U Schemes, the fund's AUM in DI may comprise both assets managed on either an advisory or a discretionary basis.

## Closed-end fund treatment now focuses principally on cumulative LBS

The 2024 Circular introduced the optional closed-end fund treatment under which (i) the annual AUM Condition could be waived from the sixth incentive year onwards and (ii) the annual local business spending (LBS) condition could be assessed on a cumulative basis up to the tenth incentive year and waived from the eleventh incentive year onwards.

Following the 2026 removal of the Annual AUM Condition for non-SFO funds, the closed-end fund treatment is now principally relevant for its cumulative LBS mechanism rather than for the waiver of the Annual AUM Condition. Closed-end funds, including private equity and real estate funds, should consider whether electing for closed-end fund treatment may provide greater flexibility in meeting the LBS requirements.

The 2026 Circular reiterates that non-SFO section 13O, 13OA and 13U funds with awards commencing on or after 1 January 2025 may elect for closed-end fund treatment, under which the annual LBS condition is met on a cumulative basis up to the tenth incentive year and waived from the eleventh incentive year onwards. Existing funds with section 13O, 13OA or 13U awards may also make an irrevocable election into closed-end fund treatment, although this would require the revocation of the existing award and an application for a new award. A fund making such an election is required to have its 13O, 13OA or 13U award revoked with effect from the earlier of the end of its divestment phase or the day immediately after its 20th incentive year.

[1] Under the 2024 Circular, non-SFO section 13O and 13OA funds were required to maintain S$5 million of AUM in DI at each financial year end after the applicable grace period, and non-SFO section 13U funds were required to maintain S$50 million of AUM in DI both at the point of application and at the end of each financial year.

If a fund fails to meet the cumulative annual LBS requirement for a particular incentive year during the first ten years of the fund's life, the fund will not be entitled to the tax exemption for that year. The fund may continue to enjoy the tax exemption in subsequent years if the cumulative annual LBS requirement is satisfied.

Funds that fail to meet the annual cumulative LBS condition at the tenth year of the award will still be subject to the tenth incentive year annual cumulative LBS condition for subsequent years, and would only be exempt from the annual cumulative LBS condition from the year that the tenth incentive year annual cumulative LBS condition is met. In other words, if the threshold is not met by year 10, the fund remains subject to that year 10 cumulative threshold until it is eventually satisfied.

An umbrella fund, such as an umbrella Variable Capital Company (VCC), will be treated as a single legal entity for the purposes of the closed-end fund treatment. The umbrella fund will only need to meet one set of economic conditions, and the incentive year will not change with the addition of new sub-funds. The waiver of the annual LBS condition will continue to apply from year 11 of the award of the umbrella fund. However, the umbrella fund will need to revoke the tax incentive from the 20th incentive year or the end of the fund's life, whichever is earlier. This means that an umbrella VCC that elects for closed-end fund treatment would be able to enjoy the tax incentive for a maximum of 20 years. Fund Management Companies (FMCs) using an umbrella VCC structure should therefore consider carefully the implications of this election.

## Removal of the 5% cap for physical IPMs as designated investments

Another notable change relates to the treatment of physical IPMs in the DI list. Prior to 1 August 2026, investments in physical IPMs qualified as DI only if they did not exceed 5% of the fund's total investment portfolio. If that threshold was breached in a basis period, all physical IPMs would fail to qualify as DI for the corresponding YA, and any income or gains derived from those IPMs would not qualify for the income tax exemption. To enable greater portfolio diversification, the 5% cap has been removed with effect from 1 August 2026, and physical IPMs are included in the DI list without limitation. This should help ease the compliance burden for existing funds that trade physical IPMs.

MAS has, however, stated that it reserves the right to deny the tax exemption or revoke the award of any non-bona fide IPM fund established by retailers or manufacturers solely to shield their profits from tax. Accordingly, while the DI expansion is helpful from a portfolio-diversification perspective, it should not be viewed as a blanket opening for structures that lack genuine fund characteristics and objectives.

For completeness, funds trading physical commodities will still need to comply with the existing trade volume cap applicable to the trading of physical commodities, under which the trade volume of physical commodities traded must not exceed 15% of the total trade volume of physical commodities and related commodity derivatives traded.

# Other clarifications / updates:

## Specified income and designated investments

The 13D, 13O, 13OA and 13U schemes provide Singapore income tax exemption on Specified Income (SI) derived by the fund vehicles from funds managed by a fund manager (as defined) in respect of DI.

In the 2026 Circular, MAS clarified the following:

- Tokenised interests in an existing DI would also qualify as DI to the extent that the tokenised interest confers the same interests, rights and obligations as direct ownership interests of the underlying DI.

- Guarantee fee income derived in respect of a DI may qualify as SI provided that the 13D, 13O, 13OA or 13U fund is primarily set up for investment purposes and not to facilitate the treasury activities of operating companies. MAS gave the example of guarantee fee income derived by a fund when it uses or lends its securities that are DI as collateral to support the debt financing or borrowing activities of other entities. MAS stated that such guarantee fee income derived by the fund as part of its investing activities will be regarded as SI. It would be helpful for the authorities to confirm that guarantee arrangements entered into by funds, such as guarantee provided to a third party or in a credit protection agreement, as part of their investment activity should similarly be treated as a qualifying activity as such investment activities are commonly undertaken by credit funds.

- For foreign-sourced income derived from DI to qualify as SI, the income must be derived and received in Singapore during the incentive period. Accordingly, foreign-sourced income derived outside the incentive period but remitted to Singapore during the incentive period will not qualify as SI. Similarly, foreign-sourced income derived during the incentive period but remitted to Singapore after the incentive period will not qualify as SI. In our view, this position could be simplified by allowing incentivised funds to benefit from the tax exemption so long as the foreign-sourced income is derived during the incentive period, as tracking remittances to Singapore may not be practical, particularly where funds do not maintain Singapore bank accounts.

## Investments in operating companies

The MAS has previously clarified that 13O / 13OA / 13U fund may only serve investment purposes and that the schemes are not intended for funds that act as holding companies with long term investments in operating companies, or for funds that are set up to facilitate treasury activities of operating companies. The MAS has also clarified that the above does not apply to private equity funds which take a majority stake in operating companies with a view of disposing those investments.

The MAS has also subsequently provided guidance that 13O / 13OA / 13U SFO funds are allowed to hold investments in operating businesses of the beneficial owner or his family, provided the SFO funds are not:

- intended to facilitate the treasury operations of any operating business or corporate group; or
- a 13U fund owned, whether directly or indirectly, by a Singapore operating company or Singapore corporate group.

In this 2026 Circular, the MAS has included an additional clarification that 13O / 13OA / 13U non-SFO funds are not permitted to hold investments (whether in the form of equity, debt or other financing arrangements) in operating businesses of the family. For this purpose, "operating businesses of the family" include businesses or entities that are owned, controlled or influenced by an individual investor of the fund, or multiple investors of the fund from the same family. It would be helpful if the MAS can clarify that investments in such companies with a view of disposing them would be permissible, akin to the private equity funds mentioned above.

## Co-management arrangements are permissible

The 13O, 13OA and 13U Schemes require the fund to be managed or advised by a FMC in Singapore.

In the 2026 Circular, the MAS clarified that a 13O / 13OA / 13U fund may have more than one FMC co-managing the fund, provided that the fund meets all the relevant conditions, including the minimum required AUM in DI at the point of application, and each FMC meets the following conditions:

- it is a Singapore FMC;
- it is fully responsible and accountable for the performance of its specific portfolio; and
- it employs the minimum required number of qualifying investment professionals under the respective schemes.

This clarification recognises the need for greater flexibility in meeting the tax incentive conditions with the increase in joint-venture management arrangements in the private capital sector and in the hiring of external managers by multi-strategy hedge funds.

## 13U Master-Feeder, Master-Feeder-SPV and Master-SPV structures

In relation to the above umbrella 13U structures, MAS clarified the following:

- The condition to use a Singapore-based fund administrator applies to the feeder fund and the master fund which are tax resident in Singapore. There is no requirement to hire a Singapore-based fund administrator for the SPVs.

- Any addition of feeder fund(s) or SPV(s) to the 13U structure must be approved by the MAS. At the point of application to add the feeder fund(s) or SPV(s), the 13U structure is required to meet the minimum AUM in DI condition of S$50 million.

- The approved fund is required to update MAS for any removal of feeder fund(s) or SPV(s) from the approved 13U structure. There is no AUM in DI requirement applicable for the removal of such feeder fund(s) or SPV(s).

## Tax filing obligations of foreign partners / investors of an incentivised Singapore limited partnership fund

A partnership is transparent for Singapore tax purposes. Accordingly, income derived by the partnership is assessed to tax in the hands of its partners based on its respective share of the partnership income. As a result, based on the existing tax filing requirements in Singapore, all partners / investors with income accruing in or derived from Singapore are required to file tax returns with IRAS.

It is common for an investor investing in a fund to expect that he would not be subject to tax or other filing obligations in jurisdictions outside his own home jurisdiction purely as a result of investing in the fund. Hence, the above requirement can pose a practical challenge for FMCs to raise capital from foreign investors if it uses a Singapore limited partnership fund structure.

To ease the compliance burden, the MAS has clarified that subject to IRAS's review and approval, foreign partners / investors of an incentivised Singapore limited partnership fund who derive only tax-exempt income from the fund may not be required to file tax returns in Singapore. Such foreign partners / investors who have been issued a tax reference number and/or a tax return may write to IRAS to request a review of their filing requirement. We hope that in due course, the above position can be relied upon on automatic basis without requiring IRAS's review and approval considering that there is no tax leakage to Singapore if the fund derives only tax-exempt income such that the foreign investor only has a share of tax-exempt income.

## Updated standard terms and conditions will apply more broadly

The 2026 Circular also gives greater operational force to the standard terms and conditions in Annex 13. MAS states that, with effect from 1 August 2026, the standard terms and conditions in Annex 13 of the 2026 Circular apply to all funds approved under the section 13O, 13OA or 13U schemes with new or existing awards, and to the extent of any inconsistency, Annex 13 terms and conditions will supersede the terms in the existing award letter unless MAS notifies otherwise in writing.

Funds should therefore review the updated standard terms carefully, including the provisions on reporting headcount of investment professionals (IPs), anti-money laundering, countering the financing of terrorism and counter-proliferation financing (AML/CFT/CPF) compliance and confidentiality.

## Concluding remarks

Overall, the 2026 Circular is a positive development, particularly for non-SFO funds, as it removes the annual minimum AUM in DI maintenance condition that had become one of the more commercially sensitive aspects of the 2024 changes. The removal of the 5% cap on physical IPMs to be treated as DI should give funds greater portfolio flexibility and reduce compliance friction. More broadly, useful clarifications have been provided on matters including tokenised DI, co-management by multiple Singapore FMCs, restrictions on investments in operating businesses of a fund investor’s family, relief from tax filing obligations for certain foreign investors in incentivised Singapore limited partnership funds, and the broader application of the updated Annex 13 standard terms and conditions.

# Contact us

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