



# **SINGAPORE TAXATION - FUNDS & FUND MANAGEMENT COMPANIES**

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# 1. FUND INDUSTRY LANDSCAPE

## Fund Structure

1. Variable Capital Company
2. Unit Trust
3. Private Ltd Company
4. Limited Partnership

## Fund Management Entities

1. CMSL - Capital Market Service License
  - RFMC - Retail Fund Management Companies
  - AIFMC – Accredited / Institutional Fund Management Companies  
(Accredited/Institutional Investors)
2. VCFM - Venture Capital Fund Management
3. RFMC - Registered Fund Management (Formerly Known as Exempt Fund Management Company)

Note:

1. Fund Management Companies are LICENSED or REGISTERED or EXEMPTED by MAS.
2. For Unit Trust in Singapore, IRAS provides Designated Unit Trust Status (DUT) which is exempted from income tax. Currently retail unit trusts are only eligible for DUT status.

It is mandatory for unit trusts in Singapore to appoint a Licensed Collective Investment Scheme (CIS) Trustee.

## 2. SINGAPORE GLOBAL FINANCIAL CENTRE

Global Financial Centre:

Singapore is the fourth largest FINANCIAL CENTRE in the world, handling 4.0 trillion dollars of Asset Under Management (AUM). The AUM in Singapore is \$4 Trillion and grew 15.7% during the year 2019. The Global AUM is about US\$88.7 Trillion (S\$123T)

1. LONDON

2. NEW YORK

3. HONG KONG

4. SINGAPORE

Foreign Exchange Centre:

Singapore ranks as the 3<sup>rd</sup> largest FOREIGN EXCHANGE CENTRE in the world for FX trading:

1. London US\$2.6T    2. New York US\$0.995B    3. US\$0.508B

### **3. LUXEMBOURG – PIONEER OF MUTUAL FUNDS & VARIABLE CAPITAL COMPANIES**

- LUXEMBOURG become the first country to implement the undertakings for the COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (CITS) directive into national law for the management and sale of mutual funds.
- LUXEMBOURG has over 4.8 Trillion Euros (\$7.7 TRILLION) in assets under management (AUM) second only to the United States.
- LUXEMBOURG handles 62 percent of cross-border investment funds worldwide from over 70 countries, and 98 of the top 100 asset managers globally have funds domiciled in the small European duchy.

## **4. SINGAPORE – LUXEMBOURG OF ASIA**

- The Asset Management industry grew by 15.7% during the year 2019 to reach S\$4 Trillion in the Asset Under Management (AUM). There are now 959 registered and licensed asset managers in Singapore as of 22 October, 2020.
- For Jan 2020, ACRA launched the Variable Capital Company (VCC) frame work, that could well set Singapore on the way to becoming LUXEMBOURG of Asia



## **5. ECONOMIC SUBSTANCE – OECD PRINCIPALS**

OECD Financial action Task Force introduced BEPS (Base erosion and profit shifting) POEM (Place of Effective Management) regulations.

OECD has also introduced ECONOMIC SUBSTANCE REPORTING to justify the presence and operations of companies in the tax heaven countries.

The economic substance reporting required for the following activities carried out by Companies;

Banking, insurance, fund management, lease, shipping, intellectual property, distribution and service, headquarters and holding companies

## **6. REDOMICILING OF COMPANIES / FUNDS TO SINGAPORE**

The Companies act of Singapore was amended for redomiciling of companies established elsewhere into Singapore and would like to enjoy the benefit of Singapore jurisdiction.

They can also enjoy the tax treaties Singapore has entered into various countries.

## **7. ACCREDITED INVESTORS – INDIVIDUAL & COMPANY**

Accredited investor is defines in the securities and future act (Cap 289) of Singapore

### **AN INDIVIDUAL**

(A) Whose net personal assets exceed in value of S\$2 million (or its equivalent in a foreign currency)

*House property minus the liability is considered up to S\$1 million out of the S\$2 million*

(B) Whose financial assets (net of any related liabilities) exceed in value S\$1 million (or its equivalent in a foreign currency)

*Individual financial asset means a deposit, investment product including securities, securities-based and other derivatives contracts, collective investment schemes, and life policies or any other asset*

OR

(C) Whose income in the preceding 12 months is not less than S\$300,00 (or its equivalent in a foreign currency)

### **COMPANY**

A corporation with net assets exceeding \$10 million in value (or its equivalent in a foreign currency)

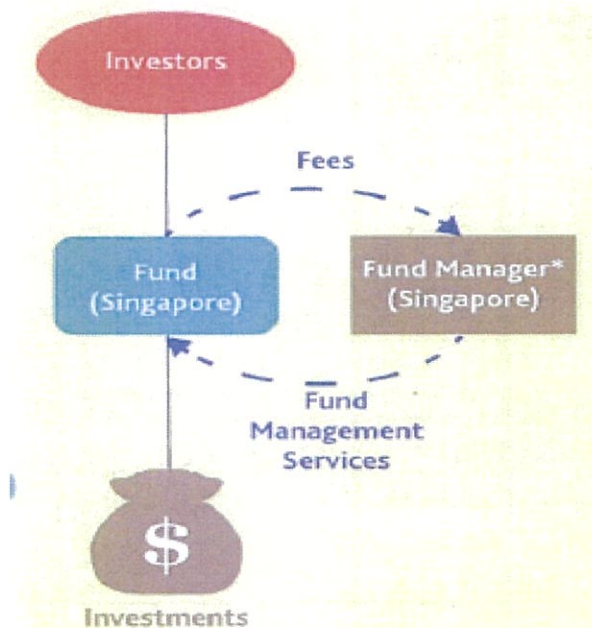
# FUND TAXATION





## 8. ONSHORE FUNDS TAX INCENTIVE SCHEME

### Section 13R of the Singapore Income Tax Act (SITA)

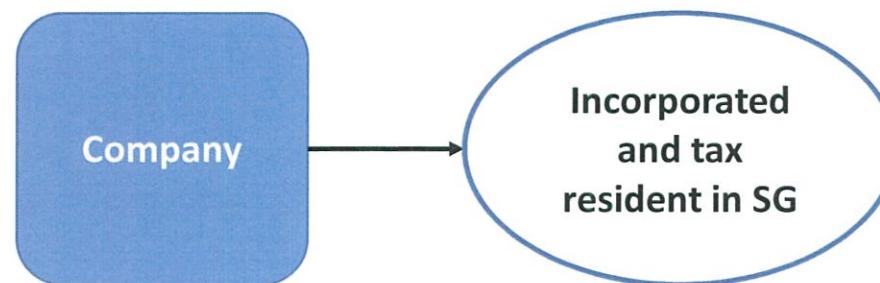


\*Registered with the MAS or holding a Capital Market Services (CMS) licence or expressly exempted from holding a CMS licence

#### Tax Treatment

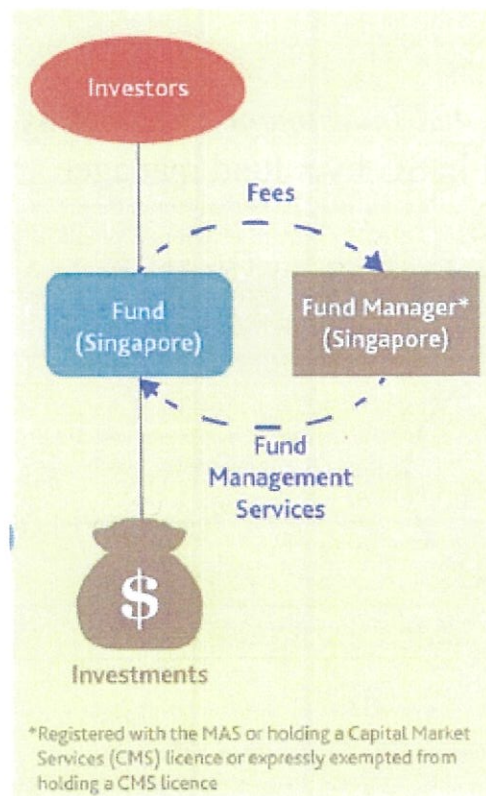
Tax exemption on *Specified Income from Designated Investments*, derived by an Approved Company arising from funds managed in SG by a fund manager.

#### Conditions at a Glance – Approved Company



## 8. ONSHORE FUNDS TAX INCENTIVE SCHEME

### Section 13R of the Singapore Income Tax Act (SITA)



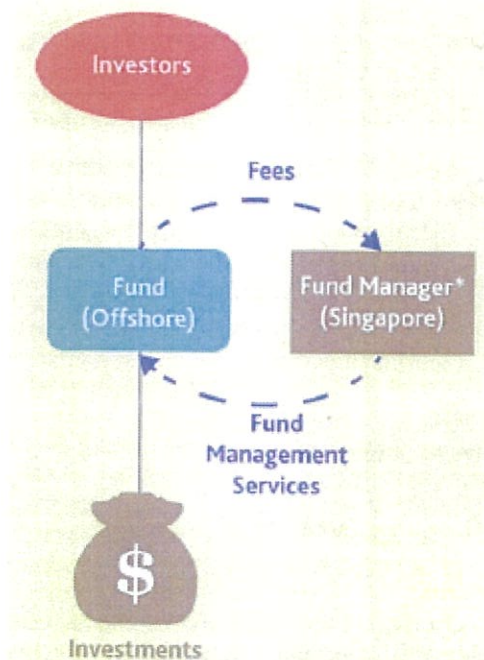
- At least SGD 200,000 local business spending per year.
- No change in investment strategy/objective after approval by the MAS.
- Uses a SG-based fund administrator.
- Approval required from the Monetary Authority of Singapore (MAS).

#### Non-qualifying investors (NQIs)

On the *Relevant Day* if the NQIs, either alone or together with his associates, beneficially owns issued securities of the Approved Company the value that is greater than the Prescribed Percentage, the NQIs shall be liable to pay the Comptroller of Income Tax (CIT) a financial penalty to be computed in accordance with a specified formula.

# 9. OFFSHORE FUNDS TAX INCENTIVES SCHEME

## Section 13CA of the SITA

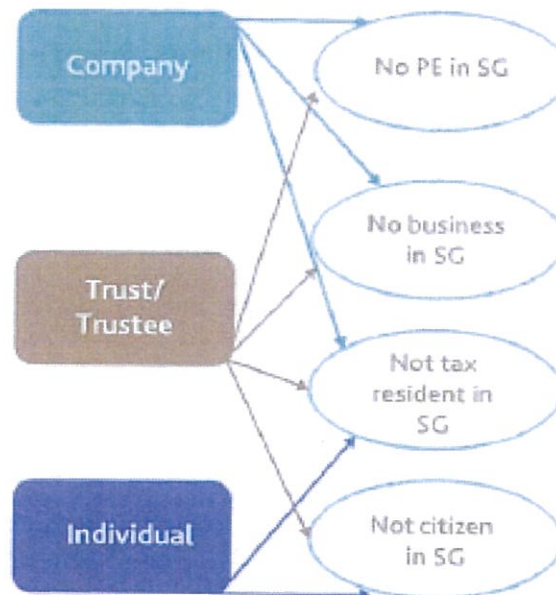


\*Registered with the MAS or holding a CMS licence or expressly exempted from holding a CMS licence.

### Tax Treatment

Tax exemption on *Specified Income from Designated Investments*, derived by any Prescribed Person arising from funds managed in SG by any fund manager.

### Conditions at a Glance – Prescribed Person



Less than 100% of the value of the Company's issued securities is beneficially owned by persons who are (i) SG citizen; (ii) resident in SG; or (iii) have a Permanent Establishment (PE) in SG.

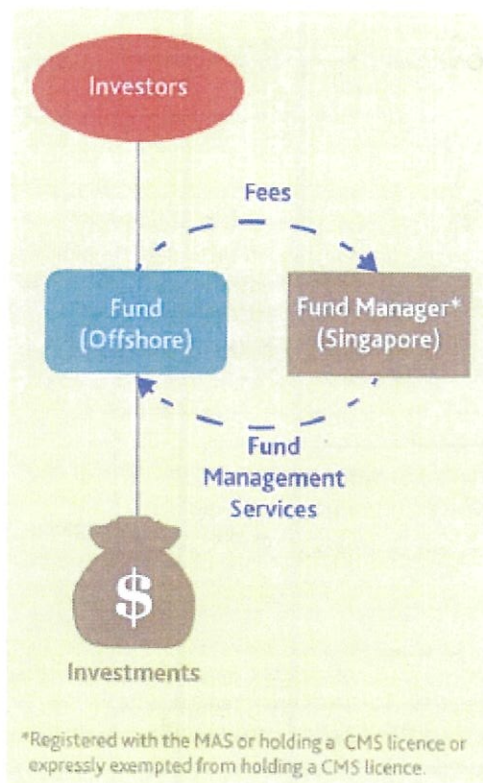
Less than 100% of the value of the Trust is beneficially owned by persons who are (i) SG citizen; (ii) resident in SG; or (iii) have a PE in SG

Beneficial owner of the funds



## 9. OFFSHORE FUNDS TAX INCENTIVES SCHEME

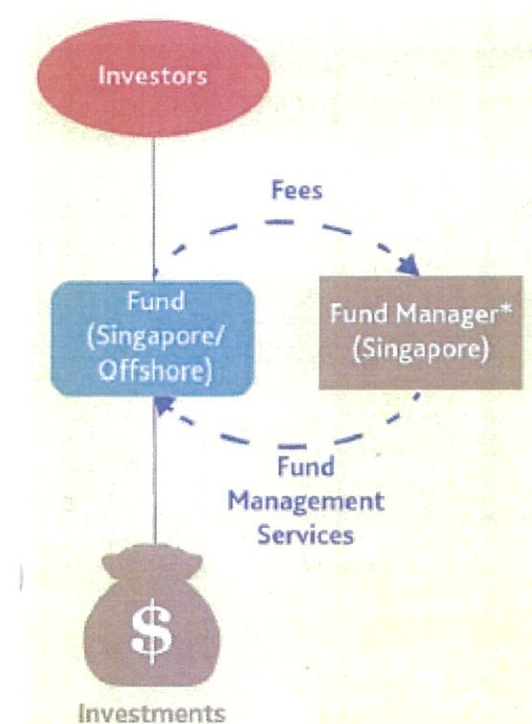
### Section 13CA of the SITA



- No approval required from the MAS.
- On the *Relevant Day* if the NQIs, either alone or together with his associates, beneficially owns issued securities of the Prescribed Person, the value that is greater than the *Prescribed Percentage*, the NQIs shall be liable to pay the CIT a financial penalty to be computed in accordance with a specified formula.



## 10. ENHANCED-TIER FUNDS TAX INCENTIVES SCHEME - Section 13X of the SITA



\*Registered with the MAS or holding a CMS licence or expressly exempted from holding a CMS licence; and employ at least three investment professionals.

### Tax Treatment

Tax exemption on *Specified Income from Designated Investments*, derived by an **Approved Person** arising from funds managed by a fund manager in SG.

### Conditions at a Glance – Approved Person

#### Company

- Have a minimum fund size of SGD 50million at the point of application.
- At least SGD 200,000 local business spending per year

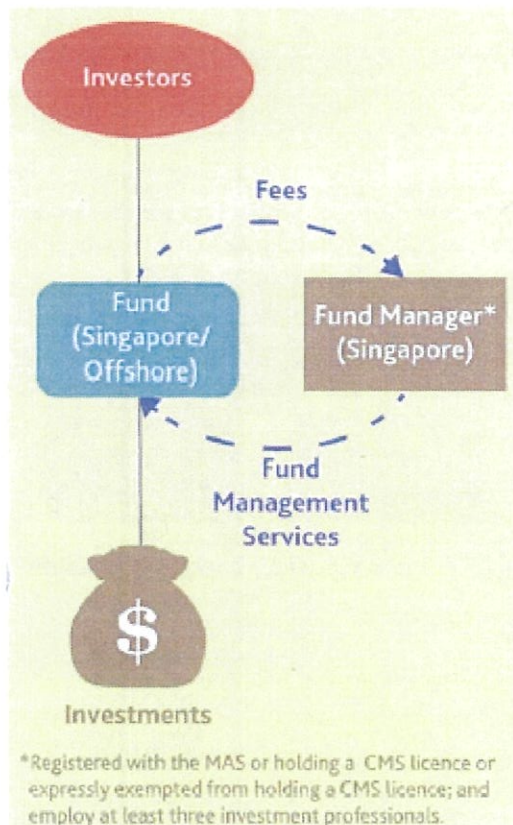
#### Trust/ Trustee

- Uses a SG-based fund administrator if the fund is a SG incorporated and tax resident company

#### Limited Partnership

- Cannot concurrently enjoy other tax incentives
- Approval required from the MAS.

## 10. ENHANCED-TIER FUNDS TAX INCENTIVES SCHEME - Section 13X of the SITA



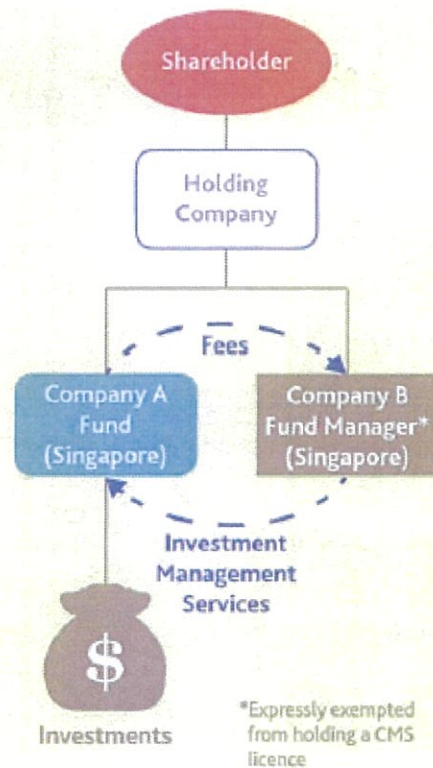
- No change in investment strategy/objective after being approved by the MAS
- No restriction on SG tax resident investors and hence the financial penalty is not applicable

### Enhancement of the Scheme

- From 1 April 2015, this scheme has been enhanced to allow master and feeder funds and Special Purpose Vehicles within a master-feeder fund structure to apply for the scheme, subject to meeting the relevant conditions on a collective basis.

# 11. FAMILY OFFICE

## Applicability of Fund Incentives

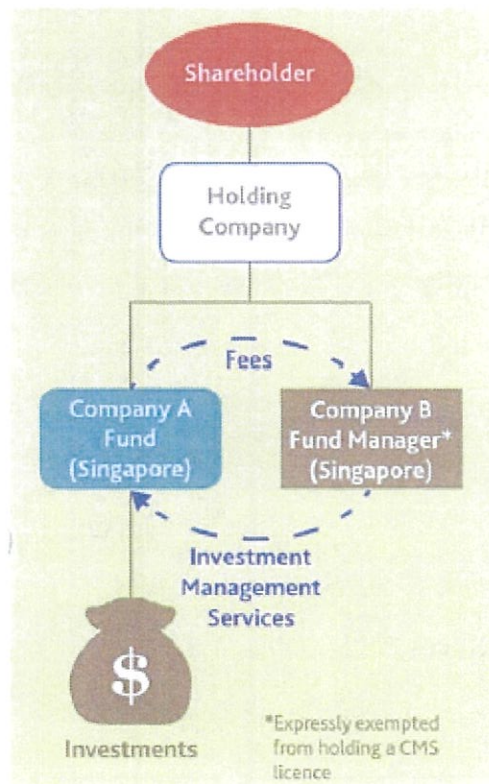


### Family Office

- Family offices typically are entities which assume day-to-day management and administration of the assets and wealth of high net worth individuals or families.
- The reasons for setting up a family office vary, but generally for the purposes of ensuring a smooth intergenerational transfer of wealth, reducing intra-family disputes, governance and management structure, alignment of interest, potential higher returns, centralisation of risks and services, succession planning, etc.

# 11. FAMILY OFFICE

## Applicability of Fund Incentives



### Applicability of Fund Incentives (a possible structure)

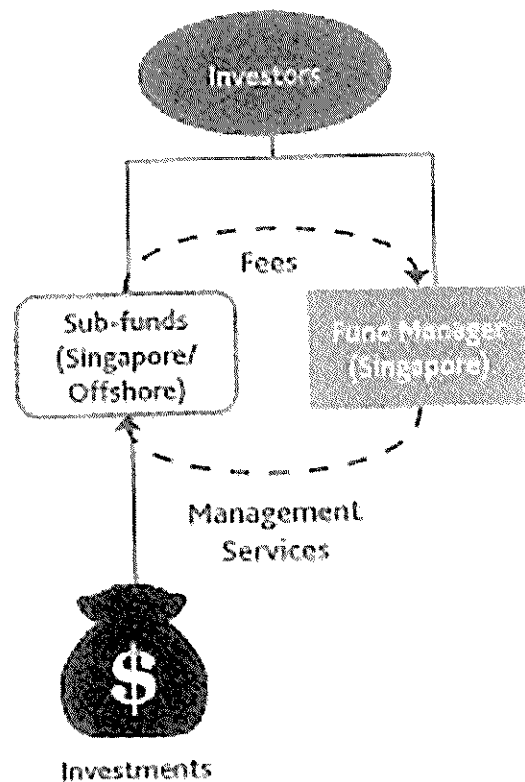
- The Fund may be set up in the form of a SG incorporated company (i.e. Company A), which will be wholly owned by a holding company. The holding company will in turn be owned by an individual Shareholder.
- The Shareholder, owning bankable assets, will inject these assets into the Fund.
- The Shareholder will set up another SG incorporated company (i.e. Company B) which is also wholly owned by the holding company to act as the fund manager of the Fund.
- As both the Fund and Company B are wholly owned by the Shareholder and there are no third party funds under management, Company B should be exempt from the requirement to be licensed or registered under the Securities and Futures Act.
- Subject to certain conditions, the Fund may be able to qualify under the fund incentive schemes (i.e. Section 13R or Section 13X) and enjoy tax exemption.



## **12. BRIEF INFO ABOUT VARIABLE CAPITAL COMPANIES**

- VCC act introduced during January 2020 offers greater flexibility in the issuance and redemption of funds, sub-funds and shares as well as payment of capital and dividends.
- The formal launch of VCC by MAS & ACRA took place on 15 January 2020.
- Till now 149 VCC funds setup in Singapore by ACRA as on 15<sup>th</sup> October, 2020.
- Certificate of Residency is issued at VCC level and not at sub-fund level.
- VCC is administered by ACRA, except for the provisions relating to AML/CFT matters, as per the VCC Act.
- 2 Model Constitution (one open ended and one close ended) are provided by law society to assist the growth of VCC.
- One of the VCC criteria is that the Singapore office must have at least 2 licensed professionals.
- Incentive grant is provided to the Manager by MAS, for promoting the creation of VCC's.

# 13. TAXATION OF VARIABLE CAPITAL COMPANIES



- A VCC is a new legal entity/structure for investment funds
- VCCs are companies which are not required to disclose their register of shareholders to the public
- It's financial statements are not required to be publicly accessible
- The VCC has to be managed by a permissible, or regulated fund manager
- Allows for sub-funds within an umbrella structure
- Allows for a variety of investment strategies
- Provides flexibility in the distribution and reduction of capital
- Foreign corporate entities set up as funds could be inward re-domiciled as VCCs
- Achieve cost efficiencies by consolidating administrative functions at the umbrella fund level
- Able to utilize SG's extensive network of tax treaties

## **13. TAXATION OF VARIABLE CAPITAL COMPANIES**

### **DIVIDEND**

Dividends paid by a company resident in Singapore are exempt from tax in the hands of the shareholders of the Company. Likewise distributions made by a VCC with its tax residence in Singapore are exempt from tax in the hands of its shareholders. (INCOME TAX Sec 13(1)(za) of the Income Tax act read with Sec 107 (1) of the same act).

### **COMPANY LEVEL – SECTION 13H. TAX INCENTIVE**

Section 13H administered by Enterprise Singapore (ESG).

The Section 13H Scheme provides funds a tax exemption on qualifying income streams for a period of up to 15 years.

# 14. TAXATION OF VENTURE CAPITAL & PRIVATE EQUITY INVESTMENTS

Corporate income tax & Capital gains tax

There is no capital gains tax on gains delivered from the disposal of capital investments. The divesting company gains from the disposal of the ordinary shares in an investee company are tax exempt if:

- The divesting company is the legal and beneficial owner of shares immediately prior to the share disposal
- The divesting company holds a minimum share holding of at least 20% of the investee company
- The divesting company has held this interest continuously for a minimum of 24 months
- The disposal is made between 1 June 2012 and 31<sup>st</sup> December 2027 (Both dates inclusive)



## **15. TAXATION OF FUND MANAGEMENT COMPANY (FMC)**

### **1. Financial Sector Incentive for Fund Management (FSI-FM)**

FSI-FM - Awarded by Mas to eligible FMC – can enjoy concessional tax rate of 10% (instead of 17%) corporate tax.

### **2. Venture Capital - Fund Management Company (VC-FMC)**

VC-FMC – can seek concessional corporate tax rate of 5% up to 5 years from Enterprise Singapore (ESG) under Section 13H of the income tax act.



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