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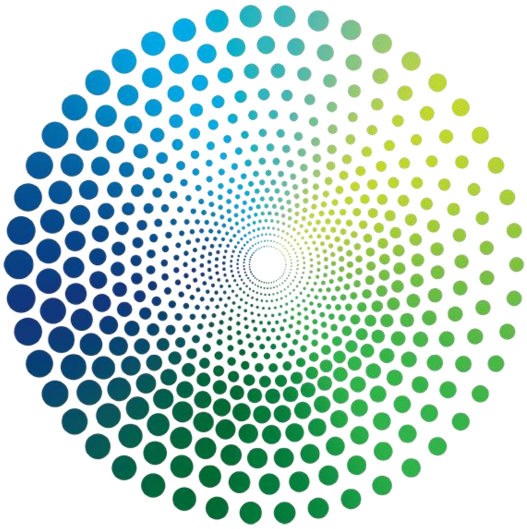

Singapore Business Tax developments
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Extension and refinement of the tax incentive schemes for funds

Background
The Minister for Finance announced the extension and refinement of the tax incentive schemes for funds managed by Singapore-based fund managers in the 2019 Budget Statement.

To briefly recap, the changes are as follows:

Changes	Section 13R (Onshore Fund)[1]	Section 13CA (Offshore Fund)[1]	Section 13X (Enhanced Tier Fund)
Extension of tax incentive period	The tax incentive schemes for funds are extended until 31 December 2024. GST remission on the expenses for qualifying funds managed by prescribed fund managers in Singapore is also extended until 31 DeExcember 2024.		
Enhancement to list of designated investments and specified income	List of designated investments (DI) will be enhanced to remove counter-party and currency restrictions, expand on types of designated investments, and remove the condition for unit trusts to wholly invest in DI. List of specified income (SI) will be enhanced to include income in the form of payments		

<table>
<tr><td></td><td colspan="3">that fall within the ambit of section 12(6) of the Income Tax Act (ITA).</td></tr>
<tr><td rowspan="3">Refinement of or enhancement to specific features of the respective funds tax exemption scheme</td><td colspan="2">With effect from YA 2020, a condition that the basic tier funds (i.e., section 13CA and 13R) must not have 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons, will be removed.</td><td>N.A.</td></tr>
<tr><td>N.A.</td><td colspan="2">Qualifying non-resident funds under sections 13CA and 13X will be able to avail themselves of the 10% concessionary tax rate applicable to qualifying non-resident non-individuals when investing in Singapore real estate investment trusts (S-REITS) and REITs exchange-traded funds (ETFs). This will apply for distributions made during the period from 1 July 2019 to 31 December 2025.</td></tr>
<tr><td>N.A.</td><td>N.A.</td><td>The enhanced tier fund scheme will be enhanced to:
• Include co-investments, non-company SPVs and more than two tiers of SPVs;
• Allow debt and credit funds to access the committed capital concession; and
• Include managed accounts[2].</td></tr>
</table>

[1] Sections 13CA and 13R are collectively known as the “basic tier fund”.
[2] A managed account is a dedicated investment account where an investor places funds directly with a fund manager without using a separate fund vehicle.

Detailed changes

Further details on the enhancements for the respective funds exemption scheme were issued (Circular) by the Monetary Authority of Singapore (MAS). The pertinent changes for the respective funds exemption schemes mentioned in the Circular are as follows:

Basic tier fund—Section 13R (Onshore Fund) and Section 13CA (Offshore Fund)

A snapshot of the changes is as follows:

	Section 13R (Onshore Fund)	**Section 13CA (Offshore Fund)**
Qualifying conditions	Previously, a fund for the purpose of the section 13R scheme, cannot be a person that was previously carrying on a business in Singapore, where that business in Singapore generated income that would not have been tax exempted. With effect from 19 February 2019, this condition was relaxed so that funds that derive income from the following are eligible to apply for section 13R status: • Warehousing of investments; • Setting up bank accounts in anticipation of commencing operations; and • Placement of monies in deposits or money market instruments on a temporary basis before a section 13R application is made. For avoidance of doubt, "warehousing of investments" means a fund acquiring investments at an initial stage of the fund's existence, prior to closing of the fund.	N.A.
Qualifying investor test	The qualifying investor test continues to apply notwithstanding the	Similar to Section 13R, the qualifying investor test

	removal of the condition that the fund must not have 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons. Broadly, the qualifying investor test means that investors who, either alone or together with their associates, on the relevant day, beneficially own securities of the approved section 13R fund, the value of which is more than the following prescribed percentages (30/50 rule): • Where the approved section 13R fund has less than 10 investors, 30%; or • Where the approved section 13R has at least 10 investors, 50%; Will be regarded as non-qualifying investors for the purposes of the scheme and a financial penalty is applicable.	continue to apply. The 30/50 rule will be applied on the total value of the issued securities of the qualifying fund (being a company) or total value of the qualifying fund (being a trust fund), as the case may be. Waiver of the 30/50 rule under this scheme is granted for qualifying unit trusts which are constituted on or after 1 April 2019 for the first two years of assessment from the date of the unit trust's constitution.
Simplification of administration for managed accounts	N.A.	With effect from YA 2020, the qualifying fund and qualifying investor tests will be deemed to be met for a managed account that belongs to a bona fide non-resident person or designated person (as defined in ITA). This simplifies the administration of the section 13CA scheme for managed accounts,

		and reduces compliance burden.
Reporting obligations	With effect from YA 2020, instead of issuing annual statement to each investor, fund managers can choose to publish the relevant information on their website for investors to assess if they are liable to pay a financial penalty. The method of publishing the requisite information should be applied consistently. The fund's offering document should also state that non-qualifying investors are required to declare the financial penalty in their income tax returns. Where the qualifying funds consist of non-qualifying investors for a particular financial year, the fund manager is also required to submit a declaration to the Comptroller of Income Tax, together with the details of such investors. This is regardless of how the relevant information are being issued or published to investors.	

Section 13X (Enhanced Tier Fund)

Committed capital concession

One of the qualifying conditions for the Section 13X scheme requires that the fund has a minimum fund size of S$50 million.

Previously, as a committed capital concession, a real estate, infrastructure, private equity funds that operates on a committed capital concept is regarded to have met the minimum fund size condition if it had secured a committed capital of at least the required minimum fund size at the point of application.

With effect from 19 February 2019, debt or credit funds, and private equity fund of funds can also enjoy the committed capital concession.

Managed accounts

With effect from 19 February 2019, managed account can qualify under the Section 13X scheme if the managed account meets the qualifying conditions. The qualifying conditions for a managed account are broadly similar to that of the Section 13X scheme.

In addition, the investor of a managed account (i.e., account holder) must:

- Maintain separate custodian accounts for different managed accounts with the same or different fund managers; and
- Show that he has entered into an investment management agreement with the fund manager.

The investor of the managed account will need to apply for the section 13X scheme for each managed account separately. Separate economic commitments is applicable for each managed account.

Master-feeder-SPV and master-SPV fund structures

Changes are made to the requirements of SPVs as follows:

	Prior to 19 February 2019	With effect from 19 February 2019
Legal form of SPV	Companies only	Any legal form
Ownership of SPVs	Wholly-owned by master fund	May be partially or wholly owned by the master fund. Co-investors are allowed if the co-investors are incentivised funds or qualifying foreign investors.
Number of tiers of SPVs	Two tiers of SPVs	No restriction on the number of tiers of SPVs that the master fund can have.

Enhancement of the "designated investments" and "specified income"

With effect from 19 February 2019, the list of "designated investments" is enhanced to:

- Remove counter-party and currency restrictions, except where the underlying investments relate to immovable property situated in Singapore;
- Include investments in emission allowances, accounts receivables, letters of credits, credit facilities, advances, Islamic financial products that are commercial equivalents of designated investments, interests in Japan silent partnerships (Tokumei Kumiai); and
- Remove the condition for unit trusts to wholly invest in designated investments.

In addition, with effect from 19 February 2019, the "specified income" list is enhanced to include income that fall within the ambit of section 12(6) of the ITA, except income as stated in section 12(6) of the ITA that is derived in respect of an immovable property situated in Singapore (such as where interest arises from a loan used to finance the acquisition of Singapore immovable properties).

Deloitte Singapore's views

The Circular issued by the MAS is fairly comprehensive and gives a broad overview of the tax incentive scheme for funds.

Enhancements and refinements made to the respective funds exemption scheme are to ensure that the fund management industry remains competitive and offers a conducive operating environment for Singapore-based fund managers. In addition, the various changes will complement the introduction of the Variable Capital Company, a new corporate structure, which is expected to be introduced later this year.

In particular, the enhancement on the designated investments list is welcomed by both investors and/or fund managers. With the list being last updated on 21 February 2014, the enhancement reflects the complexities on the investment options that are seen in the market and will increase the available investment options.

Administrative burden will also be reduced for fund managers due to the removal of condition for unit trusts to wholly invest in designated investments. Previously, unit trusts may invest in wide ranging investment products and the onus was placed on the fund managers to ensure that the investment products are designated investments before the fund tax exemption is applicable.

The downside may be that the designated investments list continues to be an inclusion list (i.e., only investments mentioned in the list qualify) instead of an exclusion list (i.e., any investments will qualify except for those specifically mentioned).

Contacts

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