



Singapore Business Tax developments

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Singapore Variable Capital Company (VCC) framework enacted

A Variable Capital Company (VCC) is a new type of Singapore-incorporated company that is expected to enhance the Singapore fund industry and further drive the value proposition of Singapore for fund managers.

The Variable Capital Companies Act (VCC Act) was passed by the Singapore Parliament on 1 October 2018.

Since then, the Singapore authorities have worked to complete the necessary subsidiary legislation under the VCC Act, and also to legislate for the necessary tax rules. We are excited to inform you that the VCC Act came into effect on 14 January 2020.

VCCs will offer segregated sub-funds, shares in which can be issued and redeemed separately from other sub-funds of the same VCC. VCCs are also able to pay dividends from capital.

VCC shareholder information will not be public. Therefore, a VCC will be subject to customer due diligence (CDD) obligations and must appoint a regulated Singapore fund manager.

Additionally, the Monetary Authority of Singapore (MAS) has also launched a VCC grant scheme in an effort to help defray costs involved in incorporating or registering a VCC.

Deloitte Singapore's view

As a Singapore corporate entity, VCCs may (assuming that they are managed and controlled from Singapore and thus tax resident) be able to access double tax treaties, managing the tax obligations on investors. That being said, we wish to flag that the qualifying requirements and limitations on treaty access must still be carefully evaluated in relation to each investment project.

We expect an increased interest in VCCs from Singapore fund managers of alternative investment funds, although whether VCCs will be used as the main fund vehicle or only an underlying master fund remains to be seen. Where a VCC is used under a partnership fund vehicle, a Singapore limited partnership, or an offshore limited partnership, could be used. Although offshore partnerships still predominate at this time, we anticipate a slow drift towards more use of onshore vehicles over time.

We also expect interest from Singapore family offices and institutional and corporate groups looking to set up an investment vehicle in Singapore, tapping on Singapore's good reputation supporting the rule of law. While the requirement that a VCC must have a regulated manager means that a family office that is unlicensed would not be able to solely manage a VCC, in practice we do not see this as an insuperable issue as there are licensed fund managers willing to co-operate with family offices looking to set up a VCC. In this regard, it is also possible to re-domicile an existing foreign investment fund into Singapore.

In the retail fund space, VCCs offer the potential of treaty benefits. However, local unit trusts convert will likely be driven by the costs of adapting existing infrastructure.

Deloitte have an experienced team of tax professionals who will be pleased to explain the pros and cons of a VCC structure to you in light of your project requirements, and help with the implementation. Sabara Law LLC (a member of the Deloitte Legal network) can also provide a full range of Singapore legal services in relation to a VCC, from advisory works to preparing fund documents.

Contacts

Companies should assess and evaluate the potential impact of these proposed changes. Please contact either the listed contacts below or any member of the [Singapore Tax & Legal team](#).

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