

FATCA IMPLEMENTATION IN SINGAPORE AND IMPLICATIONS FOR SINGAPORE FUND MANAGERS

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On 5 May Singapore and the United States signed an agreement to enable Singapore based financial institutions to more easily comply with the US Foreign Account Tax Compliance Act ("**FATCA**").

The FATCA requires foreign financial institutions ("**FFIs**") to report to the US Inland Revenue Service ("**IRS**") financial accounts that are owned by US taxpayers or entities in which US taxpayers hold a substantial ownership interest. FFIs who do not comply with FATCA will have 30% of payments due from US financial institutions withheld from them.

Singapore reached a substantive agreement to enter into a Model 1 inter-governmental agreement ("**IGA**") with the US, which means Singapore incorporated FFIs will now be deemed compliant with FATCA once they register with IRS via an online portal, and adhere to the provisions of the IGA.

The benefits to being a deemed-compliant FFI are lower compliance and reporting costs. Registered deemed-compliant FFIs report to their home country regulators (in this case, either the Monetary Authority of Singapore ("**MAS**") or the Inland Revenue Authority of Singapore), according to the provisions of the IGA. The Singapore Parliament has passed an amendment to the Income Tax Act that would allow the IGA to enter into force in Singapore law once it is concluded. The Model 1 IGA will, therefore, provide a framework of reporting account information to the Singapore regulator and will help to simplify Singapore based FFIs' implementation of FATCA.

In contrast, FFIs from countries that do not sign an IGA must deal directly with the IRS. This will result in greater compliance costs as these FFIs will have to comply with all the FATCA rules, and ensure that they have in place adequate "know your customer" policies to provide them with the required level of due diligence to check the identity, background and source of wealth of their existing and potential clients.

Before Singapore's agreement to enter into the Model 1 IGA, the deadline for FATCA registration for Singapore based FFIs had been 5 May 2014. However, with the Model 1 IGA agreement, FFIs incorporated in Singapore now have more time to register with the IRS. Singapore FFIs must now register with IRS before 1 January 2015 to avoid the withholding of payments.

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