

Budget 2019 – Summary of Key Tax Changes for Qualifying Funds

This article provides a summary of the changes to the available tax incentives for Qualifying Funds^[1], and their implications for fund managers and family offices in Singapore.

Singapore's Minister for Finance Mr. Heng Swee Keat delivered the Budget Statement for the financial year 2019 in Parliament on 18 February 2019 ("**Budget Statement**"). The Budget Statement and broader measures that were announced on the same day contained *inter alia*, the extension and refinement of the tax incentive schemes viz. sections 13CA, 13R and 13X (of the Income Tax Act) schemes to Qualifying Funds managed in Singapore (collectively, the "**Tax Incentive Schemes**").

First, with the aim of growing Singapore's asset management industry, the Tax Incentive Schemes (which were due to expire on 31 March 2019) will be extended until 31 December 2024.

Secondly, the Tax Incentive Schemes are refined to keep the schemes relevant and to ease the compliance burden. The key refinements are as follows:

- Removing the condition that a basic tier fund^[2] must not have 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons (effective from Year of Assessment 2020);
- Improving the enhanced tier fund scheme^[3] to (i) include co-investments, non-company special purpose vehicles ("SPVs") and more than two tiers of SPVs, (ii) allow debt and credit funds to access the "committed capital concession", and (iii) include managed accounts. These

refinements apply on and after 19 February 2019;

- Expanding the list of Designated Investments ("DI") by removing the counter-party and currency restrictions, and including investments such as credit facilities and advances, and Islamic financial products that are commercial equivalents of DI. The condition for unit trusts to wholly invest in DI will be removed. These enhancements will apply to income derived on and after 19 February 2019;
- Enhancing the list of Specified Income ("SI") to include income in the form of payments that fall within the ambit of section 12(6) of the Income Tax Act. This will apply to income derived on and after 19 February 2019; and
- Allowing qualifying non-resident funds under sections 13CA and 13X to obtain the 10% concessionary tax rate applicable to qualifying non-resident non-individuals when investing in Singapore-listed real estate investment trusts ("S-REITs") and real estate investment trusts exchange-traded funds ("REIT ETFs").
- Although not expressly stated, for now, the key refinements mentioned above should be extended to Variable Capital Companies ("VCCs") *mutatis mutandis*. In our article published in [CNPupdate](#) on 18 December 2018, we discussed the key features and highlights of VCCs. You may click [here](#) to access our earlier article.

Further details on the Tax Incentive Schemes will be released by MAS by May 2019, but in the meantime, the key refinements stated above do suggest increased flexibility and should broaden structuring options including for

Singapore-based family offices that are approved for the tax incentives.

The Budget Statement for the Financial Year 2019 is available from the Singapore Budget 2019 website [here](#) and from the Inland Revenue Authority of Singapore website [here](#).

[1] In this context, Qualifying Funds comprise the following:

1. a) Basic tier funds (sections 13CA and 13R schemes); and
2. b) Enhanced tier funds (section 13X scheme)

[2] To qualify as a basic tier fund, a fund has to meet certain conditions, including not having 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons.

[3] For enhanced tier funds approved as a collective structure, the master fund in the approved structure can have up to two tiers of SPVs. Such SPVs must be wholly -owned (directly or indirectly) by the master fund and can only take the form of companies.

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For further information on the above, please contact our Funds Team.