



Get Attuned to Tax for Fund Management

Rising Above Tax Compliance Issues for Companies in the Financial Sector Incentive-Fund Management (FSI-FM) Scheme

27 July 2018, Friday

Facilitated by:
Inland Revenue Authority of Singapore

The Singapore Institute of Accredited Tax Professionals (SIATP) organised a *Tax Excellence*

Decoded (TED) session on 27 July 2018 to shed light on the FSI-FM scheme. Facilitated by officers from the Inland Revenue Authority of Singapore (IRAS), the session covered the key features of the scheme and highlighted the compliance areas to look out for.

1. WHAT ACTIVITIES ARE INCENTIVISED UNDER THE FSI-FM SCHEME? WHAT IS THE CONCESSIONARY TAX RATE FOR QUALIFYING INCOME?

Fee income derived from fund management activities (i.e. providing management or investment advisory services) by a company that has been approved under the FSI-FM scheme is taxed at a concessionary tax rate of 10%.

2. WHAT ARE THE GENERAL REQUIREMENTS TO QUALIFY FOR THE FSI-FM AWARD?

To qualify for the FSI-FM award, the fund management company must:

- i) hold a Capital Markets Services (CMS) licence or be expressly exempted from holding a CMS licence;
- ii) have minimum assets under management of S\$250 million; and
- iii) employ at least three experienced investment professionals (e.g. portfolio managers, research analysts and traders), each earning at least S\$3,500 per month and substantially engaged in the qualifying activity.

The Monetary Authority of Singapore (MAS) may also consider other factors when assessing the eligibility of the applicants for the FSI-FM award.

3. WHICH LEGISLATIONS AND/ OR REGULATIONS ARE RELEVANT FOR THE FSI-FM AWARD?

- i) [Section 43Q of the Income Tax Act \(ITA\)](#)
- ii) [Income Tax \(Concessionary Rate of Tax for Financial Sector Incentive Companies\) Regulations 2005](#) (the "2005 Regulations")
- iii) [Income Tax \(Concessionary Rate of Tax for Financial Sector Incentive Companies\) Regulations 2017](#) (the "2017 Regulations")

4. SHOULD FSI-FM AWARD HOLDERS ADHERE TO THE 2005 REGULATIONS OR THE NEW 2017 REGULATIONS?

For new and renewal FSI-FM awards approved on or after 1 June 2017, [Regulation 7 of the 2017 Regulations](#) will apply.

For existing FSI-FM awards approved prior to 1 June 2017, [Regulation 6 of the 2005 Regulations](#) will continue to apply. Upon expiry of the existing awards, the fund management companies may apply for renewal under the new 2017 Regulations.

5. WHAT WERE THE CHANGES TO THE FSI-FM SCHEME WITH EFFECT FROM 1 JUNE 2017?

Prior to 1 June 2017, a fund management company must perform **qualifying activities** (i.e. managing of funds or providing investment advisory services) to **qualifying funds** (i.e. funds that are incentivised under Sections 13CA, 13R and 13X of the ITA) in **designated investments** (as prescribed under Section 13CA Regulations) to enjoy the 10% concessionary tax rate under the FSI-FM scheme.

In addition, fund management companies managing Section 13CA or 13R funds also need to ensure that there are no **non-qualifying investors** (i.e. resident non-individuals investing above a certain percentage in the fund). A non-qualifying investor would be liable to pay a penalty if his beneficial ownership in the fund (alone or together with his associates) exceeded the prescribed percentages.

From 1 June 2017, FSI-FM award holders would no longer need to track the type of investments and non-qualifying investors in the funds (for the purpose of identifying the income that qualify under concessionary tax rate). They are, however, still required to declare to the Comptroller of Income Tax (CIT) if there are any non-qualifying investors.

Separately, the conditions for qualifying funds remain unchanged - qualifying funds would only be granted tax exemption on specified income from designated investments.



IRAS officers Joan Alfred, Harold Seah, Tan-Yong Shew Fong, and Doreen Chan took questions for the engaging Q&A session held at the end of the session.

6. WHAT ARE SOME EXAMPLES OF NON-QUALIFYING ACTIVITIES FOR THE PURPOSE OF THE FSI-FM SCHEME?

- a) Liaison work performed by the fund management company to promote investment products to the holding company's potential and existing clients.
- b) Distribution related activities undertaken by the fund management company (which do not involve the rendering of any fund management or investment advisory services).
- c) Fund management activities delegated by the fund management company to another fund manager (where the fund management company contracts with the fund)

7. WHAT ARE SOME OF THE CONDITIONS THAT A FUND MUST SATISFY TO BE A QUALIFYING FUND UNDER SECTIONS 13CA AND 13R RESPECTIVELY?

SECTION 13CA

To be a qualifying fund under Section 13CA, the following conditions must be satisfied:

- i) The fund is not 100% beneficially owned, directly or indirectly, by Singapore persons (i.e. Singapore citizen, Singapore resident, company that has a permanent establishment in Singapore); and
- ii) The fund is a non-resident with no permanent establishment in Singapore (other than the Singapore fund manager).

SECTION 13R

To be a qualifying fund under Section 13R, the following conditions must be satisfied:

- i) The fund is not 100% beneficially owned, directly or indirectly, by Singapore persons; and
- ii) The fund is incorporated and resident in Singapore.

Failure to satisfy the above conditions will result in the fund management company not being able to enjoy the 10% concessionary tax rate under the FSI-FM scheme.

8. WHAT ARE SOME BEST PRACTICES THAT FSI-FM AWARD HOLDERS MAY ADOPT TO IMPROVE TAX COMPLIANCE?

- a) Keep separate accounts on the qualifying activities (under each tax incentive) and non-qualifying activities, and maintain proper accounting processes and controls to ensure that qualifying and non-qualifying income is correctly identified and reported.
- b) Identify direct expenses to the respective concessionary and normal tax categories.
- c) Ensure proper documentation of the processes on how income and expenses of qualifying activities under each tax incentive are identified and accounted for.
- d) Provide adequate training to all staff involved in accounting and tax reporting. This is to ensure that they are familiar with the scope of the tax incentive, as well as the processes and controls put in place to comply with the requirements.

9. WHAT ARE THE FILING REQUIREMENTS OF THE MASTER-FEEDER/ SPECIAL PURPOSE VEHICLE (SPV) FUND UNDER SECTION 13X OF THE ITA?

The IRAS will issue a separate income tax reference number for each fund structure based on its legal structure. However, only a single income tax return will be issued to the master fund (as Section 13X is granted to the entire structure).

The master fund is required to file the single income tax return to IRAS (both for itself and its feeder/ SPV), together with the audited accounts and tax computations of the master fund and the feeder/ SPV. Depending on whether the master fund is a company, limited partnership or trust, the Form C, Form P or Form T will be used respectively.

If the feeder fund or SPV derives taxable income on its own account, a separate tax return would have to be filed by the said feeder or SPV.



IRAS officers provided clarity on the FSI-FM scheme and its qualifying requirements.

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