



Tax Alert
8 October 2024

Amendments to Tax Incentive Schemes for Funds

In line with the Budget 2024 announcement, the Ministry of Finance has announced changes to the conditions governing the fund tax incentive schemes under Sections 13D, 13O and 13U (S13D, S13O and S13U respectively) of the Income tax Act 1947.

A circular was published by Monetary Authority of Singapore (“MAS”) on 1 October 2024, detailing the amendments in the conditions applicable to each of the 13D, 13O and 13U tax incentive schemes with effect from 1 January 2025 (unless stated otherwise).

Broadly the key changes include the inclusion of Limited Partnerships registered in Singapore and revision of the economic criteria for funds along with certain other refinements to the framework of these incentives.

A summary of the key amendments is provided below:

Extension of the tax incentive schemes

The tax exemption under the S13D, S13O and S13U schemes are available for the life of the funds subject to conditions. The exemption for Goods and Services Tax (“GST”) and Withholding Tax (“WHT”) on qualifying payments has also been extended in line with the extension of the existing tax incentive programs for funds (Section 13D, 13O and 13U) till 31 December 2029.

Introduction of a “Closed-end fund” treatment

- Closed-end funds are typically funds with fixed lifespans, commonly ten years, and have designated fund raising and redemption period(s)

- In view of the declining Local Business Spending (“LBS”) and Assets Under Management (“AUM”) in the later part of a closed-end fund, the AUM requirement will be waived from the 6th incentive year and the annual LBS condition can be met on a cumulative basis.
- If “closed-end fund” treatment is opted by S13O, S13OA or S13U fund applicant, it is irrevocable.
- Section 13O and Section 13U funds with a commencement date before 1 January 2025 have to make a new application to the MAS to avail itself of the “closed-end fund” treatment. This would result in the cancellation of the existing incentive award.

Clarification on real estate investment funds

- MAS has clarified that real estate investment funds constituted in any form are within the Designated Investments(“DI”) list. The DI list will be updated accordingly.
- The above clarification acknowledges that a foreign real estate fund may be established in a legal form different from that of Singapore or may exist as a non-legal entity similar to an undertaking or a contractual arrangement.

S13O TAX INCENTIVE

Minimum AUM and Investment Professionals(“IP”) for Section 13O Funds

Economic criteria for non-SFO funds are revised with effect from 1 January 2025 as follows:

- A S13O fund will be required to maintain AUM of at least S\$5 million in DI as at the end of each financial year (“FY”).
- Singapore fund manager of the S13O fund must employ at least two investment professionals throughout each basis period.
- A LBS requirement for each financial year for the non-SFO fund, will be tiered accordingly to AUM in DI:

AUM in DI as at the end of FY (S\$)	Minimum LBS for the FY (S\$)
AUM less than 250 million	200,000
AUM more than or equal to 250 million but less than 2 billion	300,000
AUM more than or equal to 2 billion	500,000

Transitional measures are to be implemented in phases:

- Awards commencing between 1 January 2025 (inclusive) and FY ending in 2026
AUM in DI requirement must be met by the end of the third year of the incentive and to maintain it in every FY thereafter.

The new IP and tiered LBS requirement must be met from FYs ending in 2027 (Year of Assessment (“YA”) 2028).

- Awards commencing in FY ending in 2027

AUM in DI requirement must be met by the end of the third year of the incentive and to maintain it in every FY thereafter.

The new IP and tiered LBS requirement must be met from the first year of the incentive.

- Existing awards commencing prior to 1 January 2025

Grace period is given to fulfil the new requirement of economic criteria. The funds are required to fulfil all the IP, AUM and LBS requirement from FY ending in 2027 (YA 2028).

Such funds must continue to fulfil the S\$200,000 total business spending requirement in lieu of the tiered LBS requirement) in FY prior to FY 2027.

Requirement for approval of a revised investment strategy

- Requirement for approval of a revised investment strategy to be approved by MAS will be removed. However, S13O funds will still be required to update the MAS of any change in investment strategy.

Removal of newly set-up company requirement for S13O funds

- Funds seeking exemption under Section 13O are no longer required to satisfy the condition that the fund must be a newly set-up company. Currently a fund applying for exemption under S13O is subject to the condition that it must not be previously carrying on business in Singapore where the income generated from such business in Singapore would not have been tax-exempted.

Waiver of the 30/50 rule for investors of S13O funds

- Penalties provisions referred to as the 30/50 qualifying investor rule will be waived for investors in 13O fund (which are trusts and unit trusts incentivised under S13D scheme), with effect from the Year of Assessment (YA) 2025 (FY 2024).

NEW S13OA TAX INCENTIVE FOR LIMITED PARTNERSHIPS

- With effect from 1 January 2025, a new Section 13OA scheme will be introduced to extend the S13O scheme to funds constituted as limited partnerships ("LP") registered under the Limited Partnerships Act 2008.
- This new scheme caters to smaller private equity ("PE") and venture capital ("VC") funds, which are commonly structured as LPs.
- S13OA scheme grants tax exemption for SI in respect of any DI derived by an approved resident fund set up as LP, subject to conditions:
 - The General Partner of the S13OA fund will be held responsible for meeting the incentive conditions. The incentive conditions will be applied at the LP fund level and not at each of the partner's level.
 - The new and updated requirements and grace periods applicable to S13O fund will also apply to a S13OA fund.

S13U TAX INCENTIVE

Minimum AUM and Investment Professionals for Section 13U Funds

Economic criteria for non-SFO funds are revised with effect from 1 January 2025 as follows:

- A S13U fund will be required to maintain AUM of at least S\$50 million in DI as at the end of each FY.
- Singapore fund manager of the S13O fund must employ at least three investment professionals throughout each basis period.
- A LBS requirement for each financial year for the non-SFO fund, will be tiered accordingly to AUM in DI:

AUM in DI as at the end of FY (S\$)	Minimum LBS for the FY (S\$)
AUM less than 250 million	200,000
AUM more than or equal to 250 million but less than 2 billion	300,000
AUM more than or equal to 2 billion	500,000

- Transitional measures are to be implemented in phases:
 - Existing awards commencing prior to 1 January 2025
Grace period is given to fulfil the new requirement of economic criteria. The funds are required to fulfil the AUM and LBS requirement from FY ending in 2027 (YA 2028).

Such funds must continue to fulfil the S\$200,000 total business spending requirement in lieu of the tiered LBS requirement) in FY prior to FY 2027.

Updates on additional minimum AUM and LBS requirements for S13U funds

- Additional minimum requirement for AUM and LBS in respect of a SPV or a trading feeder fund for S13U fund structure is removed. Requirement of AUM and LBS for S13U fund structures will be applied on a single fund entity basis (regardless of trading feeder funds or SPVs in the structure).

Requirement for approval of a revised investment strategy

- Requirement for approval of a revised investment strategy to be approved by MAS will be removed. However, S13U funds will still be required to update the MAS of any change in investment strategy.

S13D TAX INCENTIVE

Minimum Economic Commitments for S13D funds

- The minimum economic commitment will be revised for both SFO and non-SFO funds to ensure that S13D funds have a minimum level of economic substance in Singapore
- Funds qualifying exemption under the self-administered S13D fund must be managed or advised directly by a fund management company in Singapore with at least one IP in each FY with effect from FY ending in 2027 (YA 2028) to qualify for the tax exemption in the corresponding YA. The

requirement to employ at least one IP will be self-assessed by the S13D fund for purposes of availing of the tax exemption under S13D.

Waiver of the 30/50 rule for investors of S13D funds

- Penalties provisions referred to as the 30/50 qualifying investor rule will be waived for S13D trusts and unit trusts that are investors in 13D fund, with effect from the Year of Assessment (YA) 2025 (FY 2024). This is to ensure that S13D trusts, and unit trust are not advertently discouraged from investing in another S13D fund.



Dhruva Comments

The above amendments didn't come with an unpleasant surprise. These changes would help Singapore to attract investments managed from Singapore and help foster the growth of Singapore's asset and wealth management sector.

At Dhruva, we offer a wide range of services in relation to funds tax advisory, fund setup and allied compliances and will be pleased to discuss these changes in greater details.

REACH OUT TO US

**Dilpreet Singh Obhan**

PARTNER

dilpreet.singh@dhruvaadvisors.com

+65 9144 6415

ADDRESSES

Singapore

NeoDhruva Consultants Pte Ltd
#16-04, 20 Collyer Quay, Singapore 049319
Tel: +65 9144 6415

Mumbai

1101, One World Center, 11th floor,
Tower 2B, 841 Senapati Bapat Marg,
Elphinstone Road (West),
Mumbai 400 013
Tel: +91 22 6108 1000 / 1900

Ahmedabad

402, 4th Floor, Venus Atlantis,
100 Feet Road, Prahladnagar,
Ahmedabad 380 015
Tel: +91 79 6134 3434

Bengaluru

Lavelle Road, 67/1B,
4th Cross, Bangalore,
Karnataka 560001
Tel: +91 90510 48715

Delhi-NCR

305-307, Emaar Capital Tower - 1,
MG Road, Sector 26, Gurgaon
Haryana - 122 002
Tel: +91 124 668 7000

New Delhi

1007-1008, 10th Floor, Kailash Building,
KG Marg, Connaught Place,
New Delhi - 110001
Tel: +91 11 4514 3438

Pune

305, Pride Gateway,
Near D-Mart, Baner,
Pune - 411 045
Tel: +91-20-6730 1000

Kolkata

4th Floor, Unit No 403, Camac Square,
24 Camac Street, Kolkata,
West Bengal – 700016
Tel: +91-33-66371000

Abu Dhabi

Dhruva Consultants
1905 Addax Tower, City of Lights,
Al Reem Island, Abu Dhabi, UAE
Tel: +971 2 678 0054

Dubai

Dhruva Consultants
Emaar Square Building 4, 2nd Floor,
Office 207, Downtown, Dubai, UAE
Tel: +971 4 240 8477

KEY CONTACTS

Dinesh Kanabar

Chief Executive Officer
dinesh.kanabar@dhruvaadvisors.com

Dilpreet Singh Obhan (Singapore)

dilpreet.singh@dhruvaadvisors.com

Punit Shah (Mumbai)

punit.shah@dhruvaadvisors.com

Nimish Goel (Middle East)

nimish.goel@dhruvaadvisors.com

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