



Client Alert

Singapore Announces New Tax Incentive for Fund Management Industry

The Singapore government, on January 22, 2009, announced a new tax incentive for certain investment funds managed from Singapore, with no restrictions on the residency status of fund vehicles or investors. The government's goal is to promote Singapore as a leading fund-management hub in Asia, because it views fund management as a long-term growth area, especially in Asia where wealth will be on an upward trajectory over the next 15 to 20 years.

The government will add a new Enhanced Tier to the existing fund management incentives, for funds with a minimum fund size of SG\$50 million (about US\$35 million) at the point of application. The Enhanced Tier will be open to fund vehicles in the form of companies, trusts and limited partnerships. There will be no restrictions on the residency status of the fund vehicles or the investors. The Enhanced Tier will be effective from April 1, 2009, through March 31, 2014. However, funds that are on the scheme on or before March 31, 2014, will continue to enjoy the tax exemption after March 31, 2014, if they continue to meet the scheme's conditions.

The Enhanced Tier will be significantly better than the current tax incentives. Under the current tax incentives, specified income derived by qualifying funds from designated investments generally is exempt from Singapore income tax. Qualifying funds can only be in the form of companies, trusts or individual accounts. Where a qualifying fund is in the form of a company or a trust, the qualifying fund must not be 100 percent beneficially owned by resident investors. Resident non-individual investors of a qualifying fund are subject to a 30 percent or 50 percent investment limit, depending on the number of investors in the fund. If that limit is breached, the resident nonindividual investors would have to pay a financial penalty. Therefore, the current tax incentives inadvertently discourage resident companies from having their funds managed from Singapore, because of the limits placed on their holdings in the funds. Where the fund vehicle is a limited partnership, the incentive conditions are applied to each partner, to determine whether the partner qualifies for a tax incentive.

By contrast, the Enhanced Tier will apply to funds that are constituted in the form of limited partnerships, in addition to funds that are in the form of companies, trusts or individual accounts; therefore, there will no longer be any need to look through to the partners' level to apply the incentive conditions. Moreover, the 30 percent or 50 percent investment limit on resident nonindividual investors will be lifted for funds that come under the Enhanced Tier. That will allow resident companies to enjoy the full benefits of tax exemption for qualifying income derived by funds, without any worries about being subject to financial penalties. The Monetary Authority of Singapore is expected to release further details by April 2009.

The White & Case Investment Funds Alert provides a brief overview of some of the latest legislative, regulatory and judicial actions, policy statements and decisions that affect public and private companies.

This article is an excerpt from an article that first appeared in the February 9, 2009 issue of *Tax Notes International*, at p. 487, and is reprinted here with permission from Tax Analysts.

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If you have questions or comments regarding this Alert, please contact one of the lawyers listed below:

David Goldstein
Partner, New York
+ 1 212 819 8757
dgoldstein@whitecase.com

Sharon Hartline
Partner, Hong Kong
+ 852 2822 8733
shartline@whitecase.com

Matthew Judd
Partner, London
+ 44 20 7532 2108
mjudd@whitecase.com

Christopher Wells
Partner, Tokyo
+ 81 3 3259 0195
cwells@whitecase.com

Linda Ng
Counsel, Hong Kong
+ 852 2822 8787
lng@whitecase.com

Yin Mei Lock
Managing Director of Venture Law, Singapore
+ 6347 1342
ylock@whitecase.com

White & Case
1155 Avenue of the Americas
New York, NY 10036
United States
+ 1 212 819 8200

www.whitecase.com

In addition, the government has simplified the rules for recovering input goods and services tax for the fund management industry and expanded the list of specified income and the list of designated investments, effective from January 22, 2009. Designated investments now also include investments in structured products, units in business trusts, qualifying Islamic investments involving the Murabaha, Mudaraba, Ijara wa Igtina, Musharaka, Istisna and Salam concepts, emissions derivatives, stocks and shares of unlisted companies (whether resident in Singapore or nonresident) denominated in any currency, and adjudicated and nonadjudicated liquidation claims.

Singapore still lags behind Hong Kong in terms of the total amount of assets under management. According to the latest official statistics available, in 2007, Singapore had SG\$1,173 billion (US\$0.8 trillion) of assets under management, as compared with Hong Kong's HK\$9,631 billion (US\$1.2 trillion) of assets under management. (The 2008 figures for both jurisdictions are expected to be lower, because of the global financial crisis.)

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