

## Tax Incentives for funds managed in Singapore

On 1 October 2024, the Monetary Authority of Singapore (“MAS”) issued a circular to provide updated requirements in respect of tax incentives for funds managed in Singapore.

As a quick recap, funds managed in Singapore may avail themselves to tax incentives provided under Sections 13D, 13O and 13U of the Income Tax Act. These tax incentives exempt tax on qualifying income<sup>1</sup> from taxation for the life of the incentivised fund as long as requirements are fulfilled. Incentivised funds will also enjoy the GST remission and withholding tax exemptions on interest and other qualifying payments. The MAS announced that existing schemes will be extended to 31 December 2029, with certain changes being introduced.

### An Important Clarification by the MAS

Assets under management (“AUM”) is currently computed as the net asset of the fund (total assets minus total liabilities). However, from 1 January 2025, AUM will be defined as the total value of designated investments for ALL 13O and 13U Funds. This means that debt or shareholders loans will no longer be relevant in determining AUM; this is positive news for private wealth structures whose investments are often funded by debt or shareholder loans.

### Who is Not Impacted by the Changes

Existing incentive holders and potential applicants whose investments are managed by Single Family Offices (“SFO”) are not impacted by the change in the economic criteria, but the above change in the definition of AUM could impact the business spend requirement for such funds.

### Who is Impacted by the Changes

All Section 13D, 13O, 13U funds managed by Singapore fund managers, whether new applications or those already awarded a 13O/13U tax incentive, or already taking advantage of the 13D tax incentive.

For the purposes of this update, we shall refer to the impacted funds as “Non-SFO managed funds”. It is important to note that **existing and new** Section 13O or 13U funds managed by licensed fund managers which are wholly owned or controlled by the same family will be impacted.

<sup>1</sup> The scope of tax exemption is wide and covers most financial assets but is not all encompassing. Tax is exempted on gains or profits arising from “specified income” derived from “designated investments”.

## 1. SFO managed funds enjoying Section 13D, 13O or 13U tax incentives

The announced changes do not impact funds managed by SFO. Funds managed by SFOs must meet the requirements as initially set out in their Letter of Award from the MAS. For completeness, we summarized the 13O and 13U economic criteria in [Appendix 1](#), which remains unchanged from 5 July 2023. Criteria for 13D are in [Appendix 3](#).

## 2. Non-SFO managed funds enjoying Section 13O & 13U tax incentives

### *Economic criteria*

Existing 13O and 13U award holders (and awards commencing before 1 January 2025) managed by a Singapore fund manager will need to take note of the new economic criteria that needs to be met by the financial year 2027. Funds with 13O and 13U awards starting in financial years 2026 and 2027 are similarly allowed a grace period to meet the economic criteria.

The new economic criteria will take effect from 1 January 2025:

- i. tiered local business spend with a minimum of S\$200,000; a higher AUM will require higher spending requirements
- ii. maintain a minimum AUM of SGD5 million and SGD50 million in designated investments for 13O and 13U fund respectively
- iii. fund manager employs 2 investment professionals to manage the 13O fund. A 13U fund requires 3 investment professionals (no change from before).

With the change, a 13O and 13U fund will have similar local business spend requirements. Details of the 13O and 13U requirements and economic criteria are in [Appendix 2](#).

From our observation, the economic criteria do not appear to be overly burdensome. Tracking such criteria may increase the administrative load, but we generally don't anticipate these changes to significantly impact family-owned investment vehicles.

### *Enhancements announced*

The following enhancements take effect from 1 January 2025 (unless indicated otherwise):

i. 13O fund

- a. *no longer needs to be a newly set-up company*

This change will be positive news as investments could be made before a formal application is made. This allows funds to capture investment opportunities that arise without adversely impacting the tax incentive.

However, it should be noted that gains or profits derived before the date of commencement (i.e. date of submission of formal application) may be taxed.

- b. *the 30/50 rule is waived for investors which are trusts or unit trusts enjoying Section 13D incentive from Year of Assessment 2025 (i.e. financial year ended 2024)*

The 30/50 rule is a limit of ownership placed on certain categories of investors of a Section 13O fund. When the 30/50 rule is breached, certain investors would effectively be paying a penalty calculated based on their share of gains derived in the fund at the prevailing corporate tax rate. The penalty will negate the tax incentive benefit.

With this change, Section 13D trust or unit trusts may be more willing to invest in a Section 13O fund.

- c. *allowing a change in investment strategy for bona fide commercial reasons*

Incentive holders need only update the MAS, instead of seeking approval for a change in investment strategy. This enables greater flexibility for investment strategies and will probably benefit commercial funds more than family-owned investment vehicles.

Enhancements (b) and (c) above will also apply to existing 13O award holders and awards commencing before 1 January 2025.

ii. 13U fund

- a. *removal of additional minimum AUM and local business spend requirement for a special purpose vehicle or trading feeder fund*

This change takes effect from 1 January 2025; the removal of the multiplier AUM and local business spend requirement should ease and facilitate establishment of trading feeder funds and special purpose vehicles.

- b. *allowing a change in investment strategy for bona fide commercial reasons*

Enhancements (a) and (b) above shall apply to existing 13U award holders and awards commencing before 1 January 2025.

### 3. SFO & Non-SFO managed funds enjoying Section 13D tax incentive

The 13D exemption continues to be a self-administered scheme – funds do not need to seek MAS approval. The scope of tax exemption is similar to those under Sections 13O and 13U.

The changes announced are:

- economic criteria – managed by a fund manager with at least 1 investment professional.
- the 30/50 rule is waived for investors which are trusts or unit trusts enjoying Section 13D incentive from Year of Assessment 2025 (i.e. financial year ended 2024)

Interestingly, there is no requirement on the minimum salary requirement of S\$3,500 for an investment professional for 13D tax-exemption. Details of economic criteria are in [Appendix 3](#).

### 4. Other relevant announcements and clarifications

- Singapore registered limited partnerships can avail to Section 13O tax exemption from 1 January 2025
- Clarification that real estate investment funds constituted in any form are designated investments.
- Carbon credits will qualify as designated investments.

Please feel free to contact us if you have any questions on the changes announced.

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## Appendix 1 – Section 130, 130A and 13U New Applicant Requirements for Funds Managed by SFO (with effect from 5 July 2023)

Criteria	Section 130 / Section 130A*	Section 13U
<b>AUM</b> (defined as value of designated investments from 1 January 2025)	Minimum fund size of S\$20 million in Designated Investments at the point of application and throughout the incentive period.	Minimum fund size of S\$50 million in Designated Investments at the point of application and throughout the incentive period.
<b>Fund administrator</b>	Must use a Singapore based fund administrator.	Must use a Singapore based fund administrator if the fund is a Singapore incorporated company & tax resident.
<b>Investment Professionals (“IPs”) employed by SFO</b>	Employs at least 2 IPs, with one IP being a non-family member at the point of application and throughout the incentive period.	Employs at least 3 IPs, with at least one IP being a non-family member, at the point of application and throughout the incentive period.
	IPs refers to individuals who are Singapore tax residents with relevant work or academic qualifications. They should be substantially engaging in performing the role of portfolio manager, research analyst or traders and are earning more than S\$3,500 per month.	
<b>Minimum annual local business spending</b>	Incur at least Local Business Spending (“LBS”) of S\$200,000, depending on their AUM:  AUM less than S\$50 m: LBS of S\$200,000  AUM more than (or equal to) S\$50m but less than S\$100m: LBS of S\$500,000*  AUM more than (or equal to) S\$100 m: LBS of S\$1m*  * LBS can include the following <u>after</u> incurring a minimum LBS of S\$200,000: - Eligible local donations to local charities - Grants to blended finance structures (recognized as 2 times spending)	
<b>Minimum annual Capital Deployment Requirement (“CDR”)</b>	Invest at least 10% of its AUM or S\$10 million, whichever is lower in:  <ul style="list-style-type: none"> <li>• Equities, REITs, Business Trusts or ETFs listed on MAS-approved exchanges</li> <li>• Qualifying debt securities</li> <li>• Non-listed funds distributed by licensed financial institutions in Singapore</li> <li>• Non-listed Singapore-incorporated operating companies with operating business and substantive presence in Singapore</li> <li>• Climate-related investments</li> <li>• Blended finance structures where financial institutions in Singapore are substantially involved.</li> </ul> Investment in the following will yield a multiplier for computing CDR:  <b>2x multiplier:</b> <ul style="list-style-type: none"> <li>- Equities listed on MAS-approved exchanges</li> <li>- ETFs with primary mandates to invest in Singapore-listed equities on MAS-approved exchanges</li> <li>- Non-listed funds distributed in Singapore with primary mandates to invest in Singapore-listed equities on MAS approved exchanges</li> <li>- Deeply concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore</li> </ul> <b>1.5x multiplier:</b> <ul style="list-style-type: none"> <li>- Concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore</li> </ul>	
<b>Private bank account</b>	Have a private bank account with a MAS-licensed financial institution at the point of application and throughout the incentive period.	

\*Section 130A extends to Singapore Limited Partnership funds from 1 January 2025.

## Appendix 2 – Section 130, 130A and 13U New Application and Existing Incentive Holder Requirements for Funds Managed by non-SFO

Criteria	Section 130 / Section 130A	Section 13U
<b>AUM</b> <i>(defined as value of designated investments from 1 January 2025)</i>	Minimum fund size of S\$5 million* in Designated Investments at each financial year end.	Minimum fund size of S\$50 million* in Designated Investments at the point of application and throughout the incentive period.
<b>Fund administrator</b>	Must use a Singapore based fund administrator.	Must use a Singapore based fund administrator if the fund is a Singapore incorporated company & tax resident.
<b>Minimum Investment Professionals (“IPs”) employed by fund management company</b> <i>(from 1 January 2025)</i>	Employs at least 2 IPs* throughout the year.	Employs at least 3 IPs* throughout the year.
	IPs refers to individuals who are Singapore tax residents with relevant work or academic qualifications. They should be substantially engaging in performing the role of portfolio manager, research analyst or traders and are earning more than S\$3,500 per month.	
<b>Minimum annual local business spending</b> <i>(from 1 January 2025)</i>	Incur at least Local Business Spending (“LBS”) of S\$200,000*, depending on their AUM:  AUM less than S\$250m: LBS of S\$200,000  AUM more than (or equal to) S\$250m but less than S\$2billion: LBS of S\$300,000  AUM more than (or equal to) S\$2billion: LBS of S\$500,000	
<b>Private bank account</b> <i>(applicable only if fund vehicle is wholly owned or controlled by a single family)</i>	Have a private bank account with a MAS-licensed financial institution at the point of application and throughout the incentive period.	

\*Transitional measures for AUM, IP and tiered local business spend requirements are available for incentive award holders, depending on the date of commencement of award:

*i. Award commencing before 1 January 2025*

All requirements are to be met by financial year 2027, and in all subsequent years.

*ii. Award commencing from 1 January 2025 and financial year ending 2026*

AUM requirement to be met by end of the 3<sup>rd</sup> year of the incentive and in all subsequent years.

IP and tiered local business spend requirements to be met in financial year 2027, and in all subsequent years.

*iii. Award commencing on or after financial year ending 2027*

AUM requirement to be met by end of the 3<sup>rd</sup> year of the incentive and in all subsequent years.

IP and tiered local business spend requirements to be met from the first year of the incentive.

## Appendix 3 – Section 13D requirements for both SFO & non-SFO managed funds

Criteria	Section 13D
<b>AUM</b> <i>(defined as value of designated investments from 1 January 2025)</i>	No minimum fund size.
<b>Tax residency</b>	Non-Singapore tax resident
<b>Minimum Investment Professionals (“IPs”) employed by fund management company or SFO</b> <i>(from financial year ending 2027)</i>	Employs at least 1 IP throughout the year.  IPs refers to individuals who are Singapore tax residents with relevant work or academic qualifications. They should be substantially engaging in performing the role of portfolio manager, research analyst or traders. There is no specific salary requirement.
<b>Beneficial owner’s presence in Singapore</b>	If owned by an individual, the individual is not a Singapore citizen or tax resident in Singapore.  If owned by a company, the company does not carry on a business in Singapore and if it had derived taxable income from investments, those investments were transferred at market value.  If owned by a trust, the trustee does not have a Singapore permanent establishment or carry on business in Singapore apart from its function as trustee of the trust. Additionally, if the trustee had derived taxable income from investments, those investments were transferred at market value.