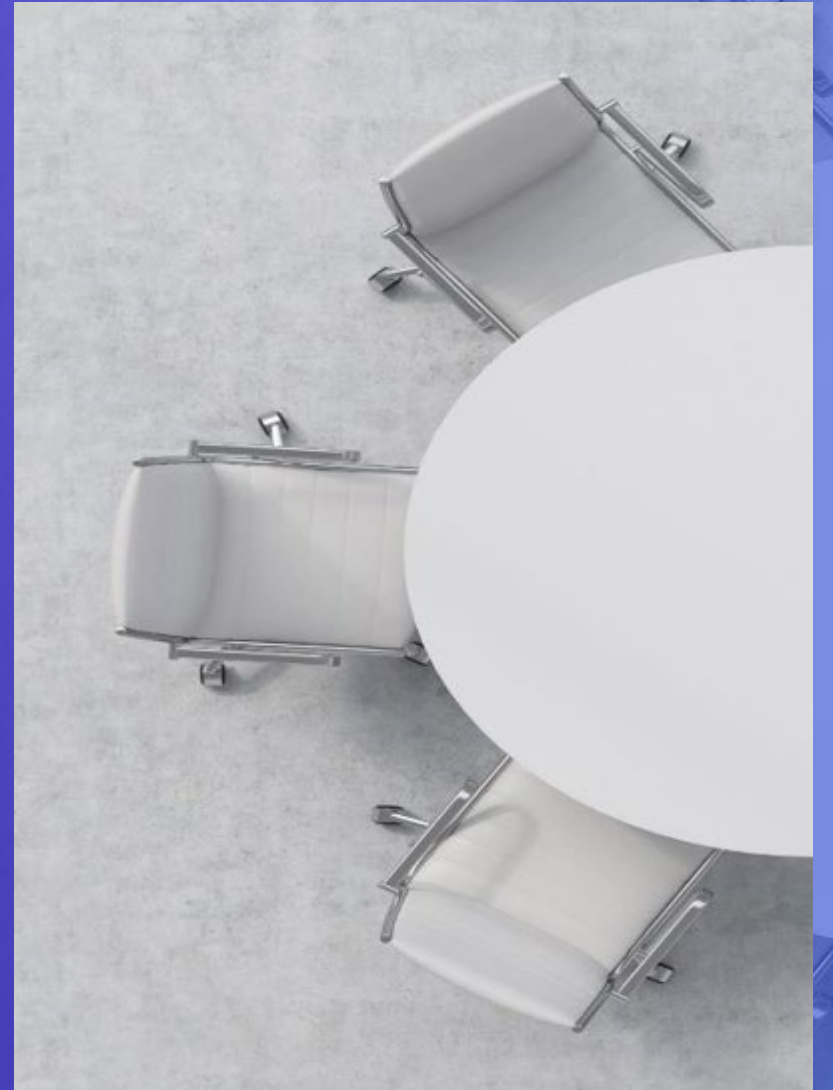




Tax updates for the year and what we can expect going forward





Changes to incentive conditions for family office applicants

Changes to incentive conditions for Single Family Office applicants

Particulars	Section 13O Scheme	Section 13U Scheme
Fund size	<ul style="list-style-type: none"> Minimum of S\$20m in Designated Investments as at point of application and throughout incentive period 	<ul style="list-style-type: none"> Minimum S\$50m in Designated Investments as at point of application and throughout incentive period
Minimum capital deployment requirement (“CDR”)	<ul style="list-style-type: none"> Fund must invest the lower of: (i) 10% of its AUM or (ii) S\$10m in: <ul style="list-style-type: none"> Prescribed local investments (e.g. SG-listed equities, REITs, QDS, investments into non-listed Singapore operating companies etc.) Climate-related investments Blended finance structures with substantial involvement of financial institutions in Singapore Fund must meet CDR by end of the first full-year Annual Declaration and in each subsequent financial year 	
Investment professionals (“IP”)	<ul style="list-style-type: none"> Minimum 2 IPs at the point of application and throughout the incentive period, with at least 1 IP being a non-family member 	<ul style="list-style-type: none"> Minimum 3 IPs at the point of application and throughout the incentive period, with at least 1 IP being a non-family member
Business spending requirement	<ul style="list-style-type: none"> Subject to a tiered spending requirement with minimum S\$200,000 in <u>local</u> business spending. Overall spending requirements* per year is as follows: <ul style="list-style-type: none"> S\$200,000 for AUM of less than S\$50 million S\$500,000 for AUM of S\$50 million and above, but less than S\$100 million S\$1,000,000 for AUM of S\$100 million and above <i>*Includes eligible donations to local charities and grants to blended finance structures with substantial involvement of financial institutions in Singapore</i> 	<ul style="list-style-type: none"> Subject to a tiered spending requirement with minimum S\$200,000 in <u>local</u> business spending. Overall spending requirements* per year is as follows: <ul style="list-style-type: none"> S\$500,000 for AUM of S\$50 million and above, but less than S\$100 million S\$1,000,000 for AUM of S\$100 million and above <i>*Includes eligible donations to local charities and grants to blended finance structures with substantial involvement of financial institutions in Singapore</i>

Incentive conditions for applicants managed by licensed FMCs

Family-owned fund vehicles managed / advised directly by an FMC in Singapore holding a Capital Markets Services (CMS) license or is registered with MAS

Conditions	Section 13O	Section 13U
Minimum AUM (Net Asset Value)	N.A. – Although applicant is expected to demonstrate reasonable substance and long-term economic viability	S\$50 million at the point of application and throughout the incentive period
Minimum Investment Professionals	N.A.	3 qualifying investment professionals*
Minimum spending in each basis period	S\$200,000 in total business spending annually	S\$200,000 in <u>local</u> business spending annually
Private Banking Account	The fund must have a PB account with a MAS-licensed financial institution at the point of application and throughout the incentive period	
Minimum CDR	N.A.	

Philanthropy tax incentive scheme for Family Offices

- Philanthropy tax incentive scheme introduced for SFO applicants who are managing a fund(s) under S13O/ S13U
- Under the scheme, qualifying donors (this can be the SFO, the UBO of the S13O/ S13U fund, a beneficiary of the S13O/ S13U fund or a related family business) can claim **100% tax deduction for overseas donations made through qualifying local intermediaries for a period of 5 years** from approved incentive commencement date (within 1 Jan 2024 to 31 December 2028)
- Tax deduction is **capped at 40% of the donor's statutory income**
- Unutilised tax deductions **cannot be carried forward** to offset against the qualifying donor's income for subsequent years of assessment and **cannot be transferred to another company** under group relief system
- To qualify, donors must have an approved S13O / S13U fund and meet the relevant conditions (e.g. appoint and maintain a Philanthropy Professional at the point of application and throughout incentive period; incur additional S\$200,000 in local business spending; employ an additional local professional headcount etc.)

SFO class exemption

- MAS consultation paper on proposed class exemption for SFOs, removing need for case-by-case licensing exemptions
- Introduced notification and annual reporting requirements:
 - SFOs will be required to notify MAS and confirm compliance with qualifying criteria
 - SFOs will be required to submit annual returns



Changes to the Global Investor Program (GIP)

Changes to investment conditions

Investment Option		Previous Requirements	New Requirements (w.e.f. 15 Mar 2023)
Option A	Investment Conditions	<ul style="list-style-type: none"> Invest S\$2.5 million in a new business entity or existing business operation in Singapore 	<ul style="list-style-type: none"> Demonstrate an investment of at least S\$10 million in a new business entity or existing business operation in Singapore
	Re-entry Permit (REP) Renewal Conditions	<ul style="list-style-type: none"> Hire at least 10 incremental employees, of which at least 5 must be Singapore Citizens and incur annual total business expenditure of S\$2 million by Year 5 of PR status. 	<ul style="list-style-type: none"> Hire at least 30 employees, of which at least half must be Singapore citizens, by Year 5 of PR status, out of which at least 10 must be incremental hires
Option B	Investment Conditions	<ul style="list-style-type: none"> Invest S\$2.5 million in a GIP fund that invests in Singapore-based companies 	<ul style="list-style-type: none"> Invest S\$25 million in a GIP-select fund that invests in Singapore-based companies
	REP Renewal Conditions (Economic)	<ul style="list-style-type: none"> Hire at least 10 incremental employees, of which at least 5 must be SCs, and incur annual total business expenditure of S\$2 million by Year 5 of PR status 	<ul style="list-style-type: none"> Maintain the S\$25 million investment in the GIP-select fund

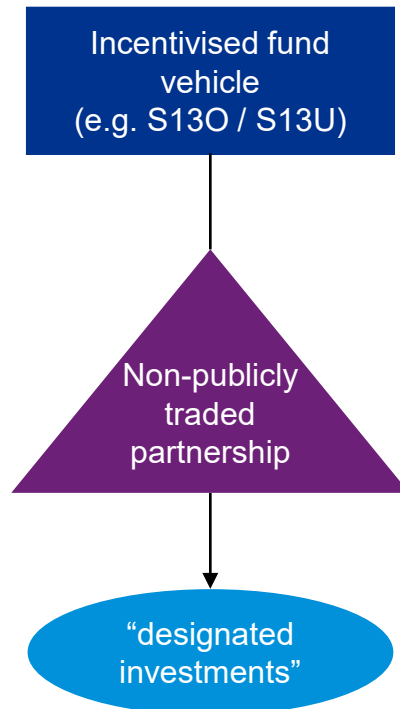
Changes to investment conditions (cont'd)

Investment Option		Previous Requirements	New Requirements (w.e.f. 15 Mar 2023)
Option C	Investment Conditions	<ul style="list-style-type: none"> Invest S\$2.5 million in a new or existing Singapore-based SFO with Assets Under Management (AUM) of at least S\$200 million, of which at least S\$50 million must be held in Singapore 	<ul style="list-style-type: none"> Establish a Singapore-based SFO with AUM of at least S\$200 million, of which at least S\$50 million has been transferred into Singapore At least S\$50 million must be deployed in any of the prescribed investment categories (e.g. SG-listed equities, SG REITs, QDS, PE in SG companies etc.)
	REP Renewal Conditions (Economic)	<ul style="list-style-type: none"> Hire at least 10 employees, of which at least 5 must be Singapore citizens (3 must be professionals) and incur annual total business expenditure of at least S\$2 million by Year 5 of PR status 	<ul style="list-style-type: none"> Maintain at least S\$50 million AUM across any of the prescribed investment categories throughout the 5-year PR status; and Hire at least 5 incremental Family Office professionals, of which at least 3 must be Singapore citizens by Year 5 of PR status.



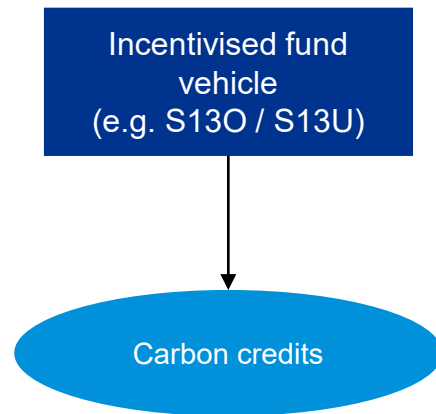
Key thoughts/ clarifications on latest MAS Circulars

Investments in non-publicly traded partnerships



- Based on latest MAS Circular released in 19 September 2022, list of “designated investments” include non-publicly traded partnerships that:
 - i. Do not carry on a trade, business professional or vocation in Singapore; and
 - ii. Invest wholly in “designated investments”.
- MAS clarified for condition (i), a partnership carrying on investment activities through a Singapore fund manager is not considered to be carrying on a trade or business in Singapore.
- This means that income derived by an incentivised fund vehicle from (i) partnership distributions and (ii) gains (i.e., disposal gains and unrealized fair value gains) should be exempt to the extent the partnership wholly invest in “designated investments”.

Investment in carbon credits

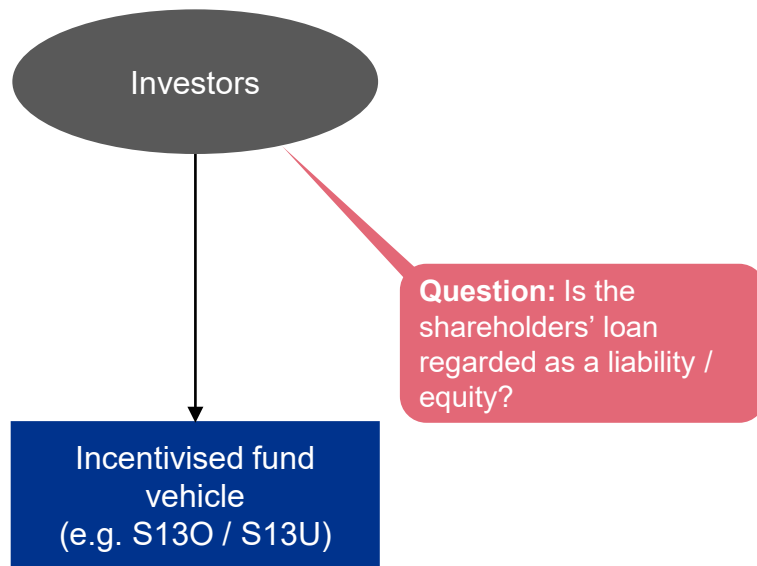


- List of “designated investments” include emission derivatives and emission allowances.
- MAS has clarified the term “emission allowances” is intended to cover carbon credits.

Annual business expenditure under S130/S13U

- Under S130/S13U Scheme, there is an annual business expenditure requirement of SGD 200K (must be local spending if S13U).
- In latest MAS Circular, stated that expenses relating to financing activities are excluded from the annual expenditure calculation.
- MAS clarified that intent is for business spending to reflect the operation (substance) of the fund's business activity in Singapore, which should hence include operating expenses (excluding financing expenses, e.g., interest).
- This may impact smaller funds / hedge funds.

Definition of AUM for purposes of Section 130 / 13U



- AUM of Fund declared in S130/S13U incentive application should be based on net asset value, in accordance with the relevant accounting practices.
- Hence, in scenario where shareholders' loan used, if accounted for as liability, it should be netted off against total asset to arrive at the NAV.
- MAS clarified that for regulatory reporting purposes, it is common for AUM to be based on NAV.

Restrictions on certain investments in SFO structures

- The Fund's AUM should not include controlling stakes of the operating entities related to the UBO(s)' family businesses.
- This exclusion for controlling stakes in operating entities does not apply to shareholding in an arm's length bona fide private equities and venture capital investment, in which:
 - a) The investee companies are unrelated to the UBO or UBO's family's operating businesses;
 - b) The UBO and UBO's family members do not hold any executive operational or management role in the investee companies;
 - c) There is an investment time horizon to liquidate the holdings;
 - d) The fund vehicle is not required to consolidate the results of the operating businesses in its accounts; and
 - e) The fund vehicle is not liable to any top-up tax imposed by any jurisdiction as a response to tax exemption enjoyed by the fund vehicle.
- S130/U fund vehicles are not considered to be holding controlling stakes in related operating entities if all the below conditions are met:
 - i) The S130/U fund vehicle does not hold more than 25% of total outstanding shares of the operating businesses as a permanent part of their portfolio;
 - ii) The UBO/ family's shares of the operating businesses related to the UBO/family do not take up more than 50% of the total AUM across all S130/U fund vehicles owned by the UBO;
 - iii) The S130/U fund vehicles, on average, meet the minimum AUM requirement for its respective scheme excluding the shares of the family's operating businesses, per fund vehicle across all S130/U fund vehicles owned by the UBO;
 - iv) The fund vehicle is not required to consolidate the results of the operating businesses in its accounts; and
 - v) The fund vehicle is not liable to any top-up tax imposed by any jurisdiction as a response to tax exemption enjoyed by the fund vehicle.

Dormant (?) Funds under S130/S13U Scheme

- In latest MAS Circular, MAS stated it reserves the right to terminate funds that enjoy the S130/S13U Scheme but *are dormant*.
- MAS has clarified that the intention is for funds to be carrying out the business of making investment, or are actively seeking investment opportunities and have plans to make investments. Funds that are pending completion of a deal and thus not made any investments would not be considered dormant insofar as they are actively seeking investment opportunities.

Extension of the VCC Grant Scheme (“VCCGS”)

- The VCCGS has been extended for a validity period of two years from 16 January 2023 to 15 January 2025 (both dates inclusive – “Extended VCCGS”).
- Under the Extended VCCGS, the Financial Sector Development Fund will co-fund 30% of qualifying expenses paid to Singapore-based service providers for qualifying work performed in Singapore in relation to the incorporation or registration of a VCC, up to a maximum grant cap of S\$30,000 per application.
- Broadly, the qualifying expenses includes, but not limited to, the following:
 - Legal services
 - Tax services
 - Administration or regulatory compliance services



Introduction of Section 10L

Introduction of Section 10L – Overview

What?

Tax gains from the sale of **foreign assets** that are **received in Singapore** by businesses without economic substance in Singapore under Section 10(1)(g). Applies if the gains would not otherwise be treated as income or if gains would otherwise be exempt from tax under the SITA (e.g. under Section 13O/ 13U/ 13W)

To align the tax treatment of gains from sale of foreign assets to the EU Code of Conduct Group guidance which aims to address international tax avoidance risks. Change is in line with Singapore’s focus on anchoring substantive economic activities in Singapore.

Why?

Who?

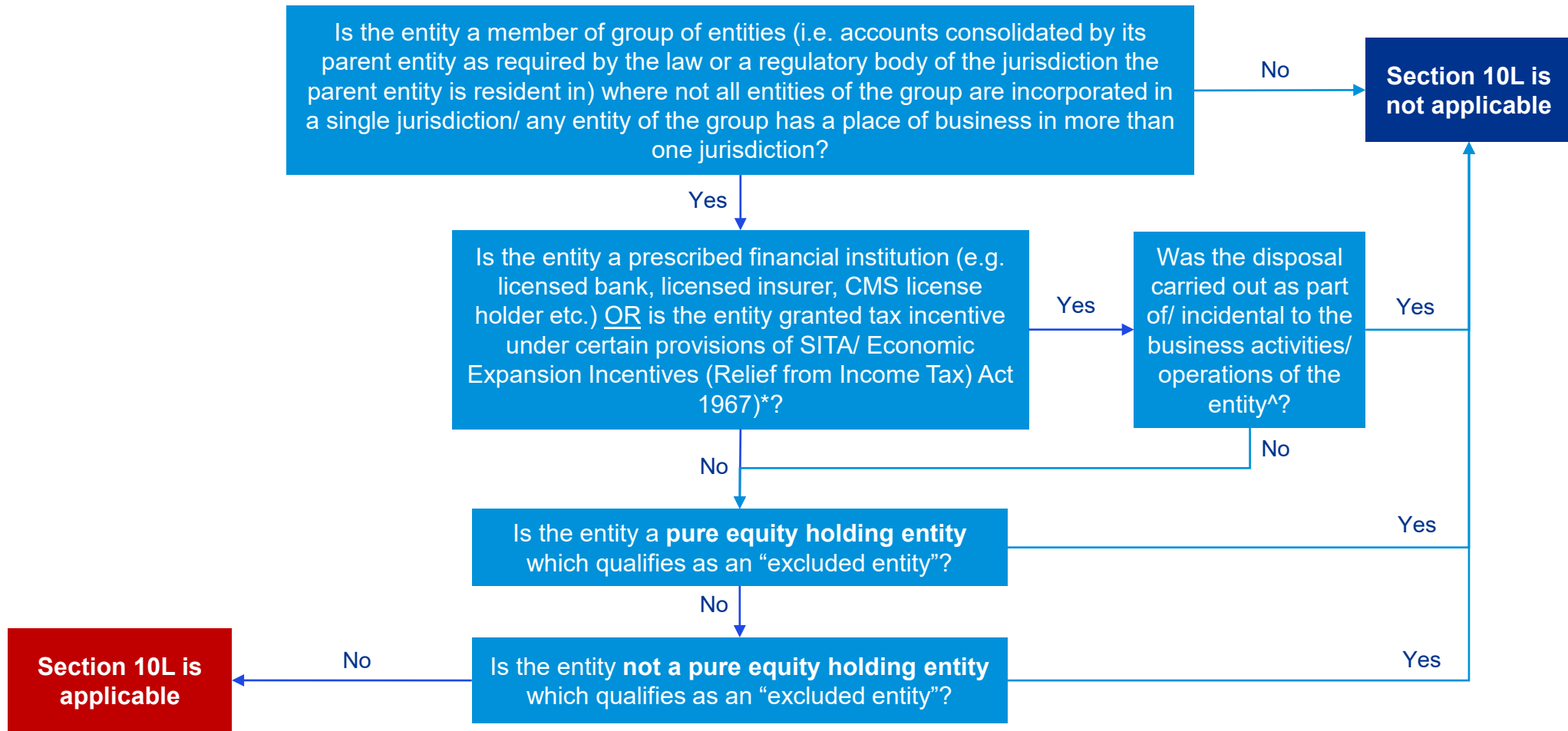
Applicable to an entity of a **“relevant group”** – defined to be *“a group of entities which are not all incorporated, registered or established in a single jurisdiction; or where any entity of the group has a place of business in more than one jurisdiction”*.

An entity is a member of a group if its assets, liabilities, income, expenses and cash flows are included in (or excluded from under specific circumstances) the consolidated financial statements of the parent entity of the group. Certain exclusions apply.

Applies to gains from sale or disposal of a foreign asset that occurs on and after 1 January 2024. Tax is imposed when the gains are received in Singapore.

When?

Summary decision tree



* Under Section 13A, 13E, 13P, 43C, 43E, 43I, 43J, 43L, 43N, 43P, 43Q, 43R or 43U of the SITA or Parts 2, 3 or 4 of the EEIA.

^ For incentivised entities*, this refers to activities or operations from which the entity derives income that is exempt from tax, or that is taxed at a concessionary rate of tax.

Pure-equity holding entity

What is it?

- Function is to hold shares or equity interests in other entities
- Has no income other than dividends, gains on the sale of shares/ equity interests or income incidental to its activities of holding shares/ equity interests

Economic substance requirements (ESR) to qualify as “excluded entity”?

- Complies with obligation to submit any regular return, statement or account required under the written law under which it is incorporated or registered
- Has its operations managed and performed in Singapore (whether by its employees or other persons, where the activities performed by such other persons for the entity are subject to the direct and effective control of the entity)
- Has adequate human resources and premises in Singapore to carry out the operations of the entity



Further guidance expected from the IRAS on how ESR will be administered in the context of investment holding companies (e.g. SPVs) which qualify as pure-equity holding entities, as such entities generally have no employees and minimal operations by virtue of its profile.

Excluded entity

Non pure equity-holding entity

What is it?

- Not a pure equity-holding entity

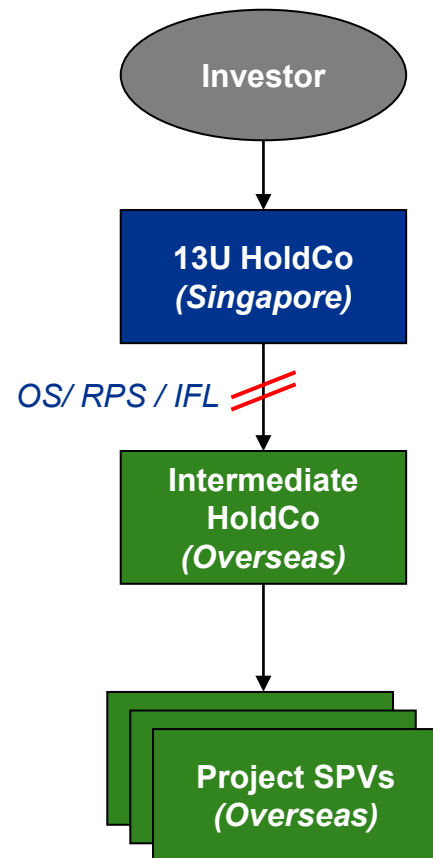
ESR to qualify as “excluded entity”?

- Has its operations managed and performed in Singapore (whether by its employees or other persons where the activities performed by such other persons for the entity are subject to the direct and effective control of the entity)
- Has adequate economic substance in Singapore, taking into account factors such as:
 - a) number of full-time employees of the entity (or other persons managing or performing the entity’s operations) in Singapore;
 - b) qualifications and experience of such employees or other persons;
 - c) amount of business expenditure incurred in and outside of Singapore;
 - d) whether key business decisions are made by persons in Singapore.



Further guidance expected from the IRAS on how ESR will be administered, especially in the context of fund entities that are managed by a Singapore fund manager and approved under the Section 13D/ 13O/ 13U schemes as such entities are already subject to economic requirements under the relevant tax incentive schemes.

Potential implications of Section 10L on exit



Before 1 January 2024:

- Where 13U HoldCo disposes of Intermediate HoldCo, any gains from disposal of Intermediate HoldCo should be tax exempt under the Section 13U Scheme (or potentially under Section 13W).

On or after 1 January 2024:

- Where 13U HoldCo is regarded as an entity of a relevant group (e.g. it is required to consolidate in its financial statements the assets, liabilities, income, expenses and cash flows of Intermediate HoldCo on a line-by-line basis), any gains on disposal of Intermediate HoldCo received in Singapore by 13U HoldCo could be taxable pursuant to Section 10L if it does not qualify as an “excluded entity”, notwithstanding that such gains are exempt under 13U/ 13W.
- As 13U HoldCo provides IFL to Intermediate HoldCo, it would not qualify as a “pure equity-holding entity” based on a strict interpretation of the provisions and hence would be subject to higher ESR.

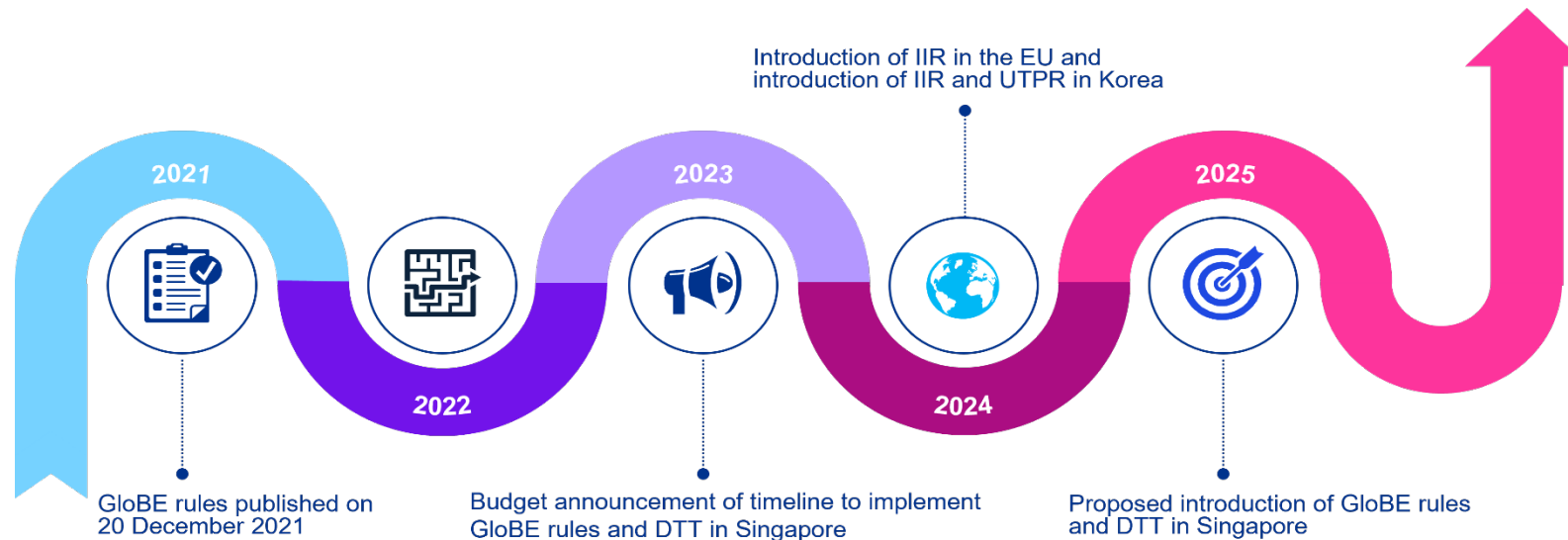
Note: *The above are preliminary comments on the potential implications of section 10L based on the provisions in the Income Tax Amendment Act 2023. The impact of Section 10L to investment structures should be further evaluated upon the IRAS’ issuance of the 10L circular (this is expected to be some time in December).*



BEPS 2.0

Updates relating to Pillar 2

- Implementation of GloBE rules and Domestic Top-Up Tax (DTT) from 2025 at the earliest as announced in Budget 2023



- Most Singapore-managed investment funds should not be affected by GloBE rules either because:
 - The funds qualify as “excluded entities“ (i.e. “investment fund” that is a UPE) in their own right; or
 - The funds are part of an MNE Group which does not cross the EU\$750m revenue threshold.

Thank You



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