



Monetary Authority of Singapore announces tax framework for Variable Capital Companies

The Monetary Authority of Singapore ('MAS') has today announced the tax framework for Variable Capital Companies ('VCCs'). This announcement details the manner in which the Resident Fund Scheme of Section 13R and the Enhanced-Tier Fund Scheme of Section 13X of the Income Tax Act (Cap. 134) are to be extended to VCCs.

The highlights of the tax framework are as follows:

1. A VCC is to be treated for Singapore tax purposes as a single entity. A number of consequences flow from this:

a) For an umbrella VCC applying for approval under the Enhanced-Tier Fund Scheme, the size of each sub-fund is irrelevant provided that the VCC as a whole satisfies the S\$50 million minimum fund size requirement at the time of application. A similar analysis applies to the \$200,000 minimum expenditure requirement which operates in a slightly different manner between the two tax incentive schemes.

b) Under the Resident Fund Scheme, a financial penalty is levied on an investor who beneficially owns, together with their associates, more than a prescribed percentage of the issued securities in an approved fund. The percentage ownership of an investor and their associates of an umbrella VCC that has been approved under this tax incentive scheme is to be calculated across all sub-funds.

c) There is no ongoing requirement for the purposes for an umbrella VCC to seek MAS approval for the creation of new sub-funds. This is provided that a VCC and all of its sub-funds continue to invest within the scope of the investment mandate as described in its offering document.

2. The MAS has also confirmed that a VCC can benefit from Singapore's tax treaty network. A VCC which is a Singapore tax resident can apply for a certificate of residence from the Inland Revenue Authority of Singapore ('IRAS'). This will be issued in the name of the VCC and will detail the names of all sub-funds receiving the same income from the same source jurisdiction.

3. VCCs will be able to enjoy the interest withholding tax exemption currently available to funds approved the Resident Fund Scheme and the Enhanced-Tier Fund Scheme. This is provided that the relevant approval conditions continue to be satisfied.

4. The concessionary rate of 10% available under the Financial Sector Incentive – Fund Management scheme will be extended to include management or advisory fees paid by a VCC which has been approved under the Resident Fund Scheme or the Enhanced-Tier Fund Scheme.

5. The GST remission for funds belonging in Singapore will be extended to VCCs. VCCs approved under the Resident Fund Scheme or the Enhanced-Tier Fund Scheme which satisfy the qualifying conditions of the relevant scheme can reclaim GST charged by Singapore registered suppliers. This is recoverable at the fixed recovery rate which is set annually by the MAS and does not require a fund to itself become GST registered.

6. A VCC is only required to submit a single income tax return. This is irrespective of how many sub-funds an umbrella VCC may have. The effective date of the tax framework will be aligned

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