

## **Section 13H and the Fund Management Incentive**

### **[税法第 13H 条款税务优惠 & 资金管理优惠]**

#### **What is it?**

Section 13H (S13H) and the Fund Management Incentive for S13H-approved funds (FMI) were introduced in Budget 1993 and Budget 2015 respectively to encourage investments into Singapore-based businesses and startups. S13H provides tax exemption for income from funds that meet the scheme's requirement to invest into unlisted Singapore-based companies, while FMI offers fund management companies managing the associated S13H-approved funds a concessionary tax rate of 5%.

The S13H and FMI will be extended for five years till 31 December 2025, with enhancements to:

- Continue to encourage the inflow of local and foreign venture capital funds into Singapore and catalyse more financing options for locally-based enterprises (especially startups and small- and medium-enterprises).
- Further boost the vibrancy of the startup ecosystem in Singapore.

#### **How does it work?**

The enhancements to S13H and FMI seek to simplify the qualifying investment criteria, expand the scope of income streams that can qualify for tax incentives and streamline the legal structures.

#### **Key Enhancements to S13H scheme**

- The list of investments and income incentivised under S13H scheme will be expanded to include relevant items of the Specified Income – Designated Investment list applicable for fund incentives<sup>1</sup>.
- In addition to companies incorporated in Singapore and partnerships, venture capital funds that are constituted as foreign-incorporated companies or Singapore Variable Capital Companies may qualify for the S13H tax incentive.
- Removal of the statutory sub-limit that imposes a 10-year cap for the first tranche of tax exemption, while the 15-year cap on the overall tenure of the tax exemption status remains. This means that the tax exemption may be awarded for the fund life of the venture capital fund, up to a total tenure of 15 years.
- Approved venture capital funds will be allowed, by way of remission, to claim Goods & Services Tax incurred on their expenses, at a fixed recovery rate (to be determined).

#### **Key Enhancements to FMI**

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<sup>1</sup> Under sections 13CA, 13R and 13X of the Income Tax Act.

- Removal of the statutory limitations on the total incentive tenure allowed for each fund management company. Instead, each FMI award for the fund manager will be set at a maximum tenure of 5 years, and can be renewed, subject to conditions.
- The approved fund manager will receive a single FMI award, which confers a concessionary tax rate of 5% on management fees and performance bonus derived from the associated portfolio of S13H funds, instead of having separate FMI award for each S13H fund.

**When will it be implemented?**

The enhancements to the S13H and FMI will take effect from 1 April 2020. More details will be released by Enterprise Singapore by end March 2020.

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