

Revisions to the Financial Sector Incentive schemes



The Monetary Authority of Singapore (MAS) has recently released details on revisions to the Financial Sector Incentive (FSI) schemes. In this issue, we examine these revisions in detail.

The FSI schemes aim to enhance financial intermediation and deepen capabilities in key financial services and banking activities in Singapore. Under the FSI schemes, the FSI awards are the FSI-Standard Tier (FSI-ST), FSI-Capital Market (FSI-CM), FSI-Derivatives Market (FSI-DM), FSI-Credit Facilities Syndication (FSI-CFS), FSI-Headquarter Services (FSI-HQ) and FSI-Fund Management (FSI-FM). Under the FSI scheme, income derived by the FSI award

holders from qualifying activities are currently subject to Singapore income tax at the concessionary rates of 5%, 10% or 12%, depending on the awards granted.

Under the latest revisions to the FSI schemes, the FSI schemes will be streamlined to remove currency, counterparty and investment instrument restrictions. Correspondingly, the concessionary tax rate for FSI-ST scheme will be increased from 12% to 13.5% in order to maintain tax neutrality.

The key refinements in respect of each individual award are broadly summarised as follows:

FSI-ST award

- Currency restrictions have been removed (i.e. Singapore dollar transactions are now included in the scope of qualifying activities).
- Transacting in loans (other than by way of bonds or debentures) with individuals has been excluded from the list of qualifying activities.
- Trading in loans where their related collaterals are immovable property has been excluded from the list of qualifying activities.
- Investment instrument restrictions in relation to trading, investing in or providing services in respect of debt securities and equity securities have been removed.
- Counterparty restrictions in relation to the provision of services for the purpose of listing on the Singapore Exchange have been removed.
- “Designated investment” and “qualifying investor” requirements in respect of fund management, investment advisory, other financial advisory services in respect of fund management, trustee or custodian activities have been removed.
- The requirement for foreign investors as counterparties for fund management, investment advisory or other financial advisory services in respect of fund management has been removed.
- Scope of qualifying activities have been expanded to include the provision of trustee, custodian, trust management or administration services to all trusts.
- The requirement for foreign investors and foreign mutual fund corporations, as counterparties for trustee, custodian, trust management or administration services has been removed.

FSI-CM award

- Investment instrument restrictions in relation to trading, investing in or providing services in respect of debt securities and equity securities have been removed.
- Counterparty restrictions in relation to the provision of services for the purpose of listing on the Singapore Exchange have been removed.

FSI-DM award

- Counterparty restrictions in relation to trading in or the provision of services as an intermediary for transactions relating to any financial derivatives, commodity derivatives, emission derivatives or freight derivatives have been removed.

FSI-CFS award

- Scope of qualifying activities has been expanded to include onshore syndicated loans.
- Syndicated facilities relating to the financing or refinancing of previous borrowings to finance, of immovable properties not relating to any prescribed asset or project have been excluded from scope of qualifying activities.

FSI-HQ award

- Currency restrictions have been removed (i.e. Singapore dollar transactions are now included in the scope of qualifying activities).
- Counterparty restrictions in relation to providing guarantees, performance bonds, standby letters of credit and services relating to remittances have been simplified to “financial institutions”.
- Counterparty restrictions in relation of managing the funds of an approved office has been removed.
- “Designated investment” condition in respect of managing the funds of an approved office has been removed.

FSI-FM award

- “Designated investment” and “qualifying investor” requirements in respect of fund management, investment advisory or other financial advisory services in respect of fund management have been removed.
- The requirement for foreign investors as counterparties for fund management, investment advisory or other financial advisory services in respect of fund management has been removed.



The changes to the FSI schemes apply to new and renewal awards approved on or after 1 June 2017.

Existing FSI-ST, FSI-CM, FSI-DM, FSI-CFS, FSI-HQ and FSI-FM award holders will continue on their current awards with the existing scope of qualifying activities and tax rate, till the expiry on their awards, subject to them meeting the terms and conditions of the awards. Thereafter, they may apply for renewal under the new FSI schemes if they meet the eligibility conditions.

Our comments

The latest revisions to the FSI schemes are part of the Singapore government's ongoing periodic review of tax incentives to ensure that they remain competitive and relevant. The MAS constantly reviews the FSI schemes, taking into consideration feedback from the relevant stakeholders for enhancements to the various awards under the scheme.

This latest round of enhancements and refinements to the FSI schemes continues to be a progressive step taken by the Government to reduce the complexity of the scheme.

- The increased tax rate under the FSI-ST award of 13.5% (from 12%) is derived based on specific internal calculations by the MAS and is with the intent of maintaining tax neutrality as a result of the refined scope of qualifying activities under FSI-ST.

With this increase, there appears to be a narrowing gap between the concessionary tax rate for FSI-ST awards and the prevailing corporate income tax rate of 17%.

Correspondingly, the gap between the new FSI-ST tax rate (13.5%) and the enhanced tier awards tax rate (5%) under the FSI-CM, FSI-DM and FSI-CFS awards have widened. The authorities may be trying to further delineate the distinction between the standard tier and enhanced tier incentives and accordingly encourage applicants to make more substantive commitments in order to qualify for the enhanced tier incentives.

- The expansion of scope of qualifying activities under FSI-ST to include Singapore dollar transactions may possibly indicate a shift in policy intention with regard to the internationalisation of the Singapore dollar. Previously, Singapore dollar transactions were not incentivised to avoid unintended fluctuations of the Singapore dollar. This latest change is likely to benefit the local banks more than the foreign banks as the latter is likely to be dealing with smaller volumes of Singapore dollar transactions.
- The removal of transacting in loans with individuals (other than by way of bonds or debenture) from the list of qualifying activities under the FSI-ST award would mean that profits from such activities would be taxed at the prevailing corporate tax rate of 17%.

We believe this may be part of the Government's intention to avoid over-gearing by individuals. While this is done with good intentions, it may be interesting to see individuals obtaining a loan indirectly via their privately owned entities (such as High Net Worth Individuals (HNWIs)). Such individuals may continue to take up loans through their existing private structures, and the banks extending such loans would still be incentivised under FSI-ST. In this regard, private banks which derive a significant portion of their profits from loans to individuals may not be too adversely affected by this change.

- Prior to the latest revisions, the qualifying activity of trading in loans and their related collaterals under the FSI-ST award specifically excluded Singapore immovable property. The recent change in scope now excludes all immovable properties (Singapore and non-Singapore) in respect of trading in loans and their related collaterals. While there is no specific prohibitions, it may be interesting to consider the tax rules in situations where collaterals relate to shares that hold immovable properties.
- The removal of the investment instrument restrictions in respect of capital market activities under the FSI-ST award and the FSI-CM award itself means any debt securities and equity securities issued by local or unlisted companies, collective investment schemes or business trusts are now within the scope of qualifying activities. This move is reflective of the Government's efforts to drive, boost and level the playing field for the local Small and Medium Enterprises (SMEs) market.



- Removing the requirement for fund management or advisory services in respect of “designated investment” and “qualifying investor” will be a welcomed change for the FSI-ST award holders who engage in fund management activities as well as the FSI-FM award holders. This relaxation of rules will help simplify tax compliance and make it less onerous for FSI award holders as the need to keep track of profits arising from services in respect of non-designated investments or non-qualifying investors is eliminated.
- The expansion of qualifying activities to include the provision of services to all trusts (set up in Singapore and outside of Singapore) under the FSI-ST award is expected to benefit banks providing such services. In particular, it should level the playing field especially for banks that have traditionally focused on the provision of services to trusts set up in Singapore, as such services were excluded previously. Again, this would be a welcomed move, given the recent heightened interest by HNWIs in utilising Singapore trusts in their wealth planning arrangements/structures.
- The inclusion of onshore syndicated facilities under the FSI-CFS award is likely to be welcomed as it removes the previous administrative burden of having to track profits arising from onshore syndicated facilities. Nonetheless, the benefits arising from this expansion is dependent on the scale and extent of onshore syndicated facilities transactions.

As noted above, the changes to the FSI schemes apply to new and renewal awards approved on or after 1 June 2017. For specific existing FSI award holders who wish to transit earlier, MAS may wish to consider allowing taxpayers to write in or submit an opt-in form to trigger the application of these changes on a case by case basis.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business and assisting you on the renewal of the FSI incentive.

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