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Singapore fund structures: tax considerations and incentives



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Introduction

Singapore has become an established asset management hub and is increasingly seen as a fund domicile location. According to statistics released by the Monetary Authority of Singapore (MAS) in 2025, there are over 1,200 fund managers in Singapore, managing in excess of US\$4.46 trillion.

There is a large degree of flexibility and variability in the design of fund structures which are managed out of Singapore. The "optimal" structure requires the analysis of a number of often competing factors.

The taxation of Singapore-managed fund structures needs to be understood at an early stage in the structuring process. This requires:

1. An appreciation of the basic features of the Singapore tax system
2. An understanding of how different vehicles and structures are treated for Singapore tax purposes
3. Awareness of the incentives available to achieve tax efficiency on repatriated income and gains

1 Singapore tax

Income tax

The Singapore taxation system is semi-territorial in nature. Tax is imposed on income that is either:

- Singapore-sourced
Or
- Foreign-sourced and received in Singapore from outside Singapore

The current rate for corporate tax is 17%. The Income Tax Act 1947 (ITA) contains a number of provisions which operate to provide exemptions. This includes exemptions for Singapore managed funds.

Singapore tax generally does not apply to gains of a capital nature. The character of a gain either as income or capital is initially considered by reference to the “badges of trade”. This indicia is used to determine if a gain has been made as part of a trade carried on by a taxpayer. It tends to be applied stringently in practice by the Inland Revenue Authority of Singapore (IRAS). A gain may also be revenue in nature if it arises from a speculative transaction.

The general position around the taxation of gains is modified by a number of provisions within the ITA. These include a participation exemption and a deeming provision which can apply to the remitted foreign-sourced gains of taxpayer without sufficient economic substance. Fair value gains on financial instruments can be taxed on an unrealized basis for entities which are required to apply Singapore financial reporting standards.

Dividends and interest paid on equity and debt interests issued by a foreign issuer will generally be regarded as foreign-sourced. This income is only subject to Singapore tax to the extent that it is remitted into Singapore. The concept of remittance is most readily understood in a traditional context where income is paid into a Singapore bank account. It may also occur where foreign-sourced income is used to satisfy a debt incurred as part of a trade or business carried on in Singapore or to purchase movable property that is brought into Singapore.

Unlike many jurisdictions, tax residency is a benefit and not a burden in Singapore. Singapore has a network of over 90 bilateral tax treaties. These can reduce rates of withholding tax on dividends and interest. They can also provide protection against the foreign taxation of gains in certain circumstances.

Tax residency is a basic requirement to enjoy access to Singapore tax treaties. This generally requires a Singapore incorporated corporate vehicle such as a private limited company or variable capital company (VCC). Tax residency by itself is however not sufficient. A Singapore corporate fund vehicle must have an appropriate level of economic substance. It must also be the beneficial owner of income for which treaty benefits are sought.

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Other taxes

Goods and services tax (GST) currently applies at the rate of 9% in Singapore. Investment funds are not generally considered to carry on a business in a manner that would require registration for GST purposes. It may however be necessary for an investment fund that belongs in Singapore to register if it imports services, which are subject to the reverse charge. A fund that is able to benefit from one of Singapore's fund tax incentives is generally able to recover a portion of GST charged on supplies made by local suppliers.

Stamp duty applies in Singapore, and the application of Singapore stamp duty to immovable property is complex, especially where property falling within the broad definition of residential property is concerned. Singapore stamp duty can apply on the transfer of shares in unlisted Singapore companies. It does not generally apply on the transfer of units in a unit trust or interests in a partnership.

Tax considerations for fund sponsors

There are a number of tax considerations that arise for fund sponsors wishing to establish a fund. These derive from the basic objective to reduce the effective tax rate on income and gains derived by a fund.

The first and most fundamental question is whether the fund is exposed to Singapore tax as a matter of general principles. The answer depends to a large extent upon the strategy of the fund and the way it is to be managed (including board composition and governance). If a hedge fund is to be managed on a discretionary basis by a Singapore fund manager, then there is risk that all gains may be revenue in nature. Passive income such as interest and dividends on financial instruments would also likely be considered remitted if the fund were to use a local prime broker or bank account. In such circumstances, it would be necessary to ensure that one of the Singapore fund tax incentives applies.

A different analysis potentially applies to an offshore private equity fund which is merely advised by a Singapore manager. This may be comprised of offshore vehicles with a foreign constituted board. Investment decisions of the fund may be taken by a geographically diverse investment committee that meets outside of Singapore, or by the board of the fund itself. It is likely in this scenario that the fund would not have an exposure to Singapore tax as a matter of general principles. This includes if foreign-sourced income is remitted into a Singapore bank account.

Another key consideration is whether the fund or any of the investment vehicles should be domiciled in Singapore. Where a fund is managed in Singapore, the use of Singapore resident vehicles can enable access to Singapore's double tax treaty network. A detailed analysis is required to ensure that the rationale and structure of a Singapore resident fund vehicle is appropriate in the circumstances. The appointment of a Singapore fund manager is generally helpful from a substance and principal purpose perspective.

Where it is established that a fund may have an exposure to Singapore tax under general principles, either because of the way it is to be managed or because it is to comprise Singapore fund vehicles, it is necessary to consider whether any of Singapore's fund tax incentives may be suitable. These have been embraced by the local asset management industry. They have been shaped over time to accommodate a range of structures and strategies. As evident from the summary below, the choice of incentive will depend upon a number of factors. This includes the domicile and legal form of the fund or vehicle.



Fund vehicles

Partnerships

Partnerships are very popular fund vehicles amongst both international and local sponsors. As essentially contractual arrangements, there is a large degree of customization, which is available when establishing a fund as a partnership.

Limited partnerships (LPs) may be registered in Singapore. These are an adaptation of the general law partnership and provide for a statutory limitation on the liability of limited partners. This limitation of liability applies to the extent that limited partners do not become involved in the business of the partnership. General law and limited partnerships do not have separate legal personality, perpetual succession or the ability to sue or be sued.

Alongside the general law partnership and the LP, limited liability partnerships (LLPs) may be established in Singapore. LLPs are fundamentally different as a business organization. They are separate entities and governed entirely by an LLP agreement. Despite the name, the law relating to partnerships does not apply to LLPs.

Both offshore and Singapore partnerships are commonly seen in the local market. Cayman Islands exempted limited partnerships are particularly popular and are generally well received by prospective investors located in Asia and North America. European investors may have some reticence to invest into the Cayman Islands structures, and for those investors, European vehicles are generally preferred.

Partnerships, LPs and LLPs are all transparent for Singapore tax purposes. Each partner in a partnership is therefore potentially exposed to Singapore tax on their fractional share of partnership income as a matter of general principles. A partner can therefore be exposed to Singapore tax and filing obligations if the partnership itself has a sufficient nexus with Singapore. This can arise by virtue of the activities of one of the partners (such as the general partner in a limited partnership) or due to the appointment of a fund manager in Singapore to provide investment management services.

A VCC is treated as a company for Singapore income tax purposes. It can be Singapore tax resident and therefore can claim benefits under Singapore's tax treaty network where the applicable conditions are satisfied.

Corporate vehicles

Companies are often used as part of the design of a fund structure. Funds with a liquid strategy such as hedge funds may be simply structured as a corporate vehicle with one or two feeders depending upon the requirements of investors. Alternatively, companies may be established with separate cells depending upon the objectives of the fund sponsor. Examples include the Cayman Islands segregated portfolio company (SPC) and the Irish Collective Asset-management Vehicle (ICAV). New cells may be created within the same vehicle with comparative ease and minimal cost. A typical feature of cellular companies is a legislated prohibition on the cross-contagion of liabilities.

In Singapore, the VCC may be established as a cellular vehicle. An umbrella VCC can have an unlimited number of sub-funds. Sub-funds can even invest into other sub-funds within the same VCC. The namesake feature of the VCC is the variable capital that is equal to the net asset value at all times. Dividends can be paid out of variable capital of a VCC. This is much more flexible than Singapore companies that are only able to declare dividends out of profits. This restriction can lead to a "cash trap" where a Singapore company may wish to declare a dividend out of available cash but has non-cash expenditure which reduce available profits. A VCC is also able to upstream cash by way of a redemption or buy-back of shares with comparative ease.

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Despite some restrictions in relation to the upstreaming of cash, Singapore companies remain a popular choice within fund structures. These are often used as feeders or asset specific investment vehicles rather than as master pooling vehicles. They can be used as an intermediate layer in a fund structure although it is not possible to segregate assets and liabilities within a company. This can create some inflexibility as compared to using an umbrella VCC for this purpose.

Singapore does not have the equivalent of a limited liability company (LLC). The IRAS has recently provided some guidance on the classification of foreign hybrid entities, which include LLCs. If an LLC is used as part of a fund structure, the same general principles around management and governance apply. For example, if a fund is structured as a Cayman Islands LP with a Cayman LLC as the general partner, then care will be needed if the managing member of the LLC is based in Singapore.

The Singapore taxation of corporate fund vehicles, including VCCs, is comparatively straightforward. Corporate tax applies at the rate of 17% unless a fund tax incentive applies. Dividends paid by a Singapore resident company are exempt from tax, and no withholding tax applies. Interest withholding tax can apply on debt provided by a non-resident lender. A number of exemptions however apply, including one specifically available for funds that enjoy a fund tax incentive.

Trusts

Singapore is a common law jurisdiction, and trusts are a well-known vehicle that feature in both a private wealth and institutional fund context. Singapore unit trusts are commonly used by traditional fund managers for retail products. Singapore real estate investment trusts (REITs) are listed unit trusts that meet detailed requirements in relation to management, asset allocation and leverage.

It is possible to establish a registered business trust in Singapore. Registered business trusts are used as listed vehicles, which have a set of liberalized conditions around asset allocation and leverage as compared to REITs. They may be used to hold infrastructure assets and operating businesses. A registered business trust has a trustee-manager which, as the name suggests, has a combined fiduciary and operating role. There are examples of registered business trusts being “stapled” to REITs, which enables the ownership of complementary assets by investors. Typically, this is a way of combining property assets with the operator of those assets.

Unit trusts are not commonly used by alternative asset managers in Singapore. There are no tax benefits of these vehicles, and the need to appoint a licensed trust company adds an additional layer of cost and operational complexity. Unit trusts do not enjoy benefits under Singapore tax treaties, with the registered business trusts being the only exception. This means even if a unit trust was to be used as a master pooling vehicle, it would still be necessary to include a corporate vehicle in the structure if benefits under Singapore's network of tax treaties are sought.

Trusts are treated as opaque under the ITA with tax being assessed in the name of the trustee. Transparency can however apply to the income of a trust if it is distributed to Singapore resident beneficiaries in the year that it is derived. This only applies to income that is not derived from carrying on a trade or business. Where transparency applies, no tax is paid by the trustee and is instead paid by beneficiaries.

Specific rules apply to the taxation of registered business trusts and REITs. This includes a withholding tax on certain distributions made by REITs. Unlisted unit trusts are accommodated by Singapore's fund tax incentives as discussed below.



Tax incentives

There are a number of tax incentives that are specifically designed to encourage the local asset management industry. These are three incentives which are of key importance. The initial and ongoing conditions of these incentives are set out in the table below.

Condition	Section 13D	Section 130 or 130A	Section 13U
Name	Offshore Fund Incentive	Singapore Resident Fund Scheme	Enhanced-Tier Fund Tax Incentive Scheme
Eligible entities	Non-resident companies and trusts. Also applicable for non-resident foreign individuals	Singapore companies, VCCs and Singapore limited partnerships	Funds constituted in all forms. May apply to managed accounts structures including feeders and special purpose vehicles (SPV)s may also be approved, with economic conditions met on a consolidated basis
MAS approval required	No	Yes	Yes
Singapore fund manager required	Yes	Yes	Yes
Minimum headcount for fund manager	One Singapore tax resident investment professional	Two Singapore tax resident investment professionals	Three Singapore tax resident investment professionals

Tax incentives

Condition	Section 13D	Section 130 or 130A	Section 13U
Local fund administrator required	No	Yes	Yes, if the fund is Singapore incorporated and tax resident
Restriction on investors	Yes, a financial penalty may apply in certain circumstances	Yes, a financial penalty may apply in certain circumstances	No
Minimum fund size comprising of assets under management (AUM) invested in designated investments	No	S\$5 million. May be satisfied on a committed capital basis for certain types of funds	S\$50 million. May be satisfied on a committed capital basis for certain types of funds
Minimum annual business spending	No	Tiered annual local business spending starting at S\$200,000 for AUM less than S\$250 million	Tiered annual local business spending starting at S\$200,000 for AUM less than S\$250 million
Other conditions	Cannot have a permanent establishment in Singapore other than a fund manager. Certain restrictions on transferred-in assets	Certain restrictions on transferred-in assets. Not intended for operating companies of a group to manage working capital	Not intended for operating companies of a group to manage working capital

The Section 13U Scheme offers the most flexibility but is only available for larger funds. It may be obtained on a single entity basis or as part of a structure comprising feeders and SPVs.

Approval under Section 13U and Section 130 may be sought as a “closed-end fund”. Where approval is granted on this basis, the local business spending requirement can be met on a cumulative basis and only needs to be satisfied for the first 10 years of approval.

Benefits

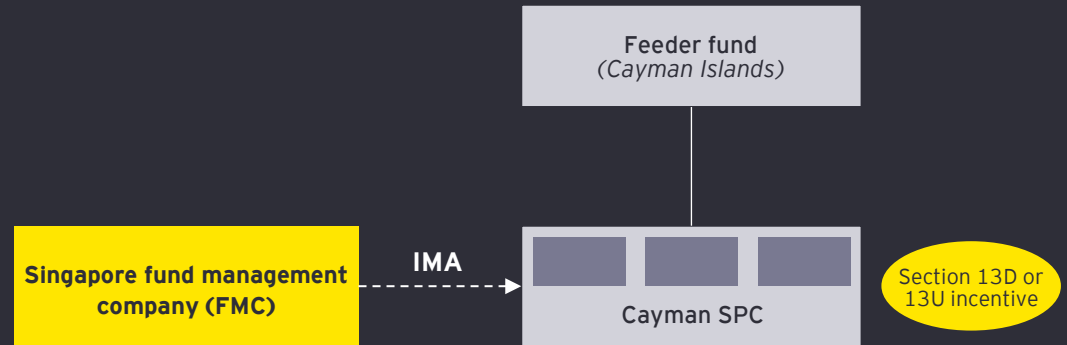
The main benefit of the fund tax incentives is an exemption from Singapore tax on income and gains. This encompasses a wide range of assets but is not all encompassing. The scope of the tax exemption is shaped by two key definitions – “specified income” and “designated investments”. Notable omissions from the list of designated investments include Singapore immovable property, digital assets and certain indirect interests in Singapore immovable property.

In addition to the income tax exemption, funds that enjoy one of Singapore’s fund tax incentives are also able to benefit from a withholding tax exemption. This applies to interest paid on debt incurred for the investment purposes of the fund.

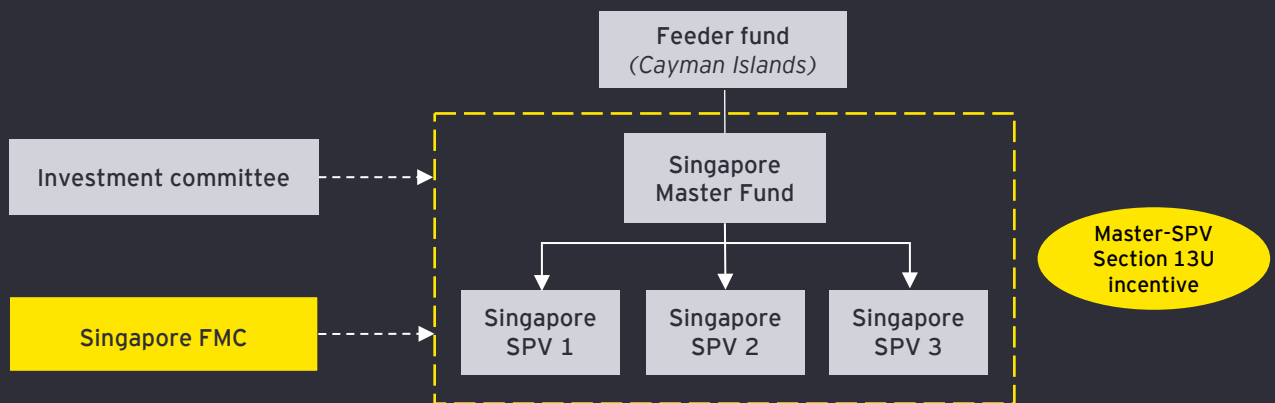
A fund is also able to reclaim a fixed percentage of the GST on supplies made to the fund by Singapore registered suppliers. This percentage is set every year by the MAS and is typically in the range of approximately 90%. The IRAS has provided specific guidance on the circumstances where an offshore fund is taken to belong in Singapore.

Sample structures

1. Hedge fund



2. Private equity fund





4 Other tax considerations

There are a number of additional tax considerations which must be taken into account where a fund is managed from Singapore:

FATCA: Singapore is a participating jurisdiction for the purposes of the Foreign Account Tax Compliance Act. This is the exchange of information system developed by the US which requires the exchange of information about financial accounts held by US persons. Investment funds are typically considered to be financial institutions for these purposes. A fund may be required to register and report in Singapore depending upon the circumstances.

CRS: Singapore is a participating jurisdiction for the purposes of the Common Reporting Standard. This is the global exchange of information program that is modelled on the FATCA rules. It results in the exchange of financial account information to the country of tax residency of the account holder. As with FATCA, investment funds are often considered to be financial institutions and may be required to register and report in Singapore.

BEPS: Singapore is a member of the Inclusive Framework on Base Erosion and Profit Shifting. International tax reforms that are broadly referred to as BEPS 2.0 include the introduction of a global minimum tax of 15% for multi-national enterprises with global revenue of €750 million or more. As part of the adoption of these measures, a domestic top-up now applies in Singapore. The application of these rules to investment funds is potentially complex. It is typically more of an issue at the investment level for private equity funds with stakes in multinational groups exceeding the revenue threshold.

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