

IRAS e-Tax Guide

GST: Guide for the Fund Management Industry
(2nd Edition)



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removal of:

- *paragraphs 7.1(d), 7.1(d)(i) and 7.1(d)(ii),*
- *examples 10 and 11);*

addition of:

- *paragraphs 4.4(f) to (g), 4.7, 5.1(c) to (h))*
- *examples 6B and 6C)*

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1. Introduction

- 1.1. This guide explains the GST treatment relating to services provided by and services received by fund managers in the fund management industry.

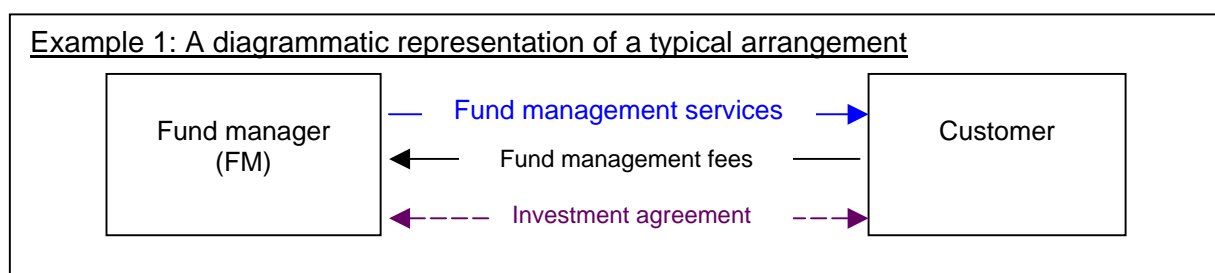
2. Basic GST Principles Applicable To The Fund Management Industry

- 2.1. Generally, the fund manager provides fund management services, which includes research, investment advice, as well as preparation of reports for their clients, to best meet the investment needs of his clients. A fund manager's duties are usually set out in the investment agreements, mandates or trust deeds. In return for the services performed, the fund manager is usually paid a fee ("fund management fee").
- 2.2. For GST purposes, the provision of certain financial services is exempt from GST if the service falls within any of the descriptions specified in paragraph 1 of the 4th Schedule to the GST Act. Exemption is however, explicitly not applicable to any arranging, broking, underwriting or advising services in relation to a financial transaction, other than re-insurance services¹.
- 2.3. As services provided by GST registered fund managers to their clients generally do not fall within the description of paragraph 1 of the 4th Schedule, their services are taxable for GST purposes. However, when the fund managers act as **principals** in the exempt financial transactions, for example when the fund managers buy and sell units in their own names, they may be considered as making exempt supplies in respect of such financial transactions.
- 2.4. The Comptroller will generally consider a person as a principal if he trades in his own name, assumes ownership of goods or services supplied or bears the risks and rewards arising from a sale or purchase of an investment.

3. Fund Management Services Provided To Customers Other Than Unit Trusts

3.1. Background

- (a) The fund manager usually enters into an investment agreement to provide services to his customers. The duties of the fund manager are usually provided in the investment agreement and in return for the services that the fund manager performs for his customers, he receives fund management fees.



¹ Paragraph 4 of the 4th Schedule to the GST Act

- (b) In a typical investment agreement between the fund manager and the customer, the customer generally:
- Authorizes the fund manager to represent him;
 - Empowers the fund manager to act in or enter into contracts of financial transactions on his behalf;
 - Has control over the fund manager's activities such that the activities are those within the scope of the investment agreement.

3.2. GST Treatment of Fund Management Services Provided to Customers other than Unit Trusts

- (a) The supply of fund management services is standard-rated unless it qualifies for zero-rating under section 21(3)(j) of the GST Act.
- (b) For fund managers supplying fund management services directly to customers under investment agreements, the fund manager is treated as providing his fund management services to the person with whom he has entered into the investment agreement. As there is a direct contract for service between the fund manager and the customer, the fund management services directly benefit that customer.
- (c) Hence, the fund manager may zero-rate his fund management services if the services are supplied under a contract (i.e. the investment agreement) to a customer belonging outside Singapore and who is not in Singapore at the time the services are performed and directly benefit that overseas person.

3.3. GST Treatment of The Sale Of Investment on Behalf of Customers

- (a) Based on the scope of work performed by the fund manager described in paragraph 3.1(b) above, the fund manager is treated as an agent² acting on behalf of his customers when engaging in financial transactions.
- (b) In other words, when the fund manager sells securities belonging to his customer, the fund manager is not making exempt supplies on its own account. The supplies constitute exempt supplies of his customer. For example, when the fund manager sells shares for his customer, the sale of the shares³ is treated as a supply made by the customer, and not by the fund manager.
- (c) Consequently, the fund manager is only required to report his fund management services and the corresponding consideration as his taxable supplies and output tax respectively. This is so even if the customer pays for the fund management services by netting off the fees from the sales proceeds of the securities.

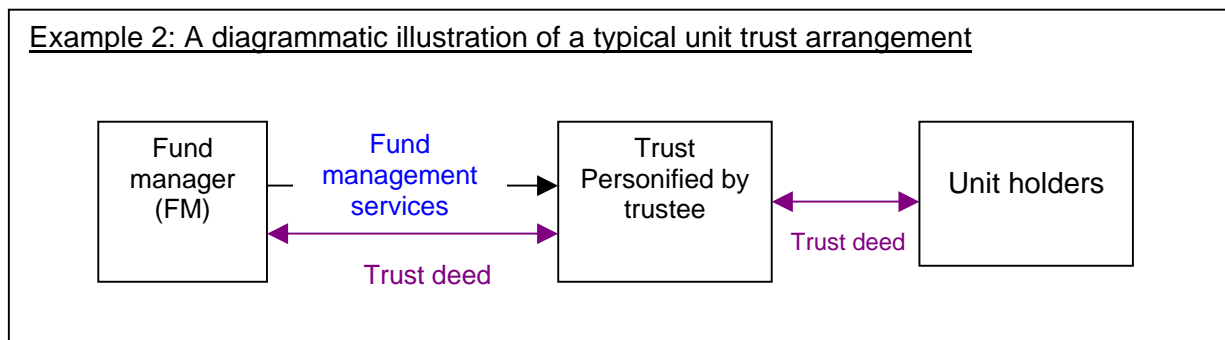
² This does not include situations where the fund manager is involved in buying and selling the securities in his own name.

³ The sale of shares is an exempt supply for GST purposes.

4. Fund Management Services Provided To Unit Trusts

4.1. Background

- (a) When a fund manager provides fund management services under a unit trust⁴ arrangement, the responsibilities of the fund manager are spelled out in a trust deed. The trust deed also sets out the relationships among the unit holders, fund manager and the trustee.
- (b) The fund manager would manage and invest the fund's money and is responsible for the fund's performance while the trustee holds the property on behalf of the unit holders and ensures the fund manager carry out his duties in accordance with the trust deed.



4.2. GST Treatment Of Fund Management Services Provided To Unit Trusts

- (a) For GST purposes, the fund manager's services are treated as supplied to the unit trust⁵ in return for fund management fees charged to the unit trust. As the unit trust is not a legal entity, the fund manager's services are treated as supplied to the trust, personified by the trustee⁶. The fund manager should therefore determine if his services could be zero-rated depending on the belonging status of the trustee.
- (b) In return for the fund manager's services, the fund manager is entitled to receive a management fee, usually computed as percentage of the fund's net asset value. The fund manager should treat the management fee charged to the unit trust as a taxable supply.

⁴ A unit trust is a pool of money; held by a trustee on behalf of the unit holders, constituted by way of a trust deed.

⁵ The trust deed creates the contractual relationship between the fund manager and the trust where the fund manager must conduct itself in the interests of the trust.

⁶ In essence, it is the trustee who is contracting on behalf of the unit trust for the supply of fund management services for the unit holders. The unit holders' status and place of registration of the unit trust do not determine the belonging status of the unit trust.

Whether fund management services are treated as supplied 'directly in connection' with land?

- (c) A fund manager may be appointed to manage an asset portfolio comprising properties, for example, for a real estate investment trust (REIT) (hereafter referred to as the "REIT manager"⁷) and be entitled to receive various fees including a periodic fund management/ performance fee, as well as a fee payable only upon successful acquisition or disposal of a specific property by the unit trust. This does not extend to managing the physical condition of the property or managing the leases for the property.
- (d) The role of a REIT manager who manages the property fund portfolio, where it does not extend to managing the physical property or leases for the property, is no different from other fund managers who provide investment advice in respect of their clients' investments in other financial products. Fees charged by the REIT manager for his investment advisory services are not considered supplied directly in connection with land.
- (e) On the other hand, fees charged for acquisitions or divestments of specific property are considered supplied directly in connection with land⁸.

4.3. GST Treatment For The Sale Of Units

Fund manager as the principal

- (a) If the fund manager acts as a principal in the buying and selling of units, the fund manager is regarded as making an exempt supply from the sale of units.
- (b) For GST purposes, we are prepared to treat the fund manager as a principal for the sale of units to investors if the fund manager operates a 'manager's box' which holds units for the fund manager's own account⁹, for sales to investors. He is hence required to report the value of exempt supply arising from the sale of units under a unit trust, including any fees charged for the sale of units in his GST return.

Fund manager as an agent

- (c) If the fund manager acts as an agent for the sale of units, units are sold by the trustee of the unit trust as the principal. In other words, the trustee, not the fund manager, makes the exempt supply of the sale of units. As an agent, all fees received for the fund manager's services are taxable for GST purposes.
- (d) For GST purposes, we are prepared to treat the fund manager as an agent for the sale of units¹⁰ if:
- the fund manager does not operate a manager's box to hold units created for the fund manager's own account for sales to investors;

⁷ The role of the REIT manager is distinct from the property manager who is only responsible for the physical upkeep of the properties under management.

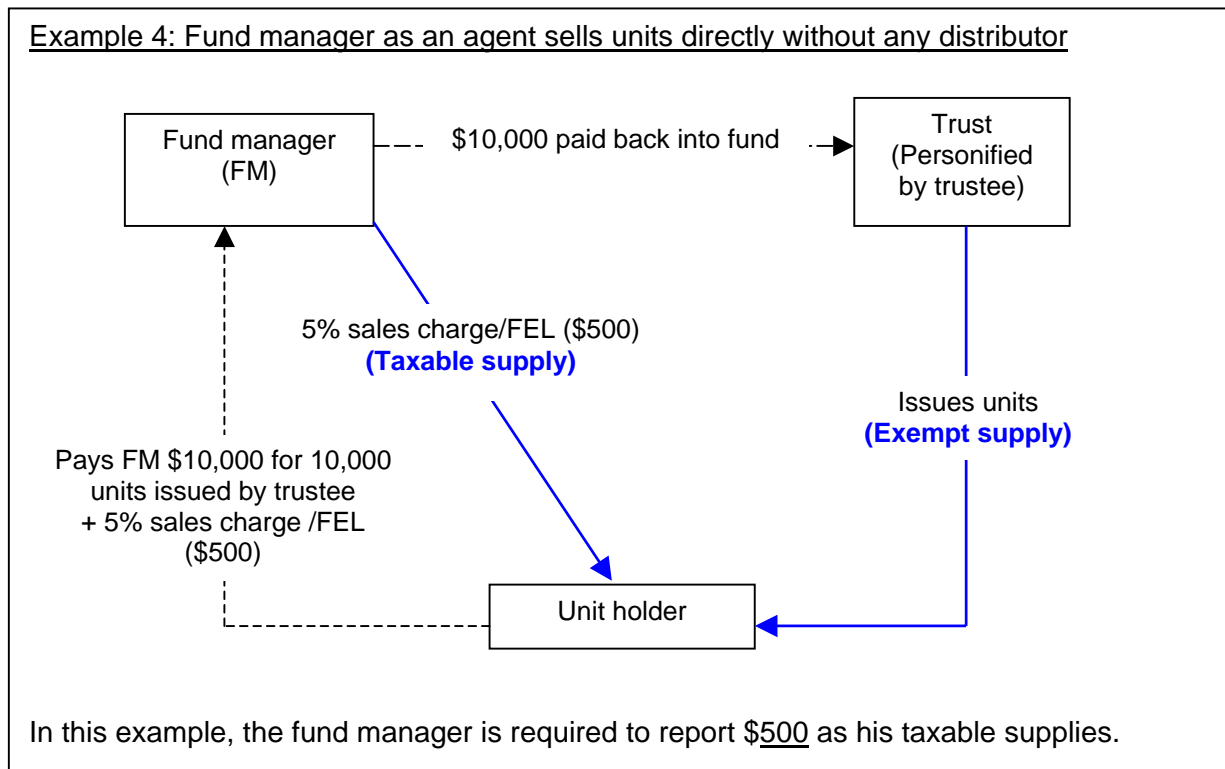
⁸ This does not include acquisitions or divestments of shares in companies holding specific properties.

⁹ This is on the basis that the fund manager bears the risks and rewards arising from holding title to the units.

¹⁰ This does not include instances where the fund manager acquires units in his own right and sells these units (e.g. in proprietary trades).

Fund manager as an agent

- (d) When the fund manager sells units to the unit holders as an agent, the fund manager also charges the initial sales charge, or the front-end load (“FEL”) to the unit holder.
- (e) In such cases, the fund manager is treated as making a supply of services in facilitating the issue/subscription of units to the unit holders in return for the sales charge/ FEL charged to the unit holders. Accordingly, the fund manager should determine the GST treatment of the sales charge/ FEL based on the belonging status of the unit holders.



Fund manager as an agent and appoints a distributor

- (f) If the fund manager appoints a distributor to help promote and sell units of the unit trust, the fund manager may not know the identity of the unit holders and is therefore unable to determine their belonging status for purposes of charging GST on sales charge/ FEL at standard-rate or zero-rate.
- (g) Only in cases where the identity of the end unit holders is not available, the fund manager may use the belonging status of the registered unit holders (i.e. registered with the Registrar) as a proxy to determine the belonging status of the end unit holders. Specifically, the fund manager may use the mailing address of the registered unit holders to determine the belonging status of the registered unit holder.¹¹

¹¹ For the purposes of applying the proxy, the fund manager may use the mailing address of the registered unit holders as at the end of the accounting period. If the fund manager is able to obtain information from the Registrar on the registered unit holders' mailing address earlier, the fund manager may use such mailing addresses instead of at the end of the accounting period.

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- (h) As an administrative concession, the fund manager need not issue tax invoices/receipts for the sales charge/ FEL where a proxy is applied to determine the belonging status of the end unit holders.

4.5. Cancellation of units within 7 days from the date of purchase

- (a) Under the MAS guidelines Notice on Cancellation Period for Collective Investment Schemes Constituted as Unit Trusts, the unit holder may cancel his purchase of units within 7 days from the date of purchase. The unit holder is refunded the sales charge or FEL and has to bear losses (if any) arising from the differences in prices between the time the units were purchased and the time the units were cancelled. However, the unit holder is not entitled to any upside gains arising from price movements and the gains are instead retained in the unit trust.
- (b) When the fund manager acts as an agent for the sale of units, there are no GST implications for the fund manager arising from the cancellation of units during the 7- day cooling period.
- (c) However, when the fund manager acts as a principal for the sale of units, the fund manager is treated as purchasing the units back from the unit holders and then selling the units back to the unit trust for cancellation. The fund manager is required to record the sale of units to the unit trust as his exempt supplies.

Recovery of losses from the unit holder

- (d) As the unit holder is required to bear any losses from the price movements resulting from the cancellation of his purchase, the fund manager would recover the difference in price movements (i.e. losses) from the unit holders and put the amount recovered from the unit holder back into the unit trust fund such that the other unit holders are not affected by the cancellation.
- (e) For GST purposes, we are prepared to treat the fund manager as not making a supply to the unit holders when recovering such losses from the unit holders.

4.6. CPF failed trades

- (a) For purchases of units with money from CPF accounts, the fund managers should ensure that there are sufficient funds in the CPF account of the investor before units are issued to the investor. However, some fund managers may arrange for units to be issued to the investor without making prior checks on the investor's CPF accounts. The units created would then have to be cancelled when the CPF account of the investor has insufficient funds.
- (b) Unlike the scenario in paragraph 4.5 (a), there is no requirement for the investor to bear the loss arising from the cancellation of units for CPF failed trades since the cancellation did not arise from his decision to cancel the purchase in the first place. Rather, the gains or losses arose as a result of the business decision of the fund manager to take on the risk of creating units for the investor without confirming first that there are sufficient funds in the investor's account. IRAS also understands that it is the market practice that all gains or losses arising from such CPF failed trades are retained by the fund manager.

- (c) Since the fund manager bears the risks and rewards of units issued under CPF failed trades, the fund manager is treated as a principal for GST purposes. The units issued for the investor are treated as having been transferred to the fund manager and then transferred back to the unit trust for cancellation. The fund manager is required to report the gains or losses arising from CPF failed trades as his exempt supplies¹².

4.7. GST treatment on realization charge

- (a) A fund manager is treated as making a supply of service to the unit holders in facilitating their sale/redemption of units in return for the realization charge imposed on the unit holders. Hence, the realization charge amounts to a taxable supply and the fund manager should determine the GST treatment of the realization charge (i.e. standard-rate or zero-rate) based on the belonging status of the unit holders.

5. Distribution Services In Respect Of Unit Trusts

5.1. Distribution Services Engaged by Fund Manager

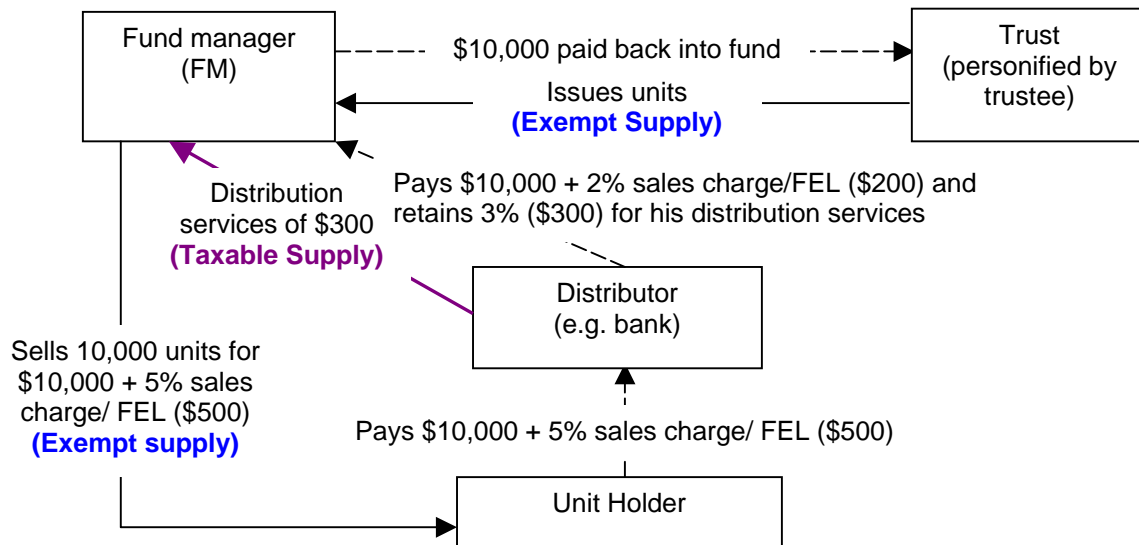
- (a) The fund manager may appoint a local distributor (e.g. a bank, an asset management company or a security firm) to help promote and sell units of the unit trust¹³. The distributor usually acts as the point of contact between the fund manager and the unit holder and collects the sales charge/ FEL from the unit holders. Although the distributor collects the sales charge/ FEL on behalf of the fund manager, the fund manager should treat the total amount of sales charge/ FEL as his supplies.
- (b) The distributor usually retains part of the sales charge collected from the unit holder as his commission for his distribution services. As the distributor provides distribution services to the fund manager by arranging for the sale of units on his behalf, the fees received by the distributor constitute consideration for taxable supplies made by the distributor for GST purposes¹⁴. The distributor is required to issue tax invoices to charge and account for GST on his distribution services.

¹² This is an exception made for CPF failed trades in view of the industry practice. For normal sales of units as a principal, the fund manager is still required to report the gross proceeds received from the sale of units as his exempt supplies.

¹³ The distribution agreement between the fund manager and the distributor represents a contract for service.

¹⁴ The GST treatment of distribution services provided by distributors does not change whether the fund manager acts as a principal or an agent for the sale of units.

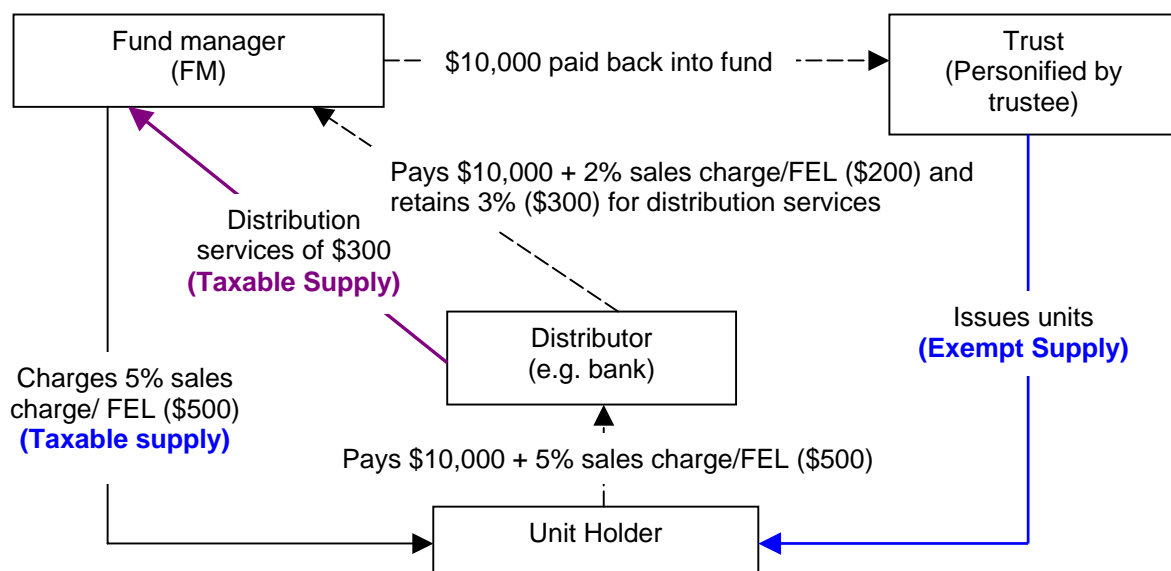
Example 5: Fund manager as a principal sells units through a distributor



In this example, the distributor collects \$500 as FEL from the unit holder, retains \$300 as commission for his distribution services and returns \$200 back to the FM. For GST purposes, the FM is required to report \$10,500 (including 5% FEL collected) as his exempt supplies as he is acting as a principal for the sale of units. The distributor is required to charge and account for GST on the value of distribution services provided of \$300.

The FM is not allowed to claim input tax on the distribution services since he is making an exempt supply from the sale of units.

Example 6: Fund manager as an agent sells units through a distributor



In this example, the distributor collects \$500 as FEL from the unit holder, retains \$300 as commission for his distribution services and returns \$200 back to the FM. For GST purposes, the FM is required to report \$500 (5% FEL collected) as his taxable supplies as he is acting as an agent for the sale of units. This is so although the FM receives only \$200 from the distributor. The distributor is required to charge and account for GST on the value of distribution services provided of \$300 to the FM.

- (c) In some instances, the distributor may give a “discount”¹⁵ to the unit holder by collecting a lower amount of sales charge/ FEL than the amount stated in the prospectus or the trust deed. Consequently, the distributor retains a lower amount as its distribution commission. In this case, there is a need to determine the following:
- (i) Whether the fund manager should report the lower amount of sales charge/ FEL collected by the distributor from the unit holder as the value of his supply to the unit holder; and
 - (ii) Whether the distributor should report the lower amount of distribution commission retained as a result of the “discount” as the value of his supply of distribution services to the fund manager.

Value of supply of the fund manager

- (d) As the sales charge/ FEL represents consideration for a supply from the fund manager to the unit holder, the fund manager can report the reduced amount collected by the distributor as his value of supply only if he agreed to give the discount to the unit holder through the distributor¹⁶ (see example 6B).
- (e) However, if the “discount” is given by the distributor on his own accord to the unit holder and not by the fund manager to the unit holder, the fund manager should report the total amount of sales charge/ FEL he is entitled to receive as provided in the trust deed (see example 6A).

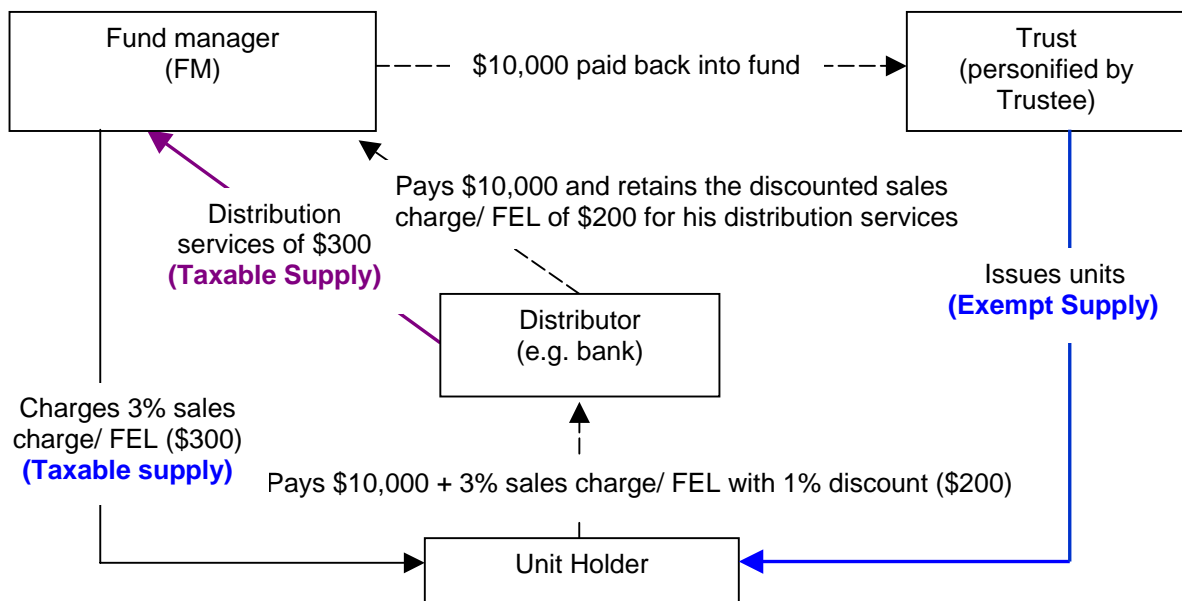
Value of supply of the distributor

- (f) What the distributor should report as the value of his distribution services is dependent on whether the distributor agreed to give a discount to the fund manager on his distribution services.
- (g) If the distributor agrees to give a discount on his distribution services to the fund manager and it is explicitly provided in the distribution agreement that the distributor’s commission will be correspondingly reduced by the “discount” given to the unit holder, the distributor can report the reduced amount of sales charge/ FEL retained as his distribution commission (see example 6B).
- (h) If it is a case of the distributor giving up a portion of his distribution commission due from the fund manager as a “discount” to the unit holder, the value of the distributor’s supply to the fund manager remains unchanged as per the distribution agreement. The distributor should then report the total value (before the “discount”) that he is entitled to receive as provided in the distribution agreement. This is so even though the distributor retains a reduced amount as his distribution commission (see example 6A).

¹⁵ As the distributor is not making any taxable supply to the unit holder, the distributor is not regarded as giving a discount on any supply to the unit holder.

¹⁶ IRAS understands that it is an industry practice for the fund managers to give blanket approval to allow distributors to give discounts on the sales charge/ FEL without the distributors’ specific request. This is so although the agreements may state that the sales charge/ FEL can only be reduced upon request. IRAS is prepared to accept that the fund manager agrees to give the discount if the industry practice is adhered to, i.e. as long as the agreements provide that the sales charge/ FEL can be reduced.

Example 6A: Fund manager as an agent sells units through a distributor & distributor collects a reduced amount of FEL from unit holder



In this example, it is assumed that the percentage of FEL to be imposed by the FM is stated in the trust deed/distribution agreement as 3%. The distributor, on his own accord, gives a 1% 'discount' to the unit holders out of the distribution commission he is entitled to receive. The distributor did not agree to give the fund manager a discount on his distribution services.

GST implications for the distributor

As the distributor is not giving a discount on his distribution services to the fund manager, he should still account for GST on his distribution services of \$300 to the fund manager. This is notwithstanding that he collects only \$200 FEL from the unit holder.

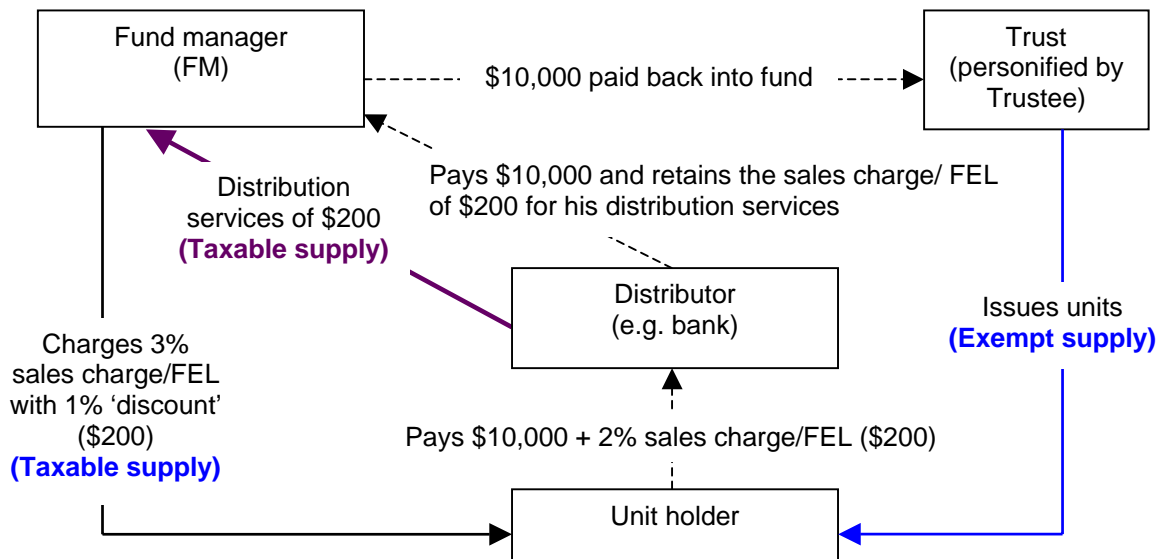
GST implications for the FM

The FM is required to account for GST on the total FEL he is entitled to receive (i.e. 3%), even if only 2% is collected by the distributor on behalf of the FM. This is based on the assumption that the FM did not agree to give the discount to the unit holder and that it was the unilateral decision of the distributor to collect a lower amount from the unit holder.

The FM is entitled to claim the GST incurred on the distribution services.

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Example 6B: Fund manager as an agent sells units through a distributor, fund manager gives a discount on FEL to unit holder and the distributor agrees to accept a lower amount of distribution commission



In this example, it is assumed that the percentage of FEL to be imposed by the FM is stated in the trust deed/distribution agreement as 3% and the FM agrees to give up 1% of FEL in order to entice potential unit holders. The distribution agreement also provides that the *distributor's commission will be correspondingly reduced by the discount*. Hence, the distributor retains \$200 as commission for his distribution services.

GST implications for the distributor

Since the distributor agrees to accept a reduced amount of distribution commission (i.e. \$200 instead of \$300), he should account for GST on his distribution services of \$200 to the FM.

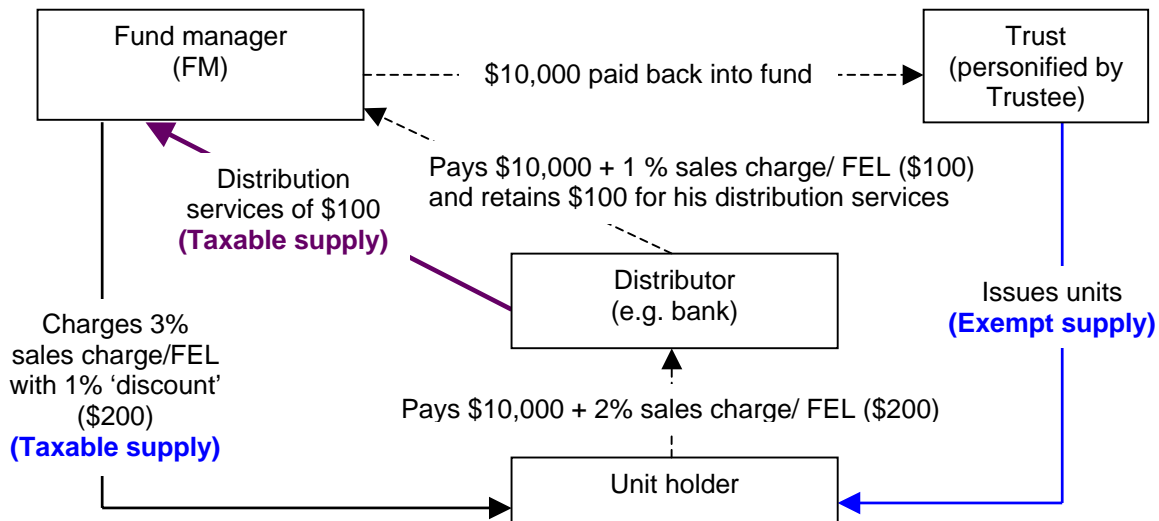
GST implications for the FM

Since the FM agreed to give the discount on FEL, the FM should account for GST on the discounted FEL of 2%, even though the distributor does not remit any FEL to him.

The FM is entitled to claim GST incurred on distribution services received.

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Example 6C: Fund manager as an agent sells units through a distributor, fund manager gives a discount on FEL to unit holder and value of distribution commission is fixed



In this example, it is assumed that the percentage of FEL to be imposed by the FM is stated in the trust deed/distribution agreement as 3% and the FM agrees to give up 1% of FEL in order to entice potential unit holders. The distribution agreement provides that the *distributor's commission will be \$100*. The distributor retains \$100 as commission for his distribution services and returns the remaining \$100 back to the FM.

GST implications for the distributor

The distributor should account for GST on his distribution services of \$100 to the FM, regardless of the FEL amount collected from the unit holder.

GST implications for the FM

Since the FM agreed to give the discount on FEL, the FM should account for GST on the discounted FEL of 2%, although he receives only \$100 from the distributor.

The FM is entitled to claim GST incurred on distribution services received.

5.2. Distribution Services Supplied By Fund Manager

- (a) Sometimes, a fund manager (for example, A) can appoint another fund manager (for example, B) to distribute units for his unit trusts. In this case, fund manager B acts as a distributor and receives commission from fund manager A. The commission received by fund manager B for his distribution services constitutes consideration for a taxable supply of services and is subject to GST¹⁷. Fund manager B should issue tax invoices for his distribution services.
- (b) If A belongs outside Singapore for GST purposes, B can zero-rate his distribution services to A.

¹⁷ B should charge GST on his distribution services whether or not A is acting as a principal or agent for the sale of units.

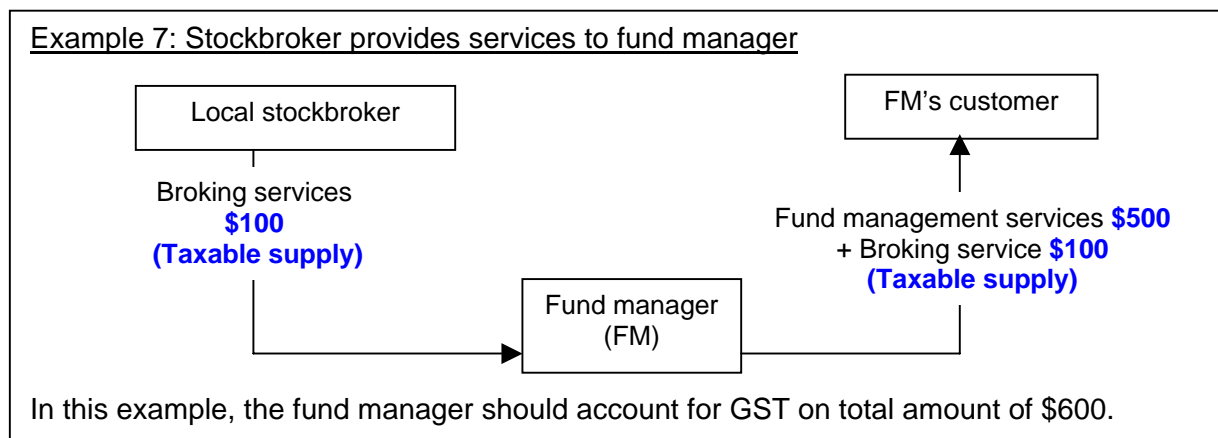
6. Brokerage Services Received By Fund Managers

6.1. Background

- (a) While making investments on behalf of his clients, the fund manager would engage the services of a stockbroker and instruct the stockbroker to carry out trades. The stockbroker would charge brokerage fees for its broking services.
- (b) For confidentiality reasons, the fund manager usually does not disclose the identity of its clients when buying or selling shares on his client's behalf.
- (c) If a direct contractual relationship exists between the fund manager and the broker¹⁸, the broking service is treated as directly supplied by the broker to the fund manager¹⁹ (and not to the client) for GST purposes. This is regardless of whether the broker is aware that the FM is acting on the instructions of his clients.
- (d) If the fund manager recovers the brokerage fees from the client, it is a separate supply of brokerage service provided by the fund manager to the client.

6.2. GST Treatment of Brokerage Services Supplied In Respect Of Securities Traded On Local Exchanges

- (a) When the broker provides services to the fund manager, he should charge GST on his brokerage services. The fund manager will claim input tax on the brokerage fees incurred, subject to the input tax recovery rules. When the fund manager recovers the brokerage fees from his client, GST is chargeable unless the client belongs outside Singapore.

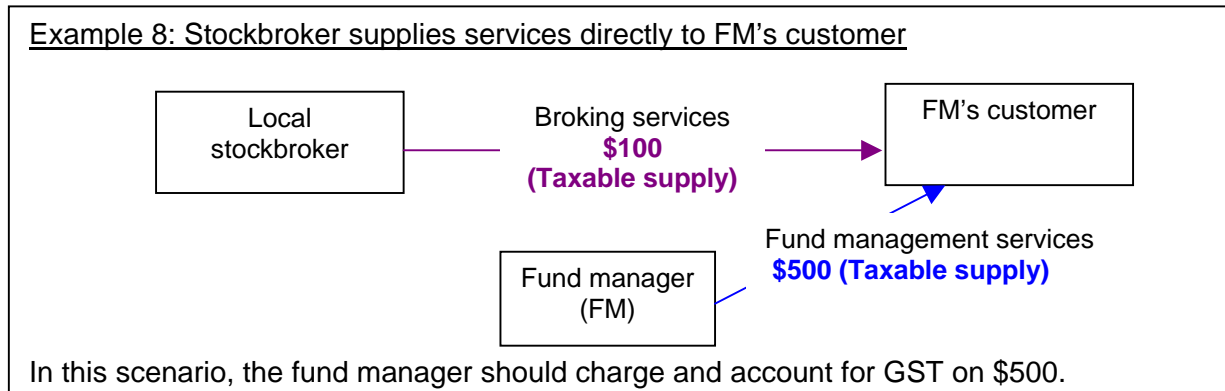


¹⁸ A direct contractual relationship would exist if the trading account is opened by the fund manager with the stockbroker.

¹⁹ Fund manager is treated as receiving broking services as a principal. To the stockbroker, the fund manager is the customer.

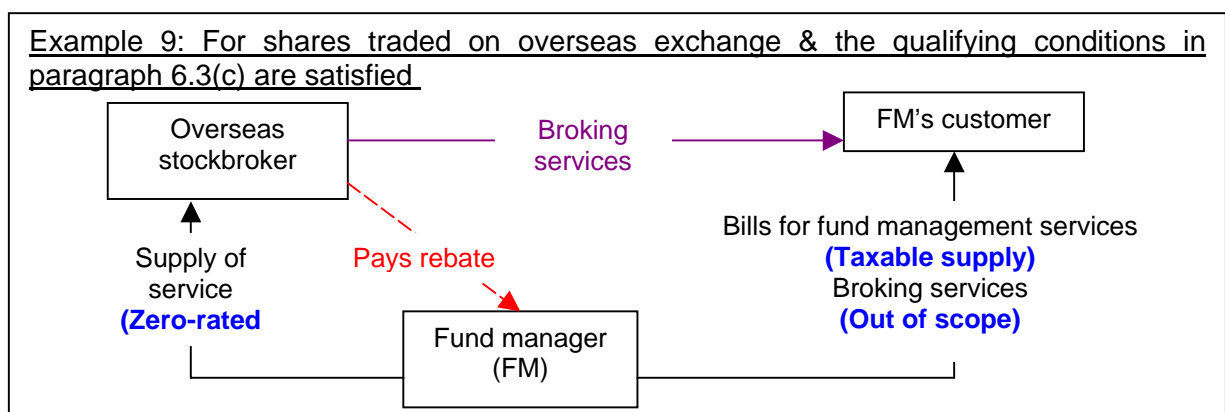
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- (b) However, if the fund manager's customer has opened a trading account with the stockbroker in his own name, such that a direct contractual relationship exists between the broker and the FM's customer, then the stockbroker can treat his broking services as supplied directly to the client and not to the fund manager (as opposed to paragraph 6.2(a)).



6.3. GST treatment for Brokerage Services Supplied In Respect Of Shares²⁰ Traded On Overseas Exchange

- (a) Fund managers may engage services from overseas brokers for shares traded on overseas exchanges and onward charge the overseas brokerage charges to the clients. The fund manager may thereafter receive a rebate from the overseas broker.
- (b) As an administrative concession, fund managers are treated as agents in receiving stock broking services for shares traded on overseas stock exchanges.
- (c) The fund manager can treat the recovery of the overseas brokerage from the client, as out-of-scope supply if the following criteria are satisfied:
- (i) Shares are listed on overseas exchanges.
 - (ii) The overseas stockbroker did not charge GST on its brokerage.
 - (iii) The fund manager does not impose a mark up. Otherwise only the mark-up is subject to GST. The mark-up should be shown separately on the tax invoice issued by the fund manager. If the mark-up is not shown separately, both the overseas brokerage and mark-up are subject to GST.



²⁰ Administrative concession is granted in relation to shares only.

- (d) The recovery of other costs relating to shares traded through overseas exchanges will similarly not be subject to GST.
- (e) The rebate that the fund manager is entitled to receive from the overseas broker shall be treated as consideration for a zero-rated supply made to the overseas broker (for bringing business to the overseas broker).

7. Soft Dollar Commission

7.1. Background

- (a) It is common in the fund management industry that stockbrokers will fund certain expenses²¹ incurred by the fund manager in recognition of the business that the fund managers will bring in for the stockbrokers. This funding is known as the 'soft dollar commission'.
- (b) Under the soft dollar arrangement, the fund manager is awarded soft dollar commission, the value of which is equivalent to a percentage of the commission earned by the stockbroker from the manager. The fund manager may utilize the soft dollar credits to exchange for free goods or services of the equivalent dollar amount. The stockbroker would then adjust the value of soft dollar credits upon redemption.
 - (i) Generally, the stockbroker provides his stock broking services directly to the fund manager and also gives soft dollar commission to the fund manager. The fund manager can utilize his soft dollar commission by obtaining goods or services from the stockbroker, which the stockbroker may have purchased from third party suppliers and onward supplied to the fund manager. Alternatively, the fund manager can utilize his soft dollar commission by obtaining goods or services from third party suppliers directly.

7.2. GST Treatment Of Soft Dollar Commission Received from Stockbrokers

- (a) If there is no direct contractual relationship between the fund manager's client and the stockbroker, the stockbroker provides stock broking services directly to the fund manager and gives the fund manager soft dollar commission.
- (b) The stockbroker would have accounted for GST on his stock broking services and taken into account the soft dollar commission including any supplies of goods and services procured from third party suppliers to be given to the fund manager.

²¹ Based on the Code of Ethics & Standards of Professional Conduct issued by Investment Management Association of Singapore (IMAS), soft dollars are awarded to the fund manager based on certain qualifying conditions. Stockbrokers can only provide goods and services in relation to the provision of the investment services, such as research and advisory services, economic and political analyses, portfolio analyses, market analyses, data and quotation services, computer hardware and software etc. but do not include travel, accommodation and entertainment expenses, membership fees; employees' salaries or direct monies payments / rebates.

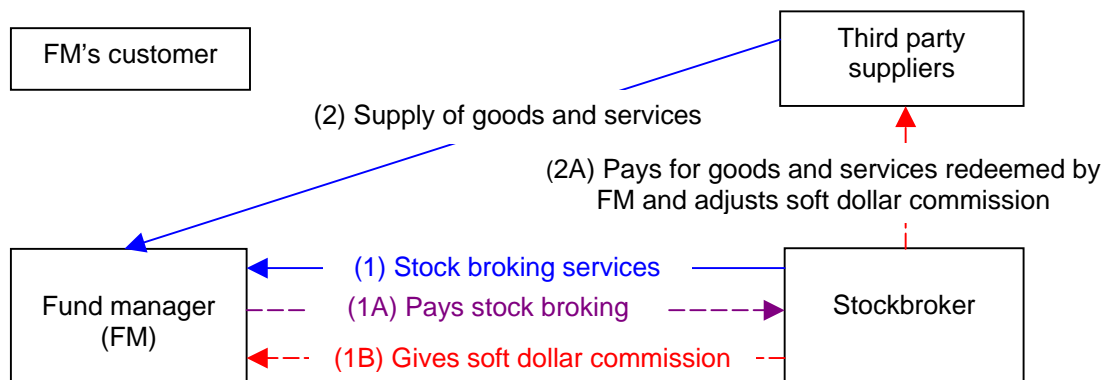
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- (c) Hence, the soft dollar commission given to the fund manager would not trigger any separate supply and shall be treated as part of the original supply of stock broking services provided by the stockbroker. The stockbroker should not reduce the value of stock broking services and the corresponding value of output tax previously accounted on his stock broking services. This applies to both Examples 10 and 11.

7.3. GST Implications Upon Utilization Of Soft Dollar Commission

- (a) As explained in paragraph 7.1(c), the fund manager can choose to utilize his soft dollar commission by obtaining goods or services from the stockbroker or third party suppliers.
- (b) If the fund manager contracts directly with a third party for the supply of goods and services, the fund manager is entitled to claim the GST incurred on the supply of goods and services as his input tax, subject to the input tax recovery rules. This is notwithstanding that the stockbroker makes payment for the goods and services to the third party suppliers as this is viewed as a third party payment.

Example 10: Stockbroker supplies brokerage services to FM and FM contracts directly with third party suppliers



GST Implications for the fund manager

In this example, the stock broking services are supplied directly to the FM. Based on paragraph 7.2(c), the soft dollar commission given to the FM is treated as part of the supply of stock broking services provided to the FM. The FM is not making a separate supply to the stockbroker when he receives soft dollar commission from the stock broker.

As the FM has contracted directly with the third party suppliers for the supply of goods and services, the FM is entitled to claim GST incurred on the supply of goods and services, subject to the input tax recovery rules.

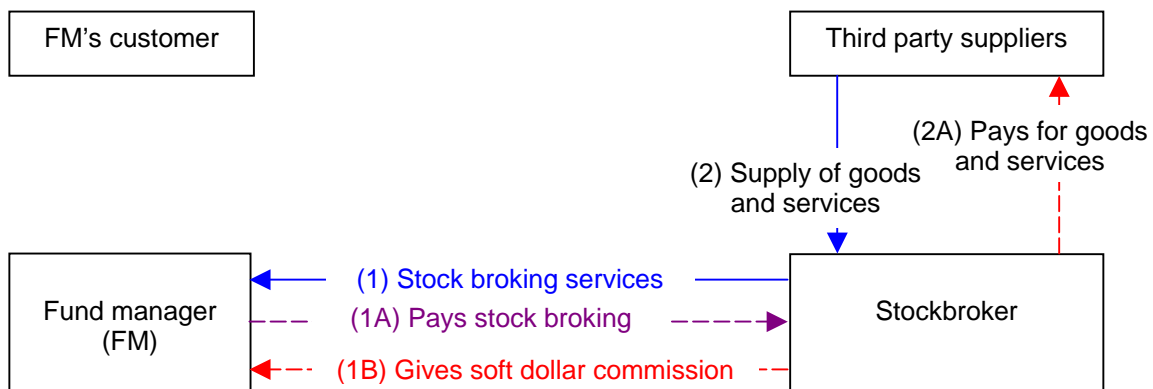
GST Implications for the stockbroker

The stock broker is merely making payment to the third party suppliers on behalf of the FM. Thus, the stock broker is not entitled to any input tax claims paid on the goods and services provided by the third party suppliers.

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- (c) If the fund manager redeems his soft dollar commission by obtaining goods and services from the stockbroker instead of third party suppliers, the stockbroker is not required to charge and account for GST on the redeemed goods and services. As highlighted in paragraph 7.2(b), the stockbroker would have taken into account all the goods and services purchased from third party suppliers to be given to the fund manager and accounted for GST upfront when he supplied his stock broking services to the fund manager. Hence, the fund manager's obtainment of goods and services via the redemption of soft dollar commission from the stockbroker is treated as part of the supply of the stock broking services to the fund manager.

Example 11: Stockbroker supplies brokerage services to FM & purchases goods and services to give to FM



GST Implications for the fund manager

In this example, the stock broking services are supplied directly to the FM. Based on paragraph 7.2(c), the soft dollar commission given to the FM is treated as part of the supply of stock broking services provided to the FM. The FM is not making a separate supply to the stockbroker when he receives soft dollar commission from the stock broker.

The fund manager is entitled to claim GST incurred on the supply of stock broking services provided by the stock broker, subject to the normal input tax recovery rules.

GST Implications for the stockbroker

Based on paragraph 7.2(b), the supply of goods and services is treated as part of the supply of stock broking services provided by the stockbroker and the stockbroker would have accounted GST upfront on his stock broking services to the FM. Thus, the stockbroker is not required to charge and account for GST on the value of goods and services made available to the fund manager when the soft dollar commission is redeemed.

As the stockbroker contracted with third party suppliers for the supply of goods and services, the stock broker is entitled to claim input tax incurred on the goods and services purchased from third party suppliers.

8. Contact Information

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