

IRAS e-Tax Guide

**GST Guide For
The Fund Management Industry
(First Edition)**



**INLAND REVENUE
AUTHORITY
OF SINGAPORE**

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TABLE OF CONTENTS

1. Introduction	1
2. Basic GST Principles Applicable To The Fund Management Industry	1
3. Fund Management Services Provided To Customers Other Than Unit Trusts ...	1
3.1. Background.....	1
3.2. GST Treatment of Fund Management Services Provided to Customers other than Unit Trusts	2
3.3. GST Treatment of The Sale Of Investment on Behalf of Customers	2
4. Fund Management Services Provided To Unit Trusts.....	3
4.1. Background.....	3
4.2. GST Treatment Of Fund Management Services Provided To Unit Trusts ...	3
4.3. GST Treatment For The Sale Of Units.....	4
4.4. GST Treatment Of Front-End Load / Sales Charge	5
4.5. Cancellation of units within 7 days from the date of purchase	6
4.6. CPF failed trades	7
5. Distribution Services In Respect Of Unit Trusts	8
5.1. Distribution Services Engaged by Fund Manager	8
5.2. Distribution Services Supplied By Fund Manager	10
6. Brokerage Services Received By Fund Managers.....	10
6.1. Background.....	10
6.2. GST Treatment of Brokerage Services Supplied In Respect Of Securities Traded On Local Exchanges	10
6.3. GST treatment for Brokerage Services Supplied In Respect Of Shares Traded On Overseas Exchange	11
7. Soft Dollar Commission.....	12
7.1. Background.....	12
7.2. GST Treatment Of Soft Dollar Commission Where The Fund Manager provides Referral Services To The Stockbroker (under para 7.1(d)(i))	13
7.3. GST Treatment Of Soft Dollar Commission Where The Fund Manager Receives Stock broking Services from the Stockbroker (under para 7.1(d)(ii))	14
7.4. GST Implications Upon Utilization Of Soft Dollar Commission.....	14
8. Contact Information.....	20

GST Guide for the Fund Management Industry

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

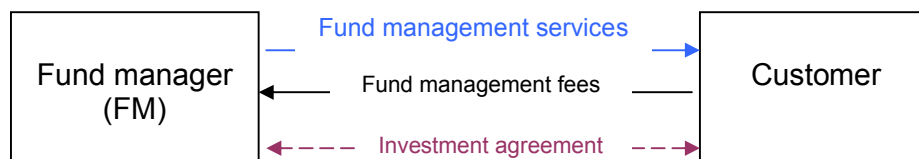
- 2.1. Generally, the fund manager provides fund management services, which includes research, investment advice, ensuring compliance with regulatory requirements as well as preparation of reports for their clients, to best meet the investment needs of his clients. A fund manager's duties are usually 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.

Example 1: A diagrammatic representation of a typical arrangement



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

GST Guide for the Fund Management Industry

- (b) In a typical investment agreement between the fund manager and the customer, the customer generally:
- Authorises 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.

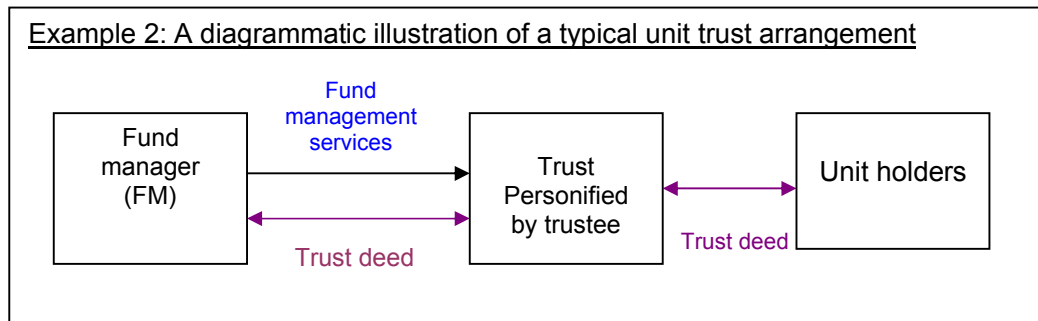
² This does not include situations where the fund manager is involved in buying and selling the securities in his own name.

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.

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

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.

GST Guide for the Fund Management Industry

referred to as the “REIT manager⁷”) 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;
 - The trust deed between the fund manager and the trustee is worded in a manner that provides the fund manager the capacity to act as an agent for the sale of units.

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).

GST Guide for the Fund Management Industry

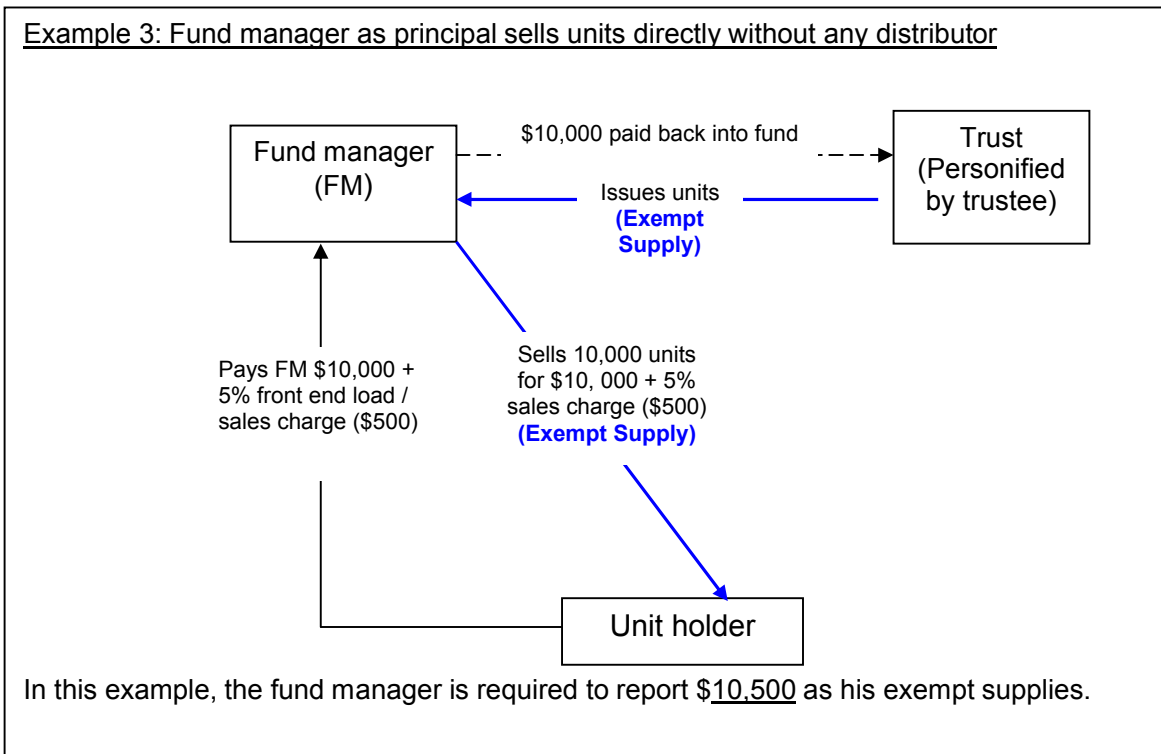
- (e) As an agent for the sale of units, he is not required to report the sale of units to investors as his exempt supply. Accordingly, all fees received for his services are taxable for GST purposes.

4.4. GST Treatment Of Front-End Load / Sales Charge

- (a) The fund manager can sell units to investors directly or through a distributor (for example, a bank). It is assumed in example 3 that the fund manager acts as a principal for the sale of units but in example 4, he acts as an agent.

Fund manager as a principal

- (b) When the fund manager sells units to the unit holders as a principal, the fund manager charges an initial sales charge commonly known as the front-end load ("FEL") to the unit holder. The FEL is a fee charged by the fund manager to cover distribution and marketing expenses arising from the issuance of the units and is retained by the fund manager as his trading profit.



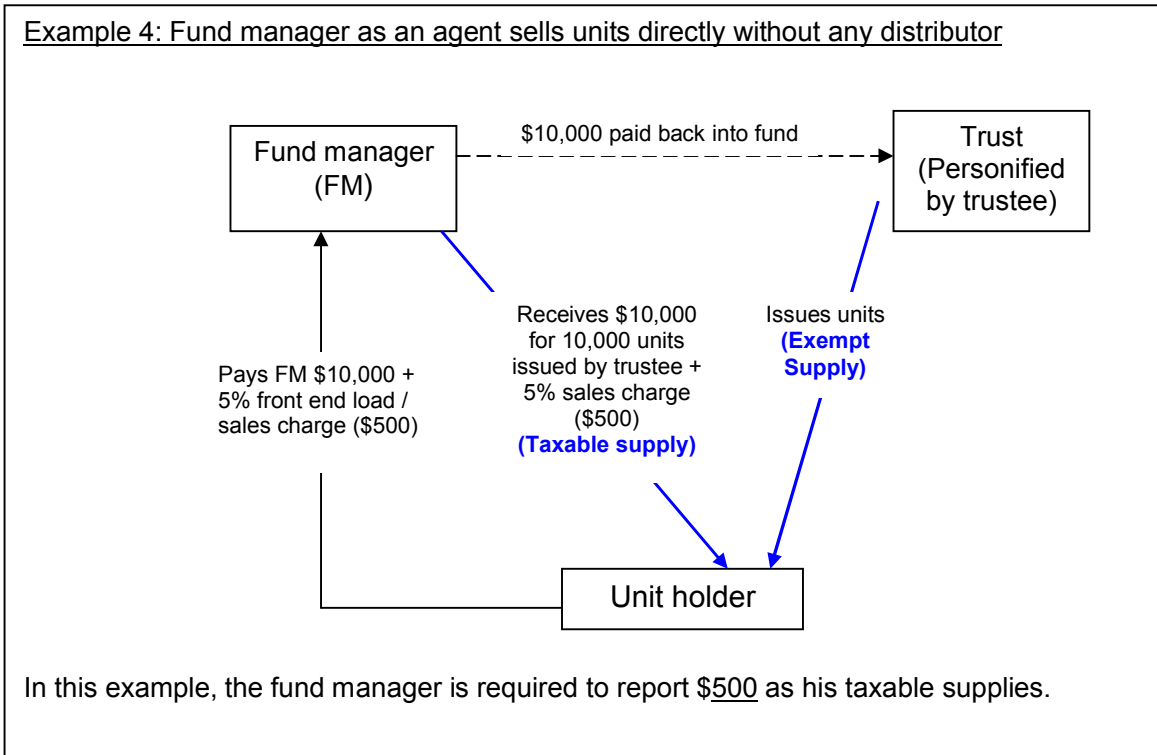
- (c) When the fund manager sells units as a principal as highlighted in paragraph 4.3 (b) above, the FEL is treated as part of the consideration from the sale of the units and forms the fund manager's exempt supply. This is so even when the fund manager appoints a distributor to sell units and gives part or whole of the FEL to the distributor for his distribution services. Refer to paragraph 5.1(a).

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

GST Guide for the Fund Management Industry

charge or 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 holders¹¹.



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.

¹¹ If the fund manager is unable to track the belonging status of the unit holders, the fund manager can propose a reasonable proxy to estimate the proportion of local/overseas unit holders for the Comptroller's approval. Otherwise, the fund manager should assume his services are provided to local unit holders and standard-rate all sales charge or FEL.

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

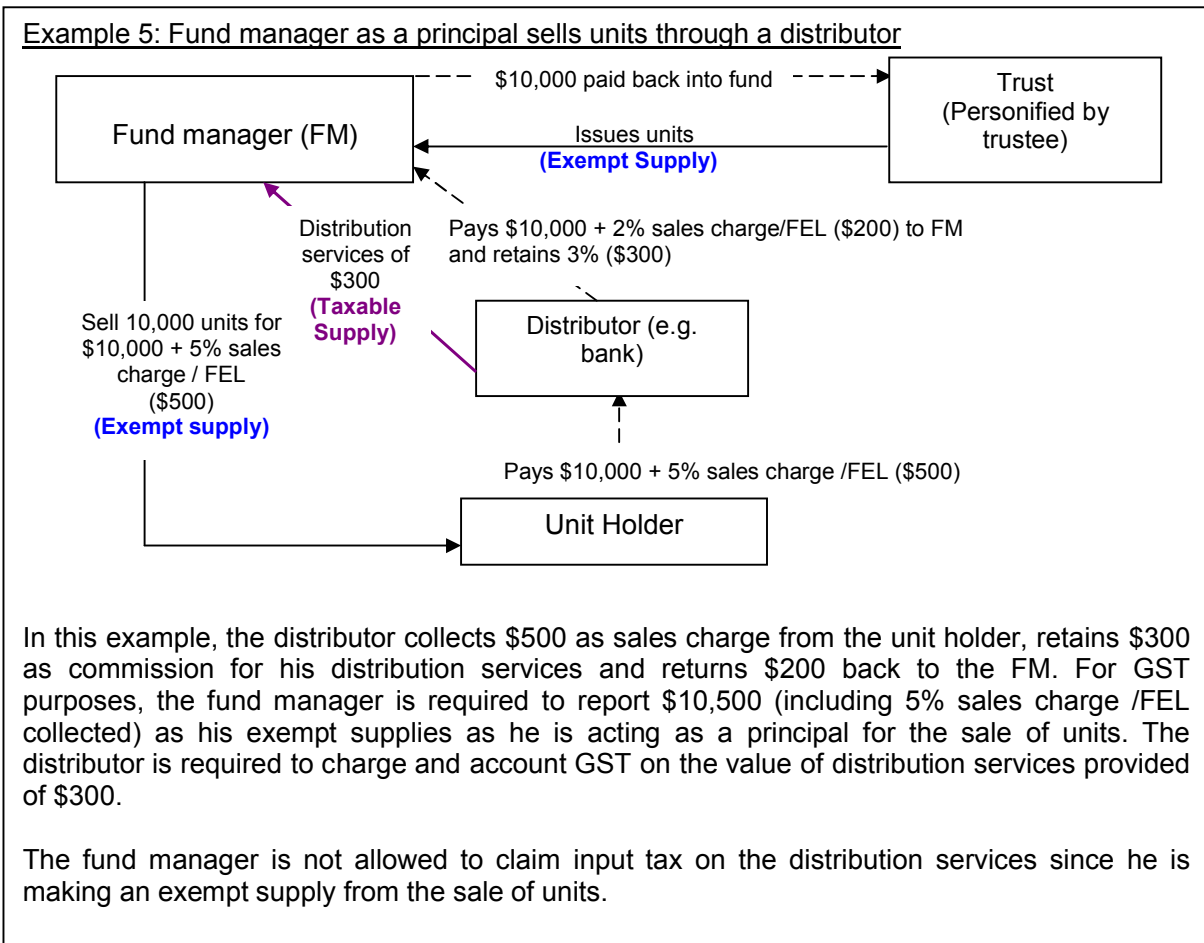
- (a) For purchases of units with money from CPF accounts, the fund managers should ensure that there are sufficient funds in the CPF account of the investor before units are issued to the investor. However, some fund managers may arrange for units to be issued to the investor without making prior checks 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.

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.

5. Distribution Services In Respect Of Unit Trusts

5.1. Distribution Services Engaged by Fund Manager

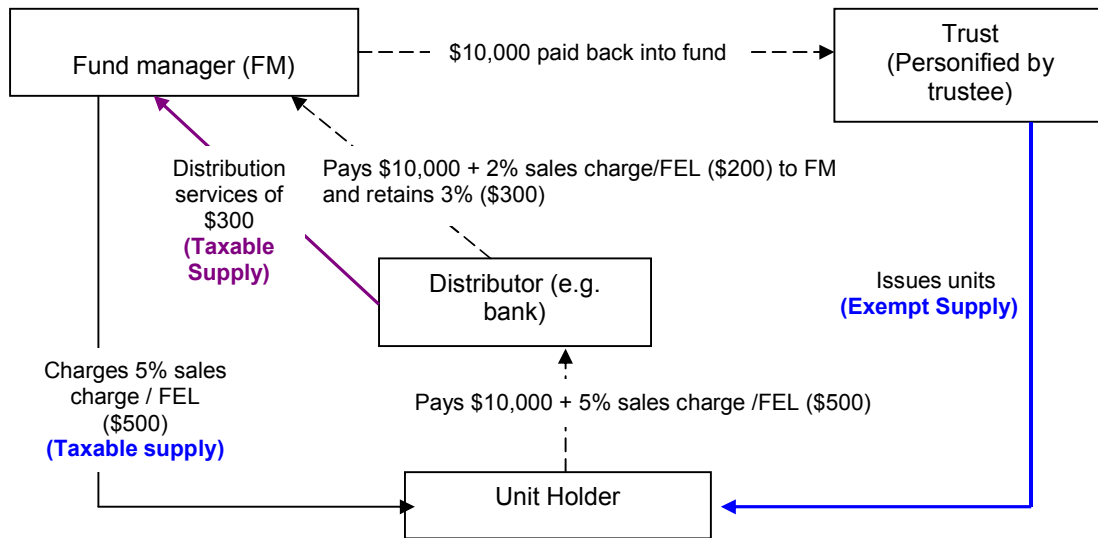
- (a) The fund manager may appoint a local distributor (e.g. a bank, an asset management company or a security firm) to help promote and sell units of the unit trust¹³. The distributor usually acts as the point of contact between the fund manager and the unit holder and collects the sales charge / FEL 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 GST on his distribution services.



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.

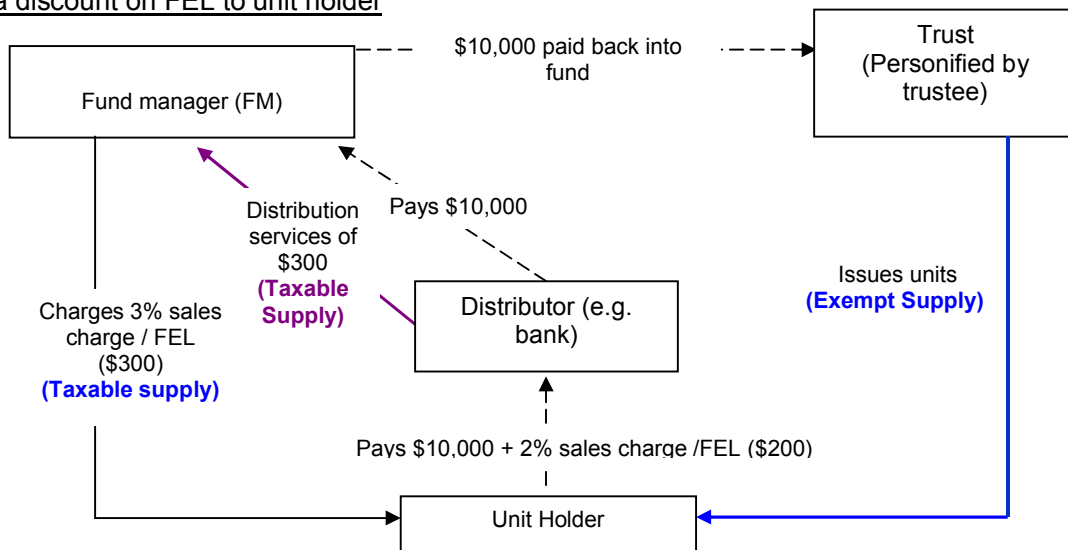
Example 6: Fund manager as an agent sells units through a distributor



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

The fund manager is entitled to claim input tax on the distribution services received.

Example 6A: Fund manager as an agent sells units through a distributor & distributor gives a discount on FEL to 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% and the distributor gives a 1% discount to the unit holders out of the distribution commission it is entitled to receive. The FM is required to account GST on the total FEL he is entitled to receive, even if he leaves it to the discretion of the distribution agent to give discounts out of its share of FEL received for his distribution services.

The FM should account GST on the 3% FEL it is entitled to receive, even if only 2% is charged to the unit holder. The distributor should still account GST on his distribution services of \$300 to the fund manager. The fund manager 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 GST¹⁵. 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.

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 broker¹⁶, the broking service is treated as directly supplied by the broker to the fund manager¹⁷ (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

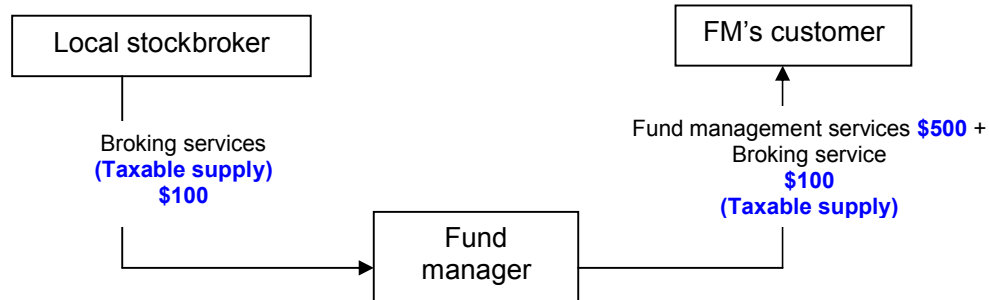
- (a) When the broker provides services to the fund manager, he should charge GST on his brokerage services. The fund manager will claim input tax on the brokerage fees incurred, subject to the input tax recovery rules. When the fund manager recovers the brokerage fees from his client, GST is chargeable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

¹⁵ B should charge GST on his distribution services whether or not A is acting as a principal or agent for the sale of units.

¹⁶ A direct contractual relationship would exist if the trading account is opened by the fund manager with the stockbroker.

¹⁷ Fund manager is treated as receiving broking services as a principal. To the stockbroker, the fund manager is the customer.

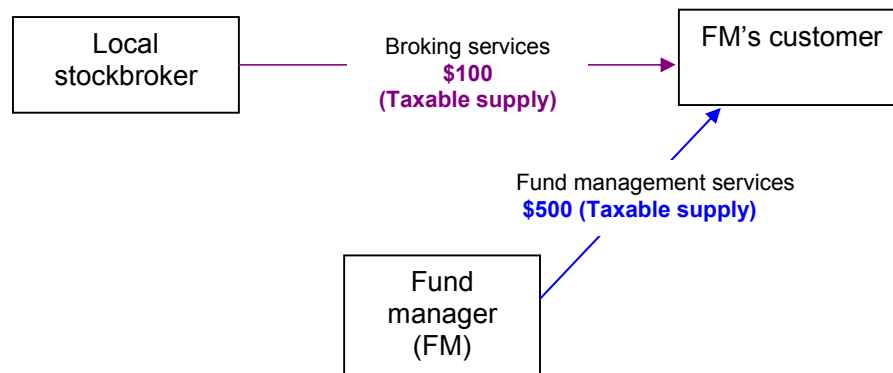
Example 7: Stockbroker provides services to fund manager



In this example, the fund manager should account GST on total amount of \$600.

- (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)).

Example 8: Stockbroker supplies services directly to FM’s customer



In this scenario, the fund manager should charge and account GST on \$500.

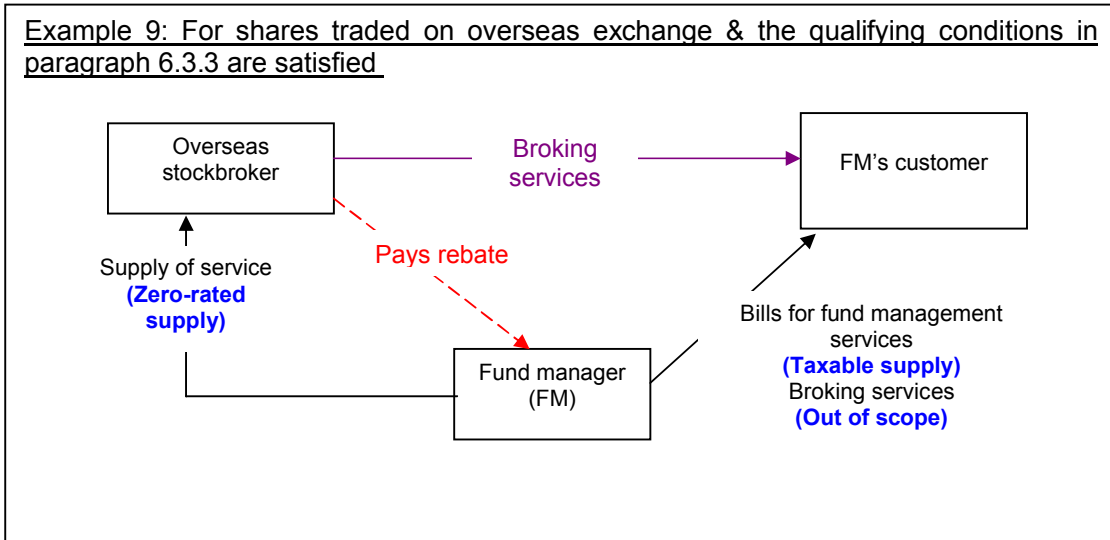
6.3. GST treatment for Brokerage Services Supplied In Respect Of Shares¹⁸ Traded On Overseas Exchange

- (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.

¹⁸ Administrative concession is granted in relation to shares only.

GST Guide for the Fund Management Industry

- (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:
- (a) Shares are listed on overseas exchanges.
 - (b) The overseas stockbroker did not charge GST on its brokerage.
 - (c) 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.



- (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 expenses¹⁹ 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.
- (c) 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

¹⁹ 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.

GST Guide for the Fund Management Industry

earned by the stockbroker from the manager. The fund manager may utilise 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.

- (d) There may be variations in the soft dollar arrangements in the fund management industry.

(i) Where the fund manager provides referral services to the stockbroker

In this scenario, a direct contractual relationship exists between the stockbroker and the FM's customer and the stockbroker provides his stock broking services directly to the fund manager's customer instead of the fund manager. The fund manager is regarded as making a supply of referral services to the stock broker.

The stockbroker then gives soft dollar commission as consideration to the fund manager for his referral services. The fund manager can utilise the soft dollar commission received to obtain goods or services from the stockbroker²⁰ or their third party suppliers.

(ii) Where the fund manager receives stock broking services from the stockbroker

In this scenario, a direct contractual relationship does not exist between the stockbroker and the FM's customer. 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 also utilise his soft dollar commission by obtaining goods or services from the stockbroker²⁰ or third party suppliers.

7.2. GST Treatment Of Soft Dollar Commission Where The Fund Manager provides Referral Services To The Stockbroker (under para 7.1(d)(i))

- (a) Where there is a direct contractual relationship between the stockbroker and the FM's customers, the stock broking services provided by the stockbroker is treated as supplied to the customer directly.
- (b) Soft dollar commission received by the fund manager represents consideration for a separate supply of services (for bringing business to the stockbroker) and is subject to tax. The fund manager should account for GST when the soft dollars are issued because the soft dollars represent the consideration for the value of referral services provided by the fund manager. This applies to examples 10 and 11.

²⁰ The stockbroker may purchase goods and services from third party suppliers and onward supply the goods or services to the fund manager.

7.3. GST Treatment Of Soft Dollar Commission Where The Fund Manager Receives Stock broking Services from the Stockbroker (under para 7.1(d)(ii))

- (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. The stockbroker also gives the fund manager soft dollar commission in this scenario.
- (b) In this scenario, 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.
- (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 examples 12 & 13.

7.4. GST Implications Upon Utilization Of Soft Dollar Commission

- (a) As explained in paragraphs 7.1(d)(i) and 7.1(d)(ii), the fund manager can choose to utilise 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. See examples 10 and 12.
- (c) If the fund manager redeems his soft dollar commission by obtaining goods and services from the stockbroker instead of third party suppliers, the GST implications differ depending on whether the stockbroker supplies his stock broking services to the fund manager or the fund manager's customer.

Stockbroker supplies his stock broking services to the fund manager's customer (i.e. FM is treated as supplying referral services to the stockbroker under para 7.1(d)(i))

- (d) In this scenario, the fund manager does not receive any stock broking services from the stock broker directly. Instead, the stock broking services are supplied to the fund manager's customer. When the stock broker purchases goods and services from third party suppliers²¹ and supplies them to the fund manager, the

²¹ The stockbroker is entitled to claim GST incurred on the supply of goods and services by the third party suppliers, subject to the normal input tax recovery rules.

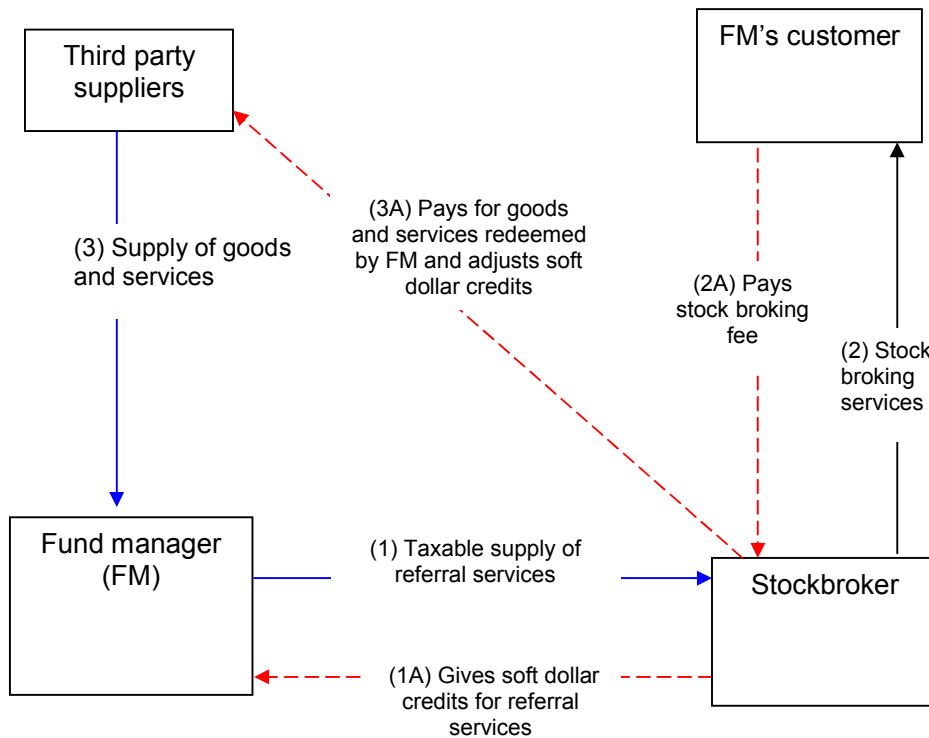
stockbroker is treated as making a separate²² supply of goods and services to the fund manager. The stock broker is required to charge and account for GST on the value of goods and services made available to the fund manager. The fund manager is then entitled to claim GST charged by the stockbroker, subject to the input tax recovery rules. See example 11.

Stockbroker supplies his stock broking services to the fund manager directly (Fund manager receives stock broking services from stock broker under para 7.1 (d) (ii))

- (e) In this scenario, the fund manager receives stock broking services directly from the stock broker. As highlighted in paragraph 7.3 (b), the stock broker 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. Since the supply of goods and services is treated as part of the supply of the stock broking services to the fund manager, the stock broker is not required to charge and account for GST when the fund manager redeems for goods and services from the stock broker using his soft dollar commission. See example 13.

²² The supply of goods and services by the stock broker to the fund manager is separate and distinct from the supply of stock broking services by the stock broker to the fund manager's customer.

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



Implications for the fund manager

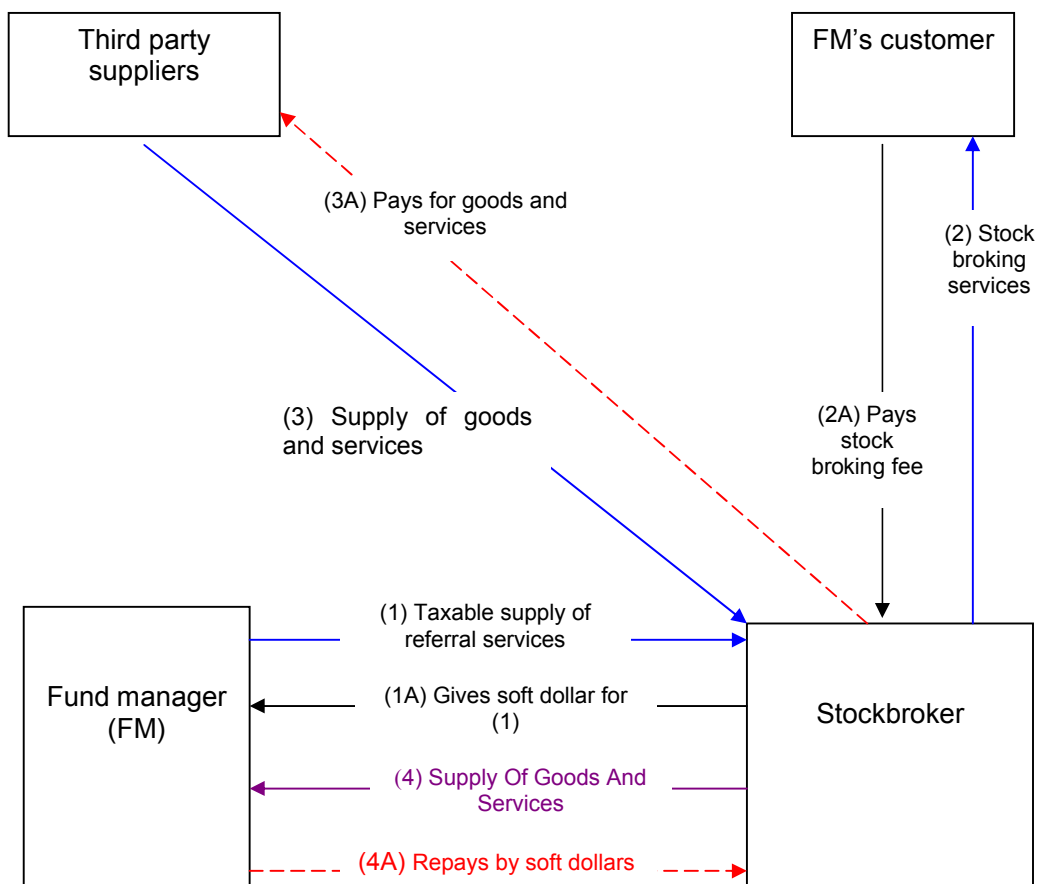
In this example, the supply of stock broking services is supplied to the FM's customer directly. The FM is regarded as making a supply of referral services to the stockbroker, for which soft dollar commission constitutes the non-monetary consideration. He is required to charge and account for GST on the value of referral services when the soft dollar commission is issued.

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

Implications for the stockbroker

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

Example 11: Stockbroker supplies brokerage services directly to FM's customer & purchases goods and services from third parties to provide to FM.



Implications for the fund manager

In this example, the supply of stock broking services is supplied to the FM's customer directly. The FM is regarded as making a supply of referral services to the stockbroker for which soft dollar commission constitutes the non-monetary consideration. He is required to charge and account for GST on the value of referral services when the soft dollar commission is issued.

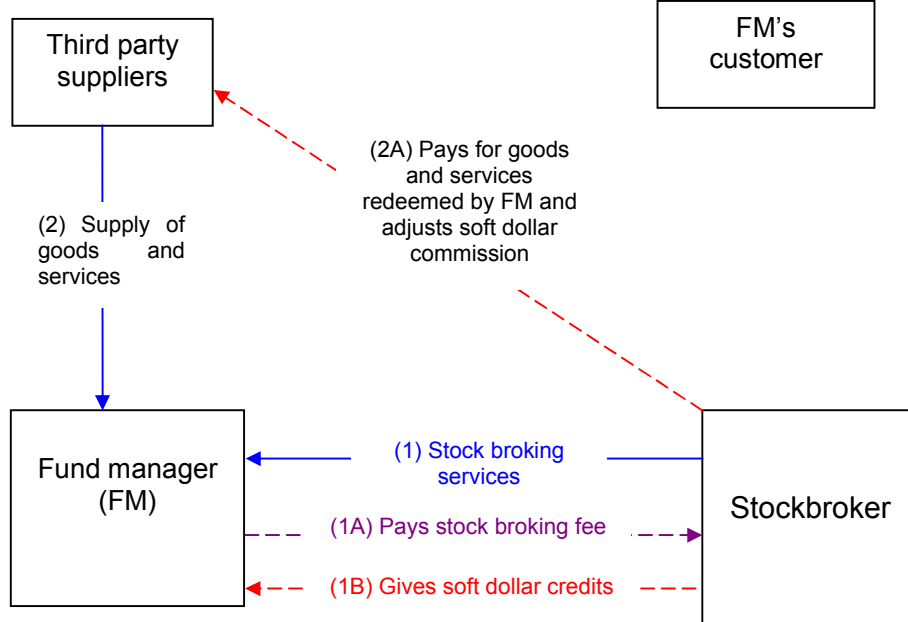
The fund manager is also entitled to claim GST charged by the stockbroker on the supply of goods and services, subject to the input tax recovery rules.

Implications for the stock broker

As the stock broker contracted with the third party suppliers directly, the stockbroker is entitled to claim GST incurred on the purchase of goods and services from third party suppliers, subject to the input tax recovery rules.

When the stock broker purchases goods and services from third party suppliers and supplies them to the fund manager, the stockbroker is treated as making a supply of goods and services to the fund manager, separate from his stock broking services to the FM's customer. The stock broker is required to charge and account for GST on the value of goods and services made available to the fund manager.

Example 12: Stockbroker supplies brokerage services to FM and FM contracts directly with third party suppliers



Implications for the fund manager

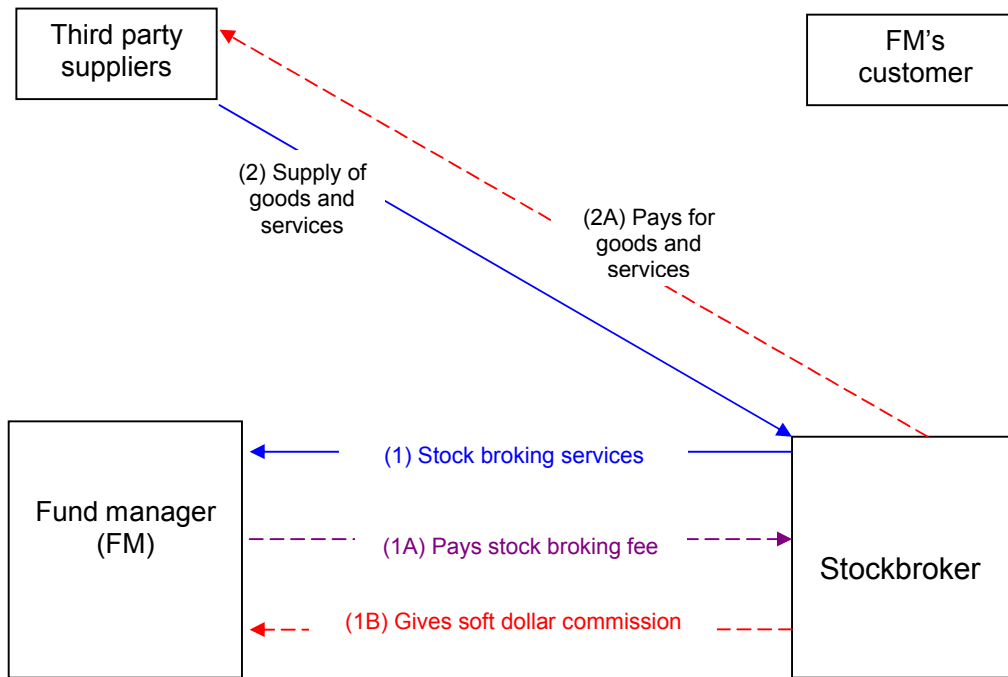
Unlike examples 10 and 11, the supply of stock broking services is supplied to the FM directly in this example. Based on paragraph 7.3(c), the soft dollar commission given to the FM is treated as part of the supply of stock broking services provided to the FM. The FM is not making a separate supply to the stockbroker when he receives soft dollar commission from the stock broker.

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

Implications for the stockbroker

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

Example 13: Stockbroker supplies brokerage services to FM & purchases goods and services to give to FM



Implications for the fund manager

Unlike examples 10 and 11, the supply of stock broking services is supplied to the FM directly in this example. Based on paragraph 7.3(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.

Implications for the stockbroker

Based on paragraph 7.3(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 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

For enquiries on this e-Tax guide, please contact:

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