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More funds seen flowing to S'pore wealth mgt industry

Thanks to clearer rules on remittance, tax exemption on investment income

By GENEVIEVE CUA

(SINGAPORE) Wealth structuring will soon become much simpler for high net worth Singapore residents, who up to now have had to park money offshore because the tax impact of any remittance was unclear.

Deputy Prime Minister Lee Hsien Loong yesterday announced two incentives that are expected to boost the wealth management industry here.

One, foreign sourced income received in Singapore will be tax-exempt from Year of Assessment 2005. And two, all Singapore-sourced investment income from financial instruments - including bonds, annuities and unit trusts - will be tax-exempt from YA 2005. DBS Private Bank managing director Yeong Phick Fui said: 'The incentives will encourage more money to flow back to Singapore.' But the amounts repatriated will depend on clients' objectives, she said.

'Some clients go offshore for diversification. But for those who book money offshore for tax reasons, I'd expect them to bring some money back.'

At the moment, wealthy residents typically leave their funds offshore in places such as Hong Kong.

If they bring the funds in they have to account for the nature of the money, whether it is capital or income. Capital and capital gains are not taxed. But income - from employment or interest income - is taxable if the individual hasn't paid foreign tax on it.

If foreign tax has been paid on the income, the individual has to report it in his return and can claim a credit for that tax.

New Independent's Joseph Chong said: 'We've told clients that if they don't need the money, don't bring it in. The onus is on the individual to prove that they paid some tax on it, and that can be difficult.'

On income from investments, advisers say the removal of tax from instruments such as bonds will raise effective yields.

The move will also put unit trusts and bonds on par with insurance endowments. Tax exemption on gains from the latter has given insurance an edge over other instruments.

Lim Chung Chun, chairman of Fundsupermart, said the tax treatment of income from bonds is an issue particularly for those in the higher tax bracket.

'If you're looking at an income of 3.7 per cent from a bond before tax, after tax, at the maximum tax bracket, it may come down to just 2.9 per cent,' he said. 'It is a factor that sometimes dampens the demand for SGS (Singapore Government Securities).'

Of some $65 billion in outstanding SGS bonds, only $32 million or 0.05 per cent was in retail hands as at last October, Fundsupermart found.

The online funds portal began to distribute SGS in December. It sold about $250,000 of SGS in January and more than $100,000 in February.

On income from annuities, ipac adviser Roy Varghese said the tax exemption appears to be aimed at annuities bought with cash rather than CPF. The latter is already tax-exempt. 'But how many will buy annuities?' he asked. At the moment, annuities are unattractive because insurers have trouble finding instruments that guarantee a high income.

Mr Varghese sees the exemption of investment income as a move to sweeten privately managed pension plans under the CPF. The drawdown on PPP investments in the future may be structured as annuities, giving the retiree tax-free income.

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