

Budget 2018 – Impact on S-REIT ETFs

Singapore government announced Budget 2018 this Monday, and amongst the tax changes, we would like to draw your attention to the tax transparency treatment extended to Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds (“REITs ETFs”).

According to Annex A-5 of Finance Minister Heng Swee Keat’s Budget speech, the government will extend the tax transparency treatment for Singapore-listed Real Estate Investment Trusts (“S-REITs”) to Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds (“REITs ETFs”).

To have parity in tax treatments between investing in individual S-REIT and via REITs ETF with investments in S-REITs, the following tax treatment will be accorded to REITs ETFs:

- (a) Tax transparency treatment on the distributions received by REITs ETFs from S-REITs which are made out of the latter’s specified income;
- (b) Tax exemption on such REITs ETFs distributions received by individuals, excluding individuals who derive any distribution through a partnership in Singapore or from the carrying on of a trade, business or profession; and
- (c) 10% concessionary tax rate on such REITs ETFs distributions received by qualifying non-resident non-individuals.

What will these treatments mean for our investors?

With the tax transparency treatment, the REITs ETFs are not subject to tax on distributions received which are made out of the specified income of S-REITs (e.g. rental income). Instead, such distributions are taxed in the hands of the unit holders of the REIT ETFs depending on their profile. For example, individuals who derive any distribution through a partnership in Singapore or from the carrying on of a trade, business or profession will be taxed at the individual’s tax rates; other individuals will be exempt from tax; qualifying non-resident non-individuals will be taxed at a 10% concessionary tax rate and companies incorporated, and resident in Singapore will be taxed at the prevailing corporate tax rate (currently at 17%).

Qualifying non-resident non-individual refers to a non-resident non-individual unit holder who:

- (a) does not have any permanent establishment in Singapore; or
- (b) carries on any operation through a permanent establishment in Singapore, where the funds used by that person to acquire the units in that REITs ETF are not obtained from that operation.

Subject to conditions, the tax concessions for REITs ETFs will take effect on or after 1 July 2018, with a review date of 31 March 2020. MAS and IRAS will release further details of the change by March 2018.