Designated investments and the token problem

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The exemption covers only specified income from designated investments. The designated investments list is set out in the regulations and expanded by successive circulars. It includes stocks, shares, bonds and securities, derivatives, units in unit trusts, deposits with financial institutions, foreign currency, certain loans and physical commodities where connected with commodity derivatives. Private trust units, real estate investment funds (added in 2024 with effect from 19 February 2022) and a long tail of further items complete it.[1] Payment tokens are not on the list. Neither Bitcoin nor Ether nor any pure payment or governance token is a designated investment on 30 June 2026, and MAS has declined in several rounds of consultation to add them.

The omission has three consequences. First, income from directly held payment tokens is not exempt. A section 13U fund that sells Bitcoin at a profit, or receives staking rewards on Ether, derives income from a non-designated investment and is taxed on it if the income is revenue in nature. Second, the tokens do not count towards the minimum asset test, because that test is measured by designated investments held. A crypto fund with S$ 60 million of tokens and S$ 5 million of cash deposits has S$ 5 million for the section 13U test and fails. Third, the fund may

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still argue that its gains on long-held tokens are capital, in which case no exemption is needed. A fund by its nature is an uncomfortable claimant for capital treatment, so the argument should not be the foundation of a structure.

The workarounds are well known and each has a cost. Exposure through derivatives on tokens (futures, options, total return swaps) is exposure through designated investments, because derivatives are on the list, so a fund that holds its crypto exposure synthetically is within the exemption. Exposure through exchange-traded products listed on a recognised exchange is exposure through securities. Exposure through a Cayman or Swiss sub-fund whose units are themselves designated investments converts the token income into fund distributions at the Singapore level. The price is a second layer of costs and the section 10L analysis for the Singapore entity (Chapter II of this Part). Security tokens that represent shares, bonds or fund units are designated investments in their own right, so a tokenisation fund is better placed than a trading fund.

Singapore perspective

A manager launching a Singapore digital-asset fund should divide the portfolio into a designated-investment sleeve (tokenised securities, listed crypto ETPs, derivatives, stablecoin deposits with licensed institutions where they qualify as deposits) and a direct-token sleeve. The first sleeve carries the section 13O or 13U exemption and counts towards the asset test. The second is taxed as a trader unless the fund can show investment intent, which a fund with a redemption cycle and a performance fee rarely can. Many managers accept 17 per cent on the second sleeve as the cost of running a Singapore vehicle and recover it through the fee structure.

Notes

1. Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010, Schedule (designated investments); MAS Circular FDD Cir 10/2024 of 1 October 2024 adding item (za) for real estate investment funds, as summarised in Deloitte

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Singapore, *Tax Bytes*, 3 October 2024, which records that no other designated investment change was made. ↩

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