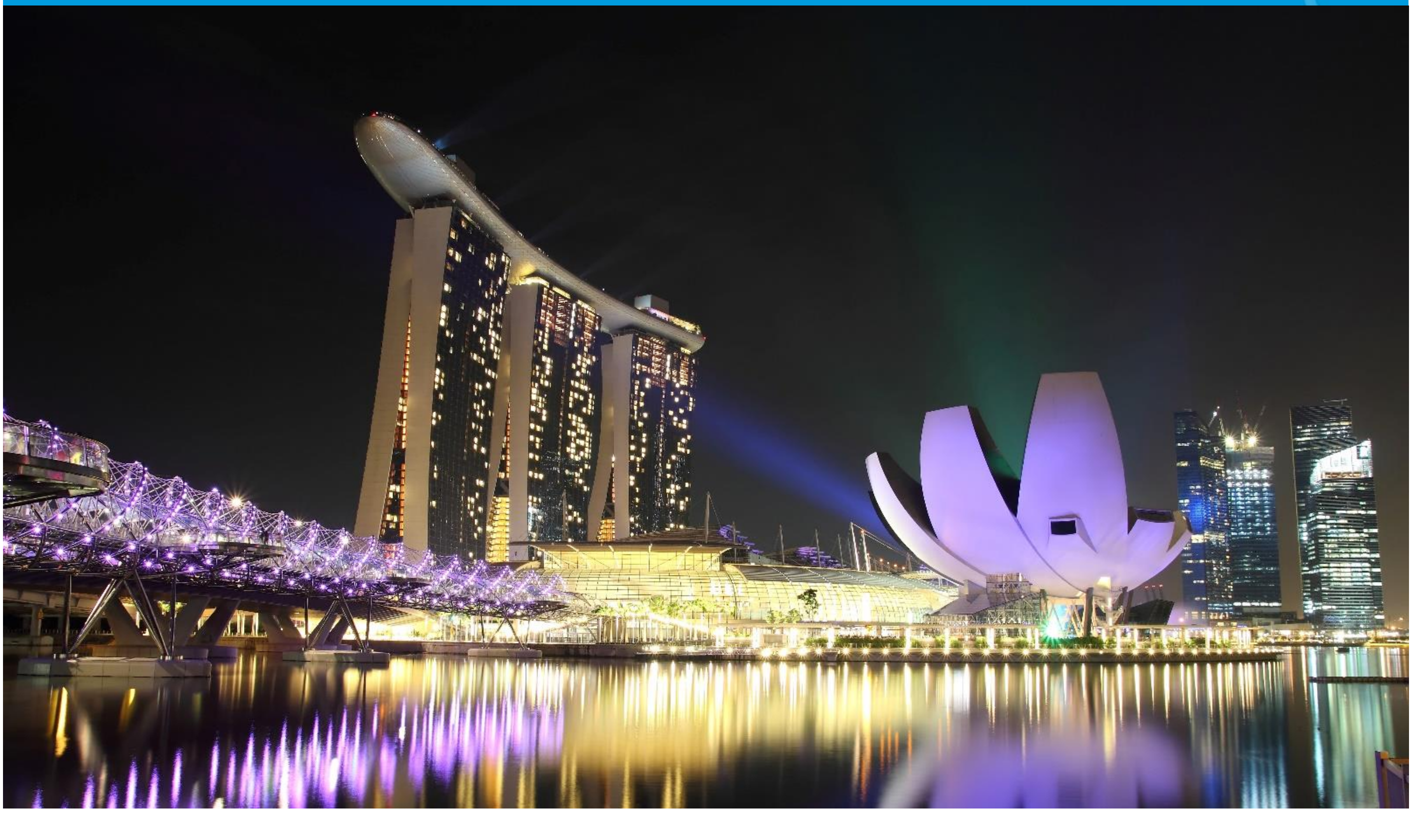
BRIEFINGNOTE

STEPHENSON HARWOOD (SINGAPORE) ALLIANCE

August 2022

Wealth management updates

Family offices and tax incentives



Singapore has established itself as one of the leading wealth management and private banking centres globally and in Asia. With sound financial regulation, strong rule of law, as well as political and economic stability, it is an attractive choice for investors and high net worth individuals ("**HNWI**").

In recent years, there has been a significant increase in the set-up of family offices by HNWI to manage and grow their wealth in Singapore. This article aims to provide a brief overview on the set-up of family offices, the common structures used as well as the various tax incentives applicable to such structures.

Setting up a family office

A family office is a private wealth management advisory firm set up by a family to oversee the day-to-day administration and management of assets and investments with the goal of preserving wealth and transferring it to the next generation.

The growth of family offices in the Asia-Pacific region is accelerating, with the number of family offices in Singapore quadrupled from 2016 to 2018, according to the Monetary Authority of Singapore ("**MAS**"). In 2019, the MAS and the Singapore Economic Development Board formed a family office development team to enhance the country's competitiveness as a family office hub. Since then, it has established a network for family offices, known as the Family Office Network. The team has also been engaging industry stakeholders and is in the process of developing new industry guidelines and enhancing trust laws. The tax incentives granted by MAS have also been extended to 2024. It is therefore an exciting time for HNWIs families to look towards Singapore for their wealth management needs.

Family offices may take the form of:

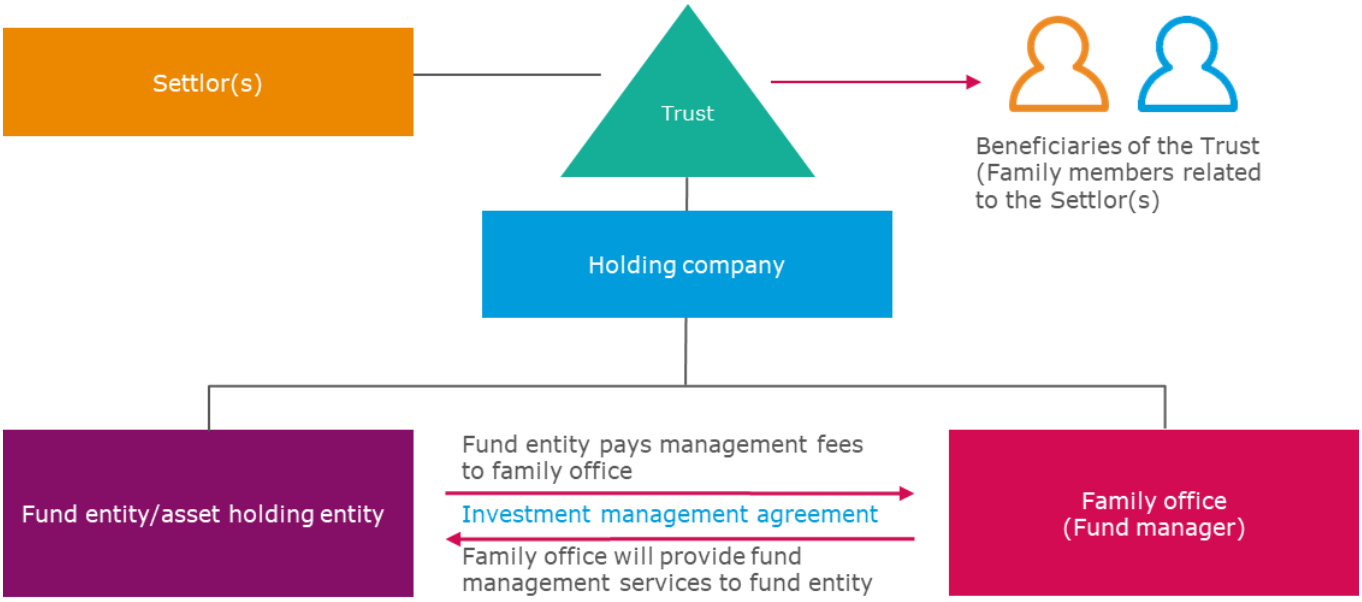
- a single-family office: that manages assets for on behalf of one family; or
- a multi-family office: that manages assets for or on behalf of many families.

However, not all family offices have the same business needs or goals. There is no one-size-fit-all when it comes to structuring. While specific needs require a more in-depth analysis, we discuss some common business needs and the structuring solutions to address them below.

(a) Exemption from holding a CMS licence for fund managers of family offices

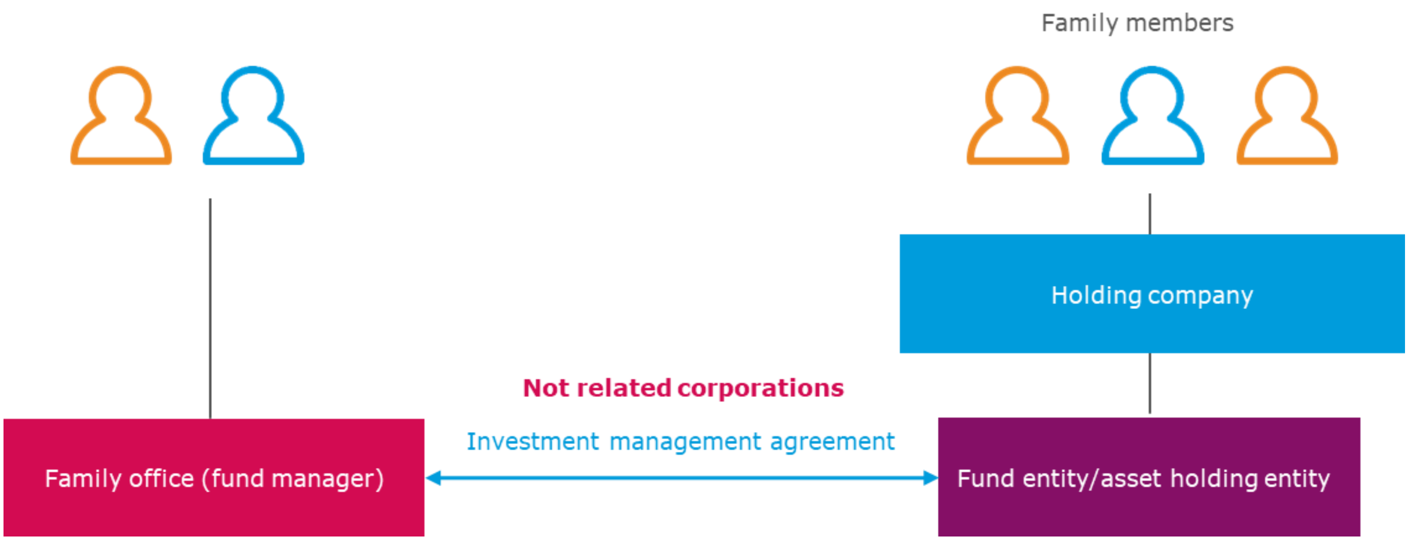
The management of assets, known as fund management, is regulated under the Securities and Futures Act 2001 ("**SFA**"). By law, any entity that engages in the regulated activity of fund management will have to be registered with the MAS, hold a capital market services ("**CMS**") licence or be exempted from holding a CMS licence. However, family offices may avail themselves to two licensing exemptions, the related corporation exemption or the case-by-case regulatory exemption.

Single family office ("SFO") under the related corporation exemption



This is the most common structure where a private family trust owns the family office structure. In this structure, the SFO is exempted from holding a CMS license under the related corporation exemption. This structure is ideal for families that looks for a holistic succession and wealth planning solution where the family trust can be used to ensure smooth succession and to benefit young beneficiaries.

Single family office ("SFO") under the case-by-case regulatory exemption



In this structure, the SFO is in substance managing funds on behalf of a single family only, but does not fall neatly within the scope of the existing licensing exemption under the SFA. It may therefore qualify for a case-by-case regulatory exemption. This structure is ideal where it does not make sense to consolidate ownership structure from a personal or business perspective.

Tax exemption schemes

For tax-sensitive funds and family offices, Singapore's tax exemption schemes are of great interest. We compare 3 relevant tax exemptions under the Income Tax Act 1947 in the table below.

	Offshore fund tax exemption scheme section 13D (formerly 13CA)	Onshore fund tax exemption scheme section 13O (formerly 13R)	The enhanced tier fund tax exemption scheme section 13U (formerly 13X)
Fund's legal form (or asset-holding entity)	• Foreign company, trust, and foreign individuals • Excludes limited partnerships	Company incorporated in Singapore	Company, trust, and limited partnerships
Fund residence/ Jurisdiction of incorporation	• Must be offshore • Must not be resident in Singapore • Must not have any presence in Singapore	Singapore	No restrictions (i.e., can be Singapore or offshore)
Fund manager	• Singapore-based • Registered with MAS or holding a CMS licence or exempted from holding a CMS licence (if fund manager is managing their own personal funds).		

<table>
<tr><th></th><th>Offshore fund tax exemption scheme section 13D (formerly 13CA)</th><th>Onshore fund tax exemption scheme section 13O (formerly 13R)</th><th>The enhanced tier fund tax exemption scheme section 13U (formerly 13X)</th></tr>
<tr><td>Investors of fund</td><td colspan="2">Non-qualifying investors (i.e., Singapore non-individuals investing above a certain percentage in the fund) need to pay a penalty equivalent to the tax on their share of the fund's income.</td><td>No restrictions</td></tr>
<tr><td>Fund administrator</td><td>No restrictions</td><td colspan="2">Singapore-based</td></tr>
<tr><td>Fund size</td><td>No restrictions</td><td>Minimum AUM requirement of:
a) S$10 million at the point of application; and
b) within a two (2) year period, the fund must increase its AUM to S$20 million.</td><td>Minimum AUM requirement of S$50 million.</td></tr>
<tr><td>Fund expenditure (includes remuneration, management fees and other operating costs)</td><td>No</td><td>
<table>
<tr><th>AUM range</th><th>Minimum total business spending</th></tr>
<tr><td>AUM <S$50m</td><td>S$200,000</td></tr>
<tr><td>S$50m ≤ AUM < S$100m</td><td>S$500,000</td></tr>
<tr><td>AUM ≥ S$100m</td><td>S$1m</td></tr>
</table>
The size of the AUM of the fund for each basis period is calculated on the AUM at the end of the reporting period (typically, the end of the financial year of the fund).

The business spending requirement under the section 13O scheme can be incurred anywhere in the world.</td><td>
<table>
<tr><th>AUM range</th><th>Minimum local business spending</th></tr>
<tr><td>AUM <S$100m</td><td>S$500,000</td></tr>
<tr><td>AUM ≥ S$100m</td><td>S$1m</td></tr>
</table>
The size of the AUM of the fund for each basis period is calculated on the AUM at the end of the reporting period (typically, the end of the financial year of the fund).

The business spending requirement under the section 13U scheme must be incurred solely in Singapore.</td></tr>
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	Offshore fund tax exemption scheme section 13D (formerly 13CA)	Onshore fund tax exemption scheme section 13O (formerly 13R)	The enhanced tier fund tax exemption scheme section 13U (formerly 13X)
Local investments	No	The fund must invest at least 10% of its AUM or S$10 million, whichever is **lower**, in local investments at any one point in time. There will be a one (1) year grace period to make the local investments. **Local investments may include:** i) equities listed on Singapore-licensed exchanges; ii) qualifying debt securities; iii) funds distributed by Singapore-licensed/registered fund managers; and/or iv) private equity investments into non-listed Singapore-incorporated companies (e.g., start-ups) with operating business(es) in Singapore.	
Staffing requirement	None	The SFO must employ at least two (2) Investment Professionals.	The SFO must employ at least three (3) Investment Professionals. At least one (1) of the Investment Professionals employed must be **a non-family member**.
MAS approval	No	Yes	Yes
Other tax features	Not applicable	Access to Singapore's extensive Double Taxation Agreements (DTA) network.	• May have access to Singapore's DTA network (e.g., where the Fund is a Singapore tax resident entity). • Funds organised as master-feeder fund structures can submit a consolidated application.
Ongoing compliance	Not required	• Annual declarations will have to be filed with MAS. • No change in investment strategy and the Fund must provide confirmation to MAS that the fund is not used for other investment purposes. • The Fund must notify MAS of any material changes.	
Singapore Variable Capital Company (VCC) eligibility	No	Yes (for Singapore VCCs – Singapore incorporated or redomiciled into Singapore)	Yes

How we can help

Our team is multidisciplinary, and we have ample experience in providing advice to international clients on employment and regulatory matters that has a strong cross-border element. Among other things, we can assist you and your company in the set-up of family offices and obtaining the tax incentive, providing comprehensive wealth and succession planning solutions, applying for the GIP by helping you assess your optimal GIP profile and preparing the necessary documentation for your application. We also have experience advising clients on bespoke structuring solutions and available grants that meet their business needs.

For more information, please do not hesitate to contact any of the team at Stephenson Harwood (Singapore) Alliance. We remain committed to assisting our clients during this challenging period.

Get in touch

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Our headquarters are in London, with eight offices across Asia, Europe and the Middle East. In addition, we have forged close ties with other high quality law firms. This diverse mix of expertise and culture results in a combination of deep local insight and the capability to provide a seamless international service.

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