

Tax

Impending Changes to Tax Incentive Schemes for Family Offices

Introduction

There is a growing need amongst high-net-worth families for institutional management of their private wealth. Family offices address this need, being investment vehicles for structuring the way families invest and transfer their wealth to future generations.

Riding this wave, Singapore has positioned itself as the jurisdiction of choice for family offices in Asia, thanks to its position as an international financial hub, a reputation for political and operational stability, and a clear tax and regulatory regime, among other factors.

Currently, there are two tax incentive schemes available under the Income Tax Act for family offices in Singapore, where exemption of income will apply to:

1. income of a company incorporated and resident in Singapore that arises from funds managed by a fund manager in Singapore (previously known as the Section 13R scheme); and
2. income arising from funds managed by a fund manager in Singapore (previously known as the Section 13X scheme).

To improve the professionalism of family office professionals in Singapore, and to enhance the positive spillovers to the Singapore economy, MAS has updated the conditions for the above schemes (now known as the **S13O Scheme** and **S13U Scheme** respectively). These are set out in the "S13O & S13U Application Process for Family Offices – Guidelines for Advisors" ("**Guidelines**"), which come into effect on **18 April 2022** and incorporate the following changes:

1. Updated conditions for eligibility (set out in Paragraph 6.2 of the Guidelines);
2. Changes to Annex A, which sets out the information required for preliminary submission for the Schemes;
3. Changes to Annex B, which sets out the supporting documents required; and
4. Closing of the interim arrangement in lieu of employment passes ("**Interim Arrangement**"). In light of the relaxing of travel restrictions, the Interim Arrangement for the S13U Scheme has been closed. Applicants who were previously given in-principle approval based on the Interim Arrangement are advised to formalise their employment pass applications no later than 30 June 2022.

In this Update, we cover the updated conditions, which funds they apply to, and which applications will be affected. It should be noted that these conditions are in addition to the requirements outlined in the MAS circulars and income tax legislation applicable to the S13O and S13U Schemes.

Client Update: Singapore

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What are the Updated Conditions?

	13O (previously 13R)	13U (previously 13X)
Minimum Assets under Management ("AUM")¹	<ul style="list-style-type: none"> Minimum fund size of <u>S\$10 million</u> at point of application Commit to increasing AUM to S\$20 million within two years 	<ul style="list-style-type: none"> Minimum fund size of <u>S\$50 million</u> at point of application
Employment of Investment Professionals ("IPs")² , where the fund is managed or advised directly throughout each basis period relating to any year of assessment ("YA") by a family office in Singapore <i>Note: IP must be a Singapore tax resident</i>	<ul style="list-style-type: none"> Family office employs at least two IPs at the point of application If the family office is unable to do so, it will have a one-year grace period to employ a second IP. 	<ul style="list-style-type: none"> Family office employs at least three IPs One IP must be a non-family member³. If this criterion is not met, a one-year grace period will be granted for the fund to employ a non-family member as an IP.
Local Investment	<ul style="list-style-type: none"> Fund will invest at least 10% of its AUM or S\$10 million, whichever is lower, in local investments⁴ at any one point in time. If the fund is unable to do so by the point of application, the fund would be given a one-year grace period to do so. 	
Business Spending (according to accounting principles)	<ul style="list-style-type: none"> Fund will incur at least <u>S\$200,000</u> in total business spending in each basis period relating to any YA 	<ul style="list-style-type: none"> Fund will incur at least <u>S\$500,000</u> in local business spending in each basis period relating to any YA

On the business spending requirement, it should be noted that expenses incurred should relate to the operating activities (as opposed to financing activities) of the fund. Typical expenditure includes, but are not limited to, remuneration, management fees, tax advisory fees, and operating costs. The minimum business spending is governed by a tiered framework set out below:

¹ AUM refers to the Net Asset Value based on accounting convention.

² Investment professionals refer to portfolio managers, research analysts and traders who are earning more than S\$3,500 per month and must be engaging substantially in the qualifying activity.

³ Non-family member refers to an individual who is not a family member of the beneficial owner(s). Family members may refer to individuals who are lineal descendants from a single ancestor, as well as the spouses, ex-spouses, adopted children and stepchildren of these individuals.

⁴ Products may include: (i) equities listed on Singapore-licensed exchanges; (ii) qualifying debt securities; (iii) funds distributed by Singapore-licensed/ registered fund managers; and (iv) private equity investments into non-listed Singapore-incorporated companies (e.g. start-ups) with operating business(es) in Singapore.

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	13O	13U
AUM Range	Minimum <u>Total</u> Business Spending	Minimum <u>Local</u> Business Spending
Below S\$50 million	S\$200,000	S\$500,000
From S\$50 million to below S\$100 million	S\$500,000	
S\$100 million and above	S\$1 million	

Which Funds do the Updated Conditions Apply to?

The Guidelines apply only to a fund managed or advised directly by a family office which fulfils the following requirements:

	Requirement	Details
1.	An exempt fund management company (" FMC ") which manages assets for or on behalf of the family(ies); <u>and</u>	To be an exempt FMC, a company must be exempted from the requirement to hold a Capital Markets Services (" CMS ") licence to conduct activities regulated under the Securities and Futures Act. Family offices can generally rely on the automatic exemption provided for corporations which manage funds for their related corporations under paragraph 5(1)(b) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations.
2.	Wholly owned or controlled by members of the same family(ies).	Under the Guidelines, "family" includes lineal descendants from a single ancestor, together with (i) spouses and ex-spouses, and (ii) adopted and stepchildren.

Per the Frequently Asked Questions (FAQs) provided by MAS, fund vehicles managed by FMCs which already hold a CMS license are not subject to the updated conditions.

Which Applications will be Affected?

The Guidelines will come into effect for applications submitted on or after **18 April 2022**. The following applications are not subject to the updated conditions:

1. Applications which have submitted preliminary information (i.e. Annex A) before 18 April 2022 **and** with correspondences with MAS in the last six months;
2. Applications where a formal MASNET application has been received by MAS before 18 April 2022, but approval was granted after 18 April 2022; and

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3. Applications which have received formal approval and a formal Letter of Offer from MAS before 18 April 2022.

Concluding Remarks

Vikna Rajah (Head, Tax and Trust & Private Client) and Chandra Mohan (Co-Head, Private Client) of Rajah & Tann Singapore are the co-authors of a white paper titled "[Family Offices in Singapore](#)" ("**White Paper**"). Developed in collaboration with Deloitte Singapore and with support from the Singapore Economic Development Board (EDB), the White Paper provides insights into the family office landscape in Singapore, and the incentives, challenges and solutions to creating and managing a family office today.

For any queries on this development, please contact the team below, who will be pleased to assist.

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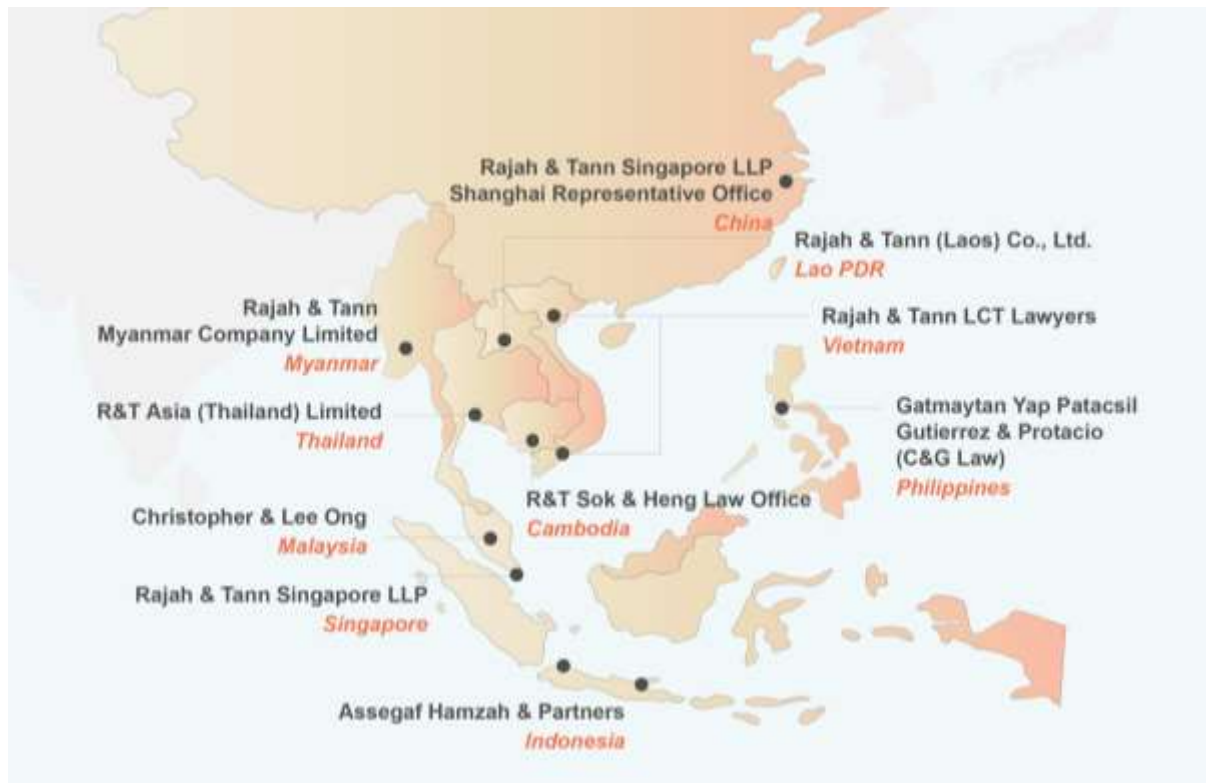
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