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Updates to S13O & S13U Application Criteria for Family Offices

Introduction

On 5 July 2023, the Monetary Authority of Singapore ("**MAS**") announced changes to the qualifying criteria for single family office ("**SFO**") fund vehicles applying for the tax exemptions under sections 13O and 13U of the Income Tax Act 1947 ("**ITA**"). The changes seek to encourage the meaningful deployment of capital and bolster the development and sophistication of Singapore's asset and wealth management industry.

Who Will be Affected?

The new application criteria will apply to new applicants who have submitted the Annex A preliminary submissions to MAS from 5 July 2023 onwards. However, these changes only affect family-owned fund vehicles which are exempt from Capital Markets Services ("**CMS**") licensing requirements and manage assets for the same family. The application criteria for other applicants, such as family-owned funds managed by MAS-licensed fund managers, remains unchanged.

Key Changes in Qualifying Criteria for s13O and s13U Applications

Removal of Grace Periods

Previously, SFO fund vehicles applying for the section 13O / 13U tax incentive were afforded a grace period to satisfy the minimum requirements for the tax incentive schemes at the point of application. For example, SFO fund vehicles applying for the section 13O tax incentive scheme were previously given a two-year grace period to increase their assets under management ("**AUM**") from a minimum sum of S$10 million to S$20 million if the fund was unable to meet the S$20 million AUM at the point of application. From 5 July 2023, such grace periods will no longer apply, and the SFO fund vehicle must meet the revised conditions at the point of application to qualify for the tax incentive.

Assets Under Management

While the new qualifying criteria preserves the minimum AUM of S$20 million and S$50 million under sections 13O and 13U respectively, the latest update clarifies that the minimum AUM must now be deployed in Designated Investments, as defined in the Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by the Fund Manager in Singapore) Regulations 2010. Given the removal of the grace period, the minimum AUM must be satisfied at the point of application and must be maintained throughout the incentive period.

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Investment Professionals

SFO fund vehicles applying for the section 13O tax incentive must now be managed by a SFO that employs at least two investment professionals, of whom at least one shall not be a family member of the ultimate beneficial owner(s). This requirement must be met at the point of application and throughout the incentive period. This is significant, given that previously, both investment professionals could be family members of the ultimate beneficial owner.

The minimum number and composition of investment professionals for SFOs managing a family-owned fund vehicle applying for the section 13U tax incentive remains unchanged. However, the grace periods to meet such minimum requirements will no longer be applicable, and the SFO must satisfy the minimum hiring requirements at the point of application and throughout the incentive period.

Minimum Spending Requirement

From 5 July 2023, SFO fund vehicles (whether applying for the section 13O or section 13U incentive) will need to incur a minimum S$200,000 in local business spending, subject to the Tiered Spending Requirement.

Previously, non-local business spending incurred by SFO fund vehicles applying for the section 13O tax incentive would count towards the minimum spending requirement. Hence, the 5 July 2023 update effectively streamlines the minimum spending requirement, regardless of which tax incentive the SFO fund vehicle applies for.

One significant change is that eligible donations to local charities and grants given to support blended finance structures with substantial involvement of financial institutions in Singapore will now be recognised in the computation of the Tiered Spending Requirement.

The Tiered Spending Requirement is as follows:

	AUM of Fund at the end of its Financial Year		
	AUM < S$50 million	**S$50 million ≤ AUM < S$100 million**	**AUM ≥ S$100 million**
Spending Requirement in each YA	Local Business Spending ≥ S$200,000	Local Business Spending ≥ S$500,000	Local Business Spending ≥ S$1 million
Spending Requirement may be met by:	Minimum S$200,000 Local Business Spending	Minimum S$200,000 Local Business Spending + Eligible donations to local charities + Grants to Blended Finance Structures (recognised as 2x spending) ≥ S$500,000	Minimum S$200,000 Local Business Spending + Eligible donations to local charities + Grants to Blended Finance Structures (recognised as 2x spending) ≥ S$1 million

Capital Deployment Requirement ("CDR")

A SFO fund vehicle must invest the lower of S$10 million or 10% of its AUM in an expanded list of options under the new qualifying criteria, as follows:

- Equities, REITs, Business Trusts, or ETFs listed on MAS-approved exchanges
- Qualifying Debt Securities
- Non-listed funds distributed by licensed financial institutions in Singapore
- Investments into non-listed Singapore incorporated companies with operating and substantive presence
- Climate-related investments
- Blended finance structures with substantial involvement of financial institutions in Singapore

In addition, investments in any of the following eligible investments will be scaled up by a multiplier in the computation of the CDR.

Multiplier	Eligible Investments
2x	• Equities listed on MAS-approved exchanges • ETFs with primary mandates to invest in Singapore-listed equities on MAS-approved exchanges • Non-listed funds distributed in Singapore with primary mandates to invest in Singapore-listed equities on MAS-approved exchanges

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Multiplier	Eligible Investments
	• Deeply concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore
1.5x	• Concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore

The CDR effectively supersedes the local investment requirement that was previously introduced.

Concluding Remarks

The latest changes to the qualifying criteria are not unexpected, given the burgeoning number of family offices in Singapore and Singapore's commitment to support the growth of its asset and wealth management industry. The recognition of local charity donations and climate-related investments under the Minimum Spending Requirement and Capital Deployment Requirement marks a welcome expansion which will no doubt contribute to increased diversity and sophistication within single family offices in Singapore.

For further queries and specific advice, please feel free to contact our team below.

Contact

Vikna Rajah
Head, Tax & Trust
Co-Head, Private Client

T +65 6232 0597

vikna.rajah@rajahtann.com

Please feel free to also contact Knowledge Management at eOASIS@rajahtann.com.

Our Regional Contacts

RAJAH & TANN | *Singapore*
Rajah & Tann Singapore LLP
T +65 6535 3600
sg.rajahtannasia.com

CHRISTOPHER & LEE ONG | *Malaysia*
Christopher & Lee Ong
T +60 3 2273 1919
F +60 3 2273 8310
www.christopherleeong.com

R&T SOK & HENG | *Cambodia*
R&T Sok & Heng Law Office
T +855 23 963 112 / 113
F +855 23 963 116
kh.rajahtannasia.com

RAJAH & TANN | *Myanmar*
Rajah & Tann Myanmar Company Limited
T +95 1 9345 343 / +95 1 9345 346
F +95 1 9345 348
mm.rajahtannasia.com

RAJAH & TANN 立杰上海
SHANGHAI REPRESENTATIVE OFFICE | *China*
Rajah & Tann Singapore LLP
Shanghai Representative Office
T +86 21 6120 8818
F +86 21 6120 8820
cn.rajahtannasia.com

GATMAYTAN YAP PATACSIL
GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*
Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)
T +632 8894 0377 to 79 / +632 8894 4931 to 32
F +632 8552 1977 to 78
www.cagatlaw.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*
Assegaf Hamzah & Partners

Jakarta Office
T +62 21 2555 7800
F +62 21 2555 7899

Surabaya Office
T +62 31 5116 4550
F +62 31 5116 4560
www.ahp.co.id

RAJAH & TANN | *Thailand*
R&T Asia (Thailand) Limited
T +66 2 656 1991
F +66 2 656 0833
th.rajahtannasia.com

RAJAH & TANN | *Lao PDR*
Rajah & Tann (Laos) Co., Ltd.
T +856 21 454 239
F +856 21 285 261
la.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*
Rajah & Tann LCT Lawyers

Ho Chi Minh City Office
T +84 28 3821 2382 / +84 28 3821 2673
F +84 28 3520 8206

Hanoi Office
T +84 24 3267 6127
F +84 24 3267 6128
www.rajahtannlct.com

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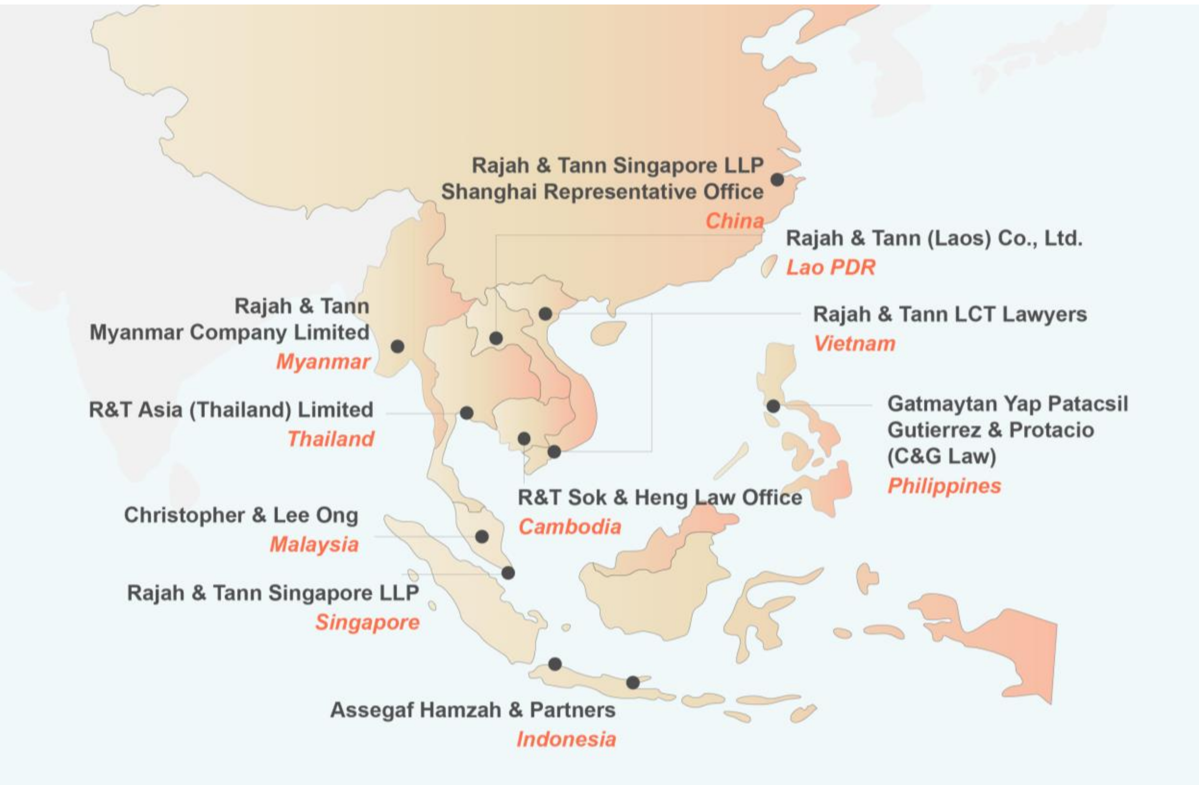

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