

Tax incentives for Single Family Office (Update)

The Monetary Authority of Singapore (“MAS”) had recently announced new (slightly tighter) criteria for Single Family Office (“SFO”) applicants of the 13O and 13U Tax Incentive Schemes. These new requirements take effect from 5 July 2023. Applications received by the MAS after 5 July 2023 will have to meet the new requirements.

The changes announced will not affect applications received or approved before 5 July 2023. SFOs that are engaging licensed fund managers in Singapore to manage their investments are also not impacted by these changes.

A snapshot of the changes (in *green*) are:

1. The minimum Asset Under Management (“AUM”) of S\$20million and S\$50million under Section 13O/U respectively are now required to be in *designated investments¹ at the point of application and throughout the incentive period.*
2. *Two* Investment Professionals (“IP”) are now required *at the point of application and throughout the incentive period* for Section 13O applications, and three IPs are required for Section 13U applications. For both applications, at least one IP must be a non-family member.
3. Changes to the *minimum annual local business spend requirement* (see details below).
4. The minimum local investment category is now known as the *minimum capital deployment requirement* and enhanced.

Interested applicants should ensure that they can meet the new requirements throughout the incentive period – failure to do so may expose the investment holding vehicle to Singapore tax.

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¹ Designated investments cover a wide range of investments encompassing equities, bonds, investment in private equity and hedge funds, etc. Notable exclusions are direct/indirect investments into Singapore immovable property and direct investments in digital assets.

1. New requirements for Section 130/U applications

Criteria	Section 130	Section 13U
AUM	Minimum fund size of S\$20 million in Designated Investments at the point of application and throughout the incentive period.	Minimum fund size of S\$50 million in Designated Investments at the point of application and throughout the incentive period.
Investment Professionals (“IPs”)	Employs at least 2 IPs, with one IP being a non-family member at the point of application and throughout the incentive period.	Employs at least 3 IPs, with at least one IP being a non-family member, at the point of application and throughout the incentive period.
	IPs refers to individuals who are Singapore tax residents with relevant work or academic qualifications. They should be substantially engaging in performing the role of portfolio manager, research analyst or traders and are earning more than S\$3,500 per month.	
Minimum annual local business spending	<p>Incur at least Local Business Spending (“LBS”) of S\$200,000, depending on their AUM:</p> <p>AUM less than S\$50 m: LBS of S\$200,000</p> <p>AUM more than (or equal to) S\$50m but less than S\$100m: LBS of S\$500,000*</p> <p>AUM more than (or equal to) S\$100 m: LBS of S\$1m*</p> <p>* LBS can include the following <u>after</u> incurring a minimum LBS of S\$200,000: - Eligible local donations to local charities - Grants to blended finance structures (recognized as 2 times spending)</p>	
Minimum annual Capital Deployment Requirement (“CDR”)	<p>Invest at least 10% of its AUM or S\$10 million, whichever is lower in:</p> <ul style="list-style-type: none"> • Equities, REITs, Business Trusts or ETFs listed on MAS-approved exchanges • Qualifying debt securities • Non-listed funds distributed by licensed financial institutions in Singapore • Non-listed Singapore-incorporated operating companies with operating business and substantive presence in Singapore • Climate-related investments • Blended finance structures where financial institutions in Singapore are substantially involved in. <p>Investment in the following will yield a multiplier for computing CDR:</p> <p>2x multiplier:</p> <ul style="list-style-type: none"> - 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 - Deeply concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore <p>1.5x multiplier:</p> <ul style="list-style-type: none"> - Concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore 	
Private bank account	Have a private bank account with a MAS-licensed financial institution at the point of application and throughout the incentive period.	

2. Our comments

With the slightly tightened requirements, we envisage higher compliance costs in monitoring and ensuring the tax incentive conditions are met. For example, if the AUM of the fund is nearing S\$50m or S\$100m valuation, closer monitoring and actions should be taken in anticipation of the higher LBS requirement can be met in order not to jeopardize the tax position. That said, taking actions to increase LBS may pose practical difficulties as valuation reports of investments would only be available after financial year-end.

With these changes, SFOs may look to engage a licensed fund manager in Singapore who would not be subject to the above-mentioned tightened conditions. Please refer to our update in April 2022 – Singapore Fund Fact Sheet for the conditions for SFOs managed by licensed fund manager in Singapore.

We view the non-family requirement for IP as a positive for SFOs. Not only does it create employment in Singapore, it also provides a regulatory requirement for SFOs to consider succession and keyman risk issue within their own family office. The non-family IP, who understands the SFO's financial position and strategy, can play an important role in ensuring continuity of the SFO structure.

There is now increased focus in Singapore on encouraging SFOs to play a role in driving environmental initiatives or via blended finance structures which could potentially provide a source of financing for Singapore's goal of achieving net zero.

At the same time, the MAS provided details on the Philanthropy Tax Incentive Scheme for Family Offices ("PTIS") which encourages SFOs to make overseas donations by giving a 100% tax deduction claim on qualifying donations. Please refer to our publication on this topic.

If you are keen to explore the Section 13O/U application or have any questions, please feel free to reach out to any of us to discuss the specifics.

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