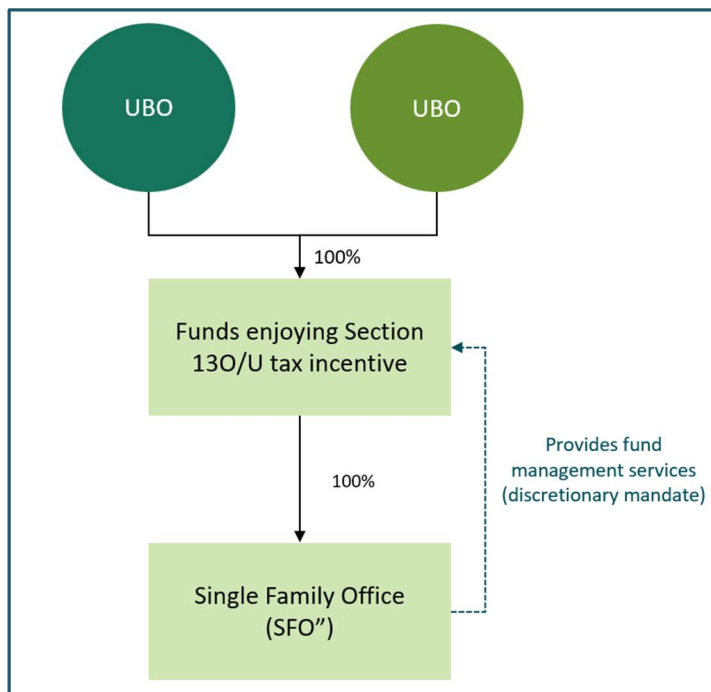


Philanthropy Tax Incentive Scheme for Family Offices

In Singapore’s Budget 2023 (announced in February 2023), the Minister for Finance announced a new tax incentive scheme to encourage single family offices in Singapore to engage in philanthropic activities. Details of this scheme – Philanthropy Tax Incentive Scheme for Family Offices (“PTIS”) have now announced by the Monetary Authority of Singapore (“MAS”).

An example of a simplified Single Family Office (“SFO”) structure is shown below:



As the Fund vehicle is enjoying tax incentive (to qualify for the PTIS, a S130 or S13U tax incentive must have been granted and accepted) that exempts most (if not all) investment income from tax, the ability to claim deduction on donations is often of little to no value.

However, the Fund vehicle is often the entity generating significant investment returns and as such could potentially make meaningful philanthropic donations.

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The SFO (fund management entity) is remunerated with a service fee and normally does not enjoy significant profits, thus, lack resources to contribute meaningfully to charitable causes.

1. No longer just an investment vehicle

The PTIS is an innovative scheme that is targeted at SFOs operating in Singapore, whereby qualifying tax deductions on **overseas donations** can be claimed by a designated qualifying donor.

Under current tax rules, overseas donations are not tax deductible. However, with the launch of PTIS, it may be time to consider the feasibility of using the SFO structure for philanthropic purposes.

2. Understanding PTIS – Key features

The SFO must designate a qualifying donor when it is applying for PTIS with the MAS. Upon MAS' approval, the qualifying donor can claim 100% tax deduction on overseas donations made if the SFO meet the requisite conditions.

Tax deduction is capped at 40% of the qualifying donor's statutory income; unutilised donations in a year cannot be transferred via group relief scheme and will be forfeited (cannot be carried forward).

Qualifying Donor

A qualifying donor can be:

- The SFO
- An Ultimate Beneficial Owner ("UBO") of the S130/U fund
- Beneficiary of the S130/U fund
- A related family business in Singapore (where the largest shareholder belongs to the same family as UBO(s) or Beneficiary(ies) of the S130/U fund

There can only be one qualifying donor (individual or entity) designated, a change is only permitted upon the demise or ineligibility of qualifying donor.

Philanthropy Professional requirement

- The SFO must appoint and maintain a Philanthropy Professional at the point of application and throughout the incentive approval period to manage the philanthropic activities.
- This can be achieved by employing, assigning an existing headcount, or engaging an external service provider.
- A Philanthropy Professional is defined as a Singapore tax resident who earns a monthly salary of at least S\$3,500 and is substantially engaged in managing the philanthropic activities.

Economic conditions

The SFO needs to meet these two economic conditions, over and above their required conditions as set out in their approved tax incentive:

- Incur an additional S\$200,000 local business spend
- Employ an additional headcount (either Investment Professional or Philanthropy Professional)

Qualifying Local Intermediaries

Donations have to be channeled through Qualified Local Intermediaries (i.e. selected registered charities, charitable institutions, etc) – the list of Qualified Local Intermediaries will be made available on the MAS website in due course.

Application for PTIS

Applications can be made to the MAS from 1 September 2023 onwards, the incentive approval period is from 1 January 2024 to 31 December 2028. Once awarded, applicants will enjoy the incentive for a period of 5 years.

3. Who should apply for PTIS?

Generally, PTIS should be considered if the SFO (that currently has a tax incentive granted and accepted) intends to take advantage of the tax deduction accorded. We provide our thoughts below on what a SFO should consider before applying for PTIS:

i. SFOs that are already making overseas donations

If an SFO is already making overseas donations regardless of whether a tax deduction is given, the decision of whether to apply for the PTIS may be to consider if the economic conditions imposed can be met; and if there is a Singapore taxpayer that can benefit from the tax deduction.

In this case, selecting the appropriate qualifying donor to optimize tax deduction will be key. This should involve in-depth discussions with your tax advisers on relevant issues such as who should be the designated qualifying donor, whether the qualifying donor will remain a Singapore resident in the near future, etc.

ii. SFOs that intend to make overseas donations: Cost vs benefit analysis

The costs include hiring a Philanthropic Professional, additional headcount and incurring an additional S\$200,000 local business spend. There is also a requirement to submit annual returns for a PTIS award holder. Potentially, the MAS may ask for supporting documentation or seek clarifications to ensure that all relevant conditions are met, this could mean that additional resources may be expended.

Given the costs involved, the donations (annual) made should be of a sufficient quantum for PTIS to be worthwhile. The qualifying donor must also have sufficient statutory income to deduct against the donations.

Using a simple illustration, we assume the following scenario:

- the UBO (an individual) is a qualifying donor with a statutory income of S\$3million and is taxed at the highest tax bracket of 24%.
- Total cost amount to S\$200,000

Working backwards, the UBO's "breakeven point" would be S\$833,333 ($S\$200,000 \div 24\%$). In this example, the tax deduction is fully claimed - cap on tax deduction is S\$1,200,000 (being 40% of S\$3,000,000).

In other words, if the UBO intend to make overseas donations of more than S\$833,333, then the PTIS should be applied for as the benefits obtained via tax deduction outweighs the costs involved. Tax deductions for donations beyond S\$1,200,000 are not tax deductible – something for the donor to consider!

It may not always be straightforward; we would encourage interested applicant to discuss with your tax advisers before embarking on the PTIS application.

iii. Requirements under PTIS

There is a requirement that overseas donations must be channeled through Qualifying Local Intermediaries. Currently, this list has yet to be made available.

Before applying, SFO's considering the PTIS should ensure that donations to their intended recipients can be made via these intermediaries.

iv. Additional S\$200,000 Local Business Spend

Given that the SFO is primarily to manage the investments for the family, the bulk of expenses are typically statutory compliance costs, operational and employee costs.

Unless a SFO is growing in scale where additional employees or a bigger office is required, the incremental local business spend may not be easily met. Hence, a good time to consider applying for the PTIS could be when the SFO is planning to increase it's scale of operations – the timing of the application is just as important.

v. *Balancing between supporting Singapore & overseas causes*

The SFO may be inclined to support certain causes in Singapore as well. Under existing tax rules, donations to **local** Institutions of Public Character (“IPC”), a \$1 donation can yield \$2.5 worth of tax deduction.

As the SFO is generally subject to 17% corporate tax (unless tax-incentivised), qualifying local donations to IPCs may be made through the SFO instead of the qualifying donor to optimize the tax position (depending on the effective/marginal tax rate of the qualifying donor). We encourage discussions with your tax advisers on how your overall tax position can be improved whilst making contributing to the causes you support.

If you are keen to explore the PTIS application or have any questions, please feel free to reach out to any of us to discuss the specifics.

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