

# Growth of family offices in Singapore

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Wealth is being created at a remarkable pace in Asia, particularly over the last decade. This has fuelled the growth of family offices in Asia which are established to help the ultra-high net worth (UHNW) families manage their wealth and also to prepare for the transition of wealth to the next generation.

The Monetary Authority of Singapore (MAS) indicated that between 2015 and 2017, the number of family offices in Singapore had quadrupled. Although there is no official data confirming the actual number of family offices set up in Singapore, the industry has observed a continuous steady growth in 2018 and 2019.

Singapore has long been one of the favoured private banking and wealth management centres for Asian families, and it is therefore natural that when it comes to choosing a place to set up their family offices, Singapore remains one of their top choices.

Singapore is valued for its political stability, strong financial sector, and also its highly-educated and efficient work force. It is certainly beneficial that a good proportion of its professional workforce is fluent in more than one language as Singapore is a multi-racial society and its educational system has always placed a strong emphasis on its bilingual educational policy. UHNW families from the region can feel more at home in Singapore with a culturally sensitive and globally-minded team assisting them on not just their investment management but also on more sensitive topics such as their estate planning needs.

Although the bulk of the family offices in Singapore are established by Asian families, there are also European and American families setting up family offices in Singapore as they are keen to use Singapore as a gateway for their investments into Asia.

## Range of services provided

The key services provided by family offices in Singapore are generally investment management and financial advisory. As maturing Asian wealth approaches inflexion point for inter-generational wealth transition, quite often family office mandates also include assisting with strengthening family governance and making suitable arrangements to facilitate a smoother transition.

With investments ranging across different countries or family members living in different parts of the world, there is an increasing awareness of cross-border legal, tax and regulatory issues and for family offices to assist the families to plan properly for such matters.

Where it is not efficient to hire a full-time in-house adviser, there are a good number of international advisers in Singapore that family officers can work with to help provide guidance. Family offices nowadays also invest a significant amount of time organising data and collating information for families to meet the ever-changing regulatory and filing requirements globally.

When it comes to the range of investments, some family offices are tasked primarily to manage the financial portfolio investments conservatively in order to balance the higher risks that the family businesses are exposed to in their home jurisdiction. Other family offices, however, are run more like investment banks and as advisers to the principal family members. They help to advise on a range of matters including how to manage the strategic listed stake in the founding business, identify suitable business opportunities whether complementary to the current businesses or otherwise, and help put together joint ventures and club deals with strategic partners. While the family offices themselves are based in Singapore, the range of deals and investments they consider and make can be anywhere in the world.

Singapore is attractive to these family offices as it is a place where it is conducive and efficient to actually grow and expand business operations. It is comparatively easy to do business in Singapore, and there are a range of generous tax incentives available for sectors that the Government is keen to encourage. Proper structuring can generally be done efficiently, benefiting from the wide tax and investment treaty network Singapore has to offer. In a world where there is greater focus and need to demonstrate economic substance, Singapore can be a feasible option to replace the unthinking practice of using an offshore special purpose vehicle.

Singapore is also a strong draw for families who want to be around other important family offices. As very substantial families from different parts of the world are attracted to congregate and set up offices in Singapore, they now have more opportunities to interact, network, exchange ideas and explore business opportunities together. This adds to the vibrant ecosystem for family offices here.

Family offices can also be involved in providing a philanthropy advisory service and helping to develop a more considered and strategic policies for the families and their foundations. Asian families are increasingly giving more meaningful amounts to global philanthropic causes. Family offices help to

bring more professionalism to the family's philanthropic endeavours and projects. They may also provide administrative support to the family foundations or manage the funds donated to the foundations. Not all family foundations managed by the family offices in Singapore are required to be registered as a Singapore charity but they may be structured to qualify for such registration if it is beneficial to do so. Income and gains of a registered charity in Singapore is tax exempt and certain donations can qualify for a very generous 250% tax deduction for the donor.

#### **Well-regulated financial centre with considered policies to enhance the ecosystem**

Singapore is a well-recognised and regulated financial centre. The International Monetary Fund (IMF), upon completion of its third financial sector assessment programme (FSAP) on Singapore in July 2019, affirmed that Singapore's financial sector oversight is among the best globally. In the area of Fintech regulation and supervision, IMF said that the MAS has struck a good balance between promoting financial innovation, while safeguarding financial stability.

The Singapore Government is looking to constantly develop and fine-tune the country's supporting infrastructure and policies to meet the investing and planning needs of private wealth and family offices in Asia.

For instance, the Government realised that family offices are often keen to consider suitable start-up investment opportunities, and the vast amount of funds held by these family offices could in turn help to stimulate the start-up industry in Singapore. It has therefore over the years introduced various platforms, incentives and events to catalyse and nurture the growth of start-ups and facilitate matching of investors to opportunities (particularly in the FinTech sector, or more recently also in the Regtech sector).

Take for instance Startup SG. In 2017, the Singapore Government announced that it plans to pump S\$19 billion into research and development efforts over a five-year period including the establishment of the

Startup SG, which aims to showcase Singapore's vibrant start-up ecosystem both locally and overseas. It represents the shared interests of the start-up community and unifies efforts to support the ecosystem with various initiatives and programmes. With Startup SG, start-ups and ecosystem partners can more easily discover and access available avenues of support. Slingshot, an annual start-up competition, is one of the many events organised by Startup SG. It gives promising start-ups a platform to showcase their technology and business ideas and to gain early exposure to investors, corporates, industry leaders and mentors.

The MAS also organises the annual FinTech Festival, which brings insights from global thought leaders, showcases innovative solutions and engages entrepreneurs, investors and innovators from around the world. Last year, 45,000 participants from 130 countries attended the event and it is regarded as the largest FinTech event in the world.

#### **Building the team of family officers**

Having the right team of trusted family officers is key to running a successful family office. Family officers need to have not just the right *résumé* but also the suitable temperament, character and connectivity to work with the family members.

Family offices can recruit locally but if they would like to bring in their trusted employees from their home jurisdiction whom they have worked with for many years, they would need to apply for employment passes for the foreign employees.

Family members who are looking to immigrate to Singapore to run the family office in Singapore can consider applying for Singapore permanent residency (PR) status under the Global Investor Programme (GIP) administered by the Economic Development Board (EDB). The applicant family member must, however, have a suitably qualifying business or entrepreneurial track record, and must commit to investing S\$2.5 million to set up a business in any of the approved sectors (which includes family offices) and submit a business plan to the EDB for its approval.

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**Regulatory and tax exemption for the funds managed by the Singapore family office**

Singapore has a globally competitive tax system. The corporate tax rate is only 17% and is imposed on income that is either Singapore sourced or is remitted into Singapore. This semi-territorial basis of taxation means that the Singapore tax rules are comparatively straightforward. They do not contain anti-deferral or foreign attribution provisions which are common for jurisdictions with a worldwide basis of taxation.

Singapore does not tax capital gains. The distinction between a revenue and a capital gain is often a point of contention and the 'badges of trade' are used to determine when a gain is on revenue account. A number of exemptions apply which further reduce the basis of taxation. For corporate resident taxpayers, foreign dividends which have been subject to some foreign tax and are paid from a jurisdiction with a headline rate of at least 15% are exempt.

Dividends paid by a Singapore resident company are exempt from further taxation. This makes the upstreaming of profits very tax efficient and this is one reason that Singapore is often used as a holding company jurisdiction. Singapore has an expansive network of double taxation agreements which can reduce taxation at source on certain types of income and gains.

Individual taxpayers are only taxable on Singapore-sourced income. Progressive rates apply with the highest being 22% on income over S\$320,000. There are no mandatory social security contributions for foreign individuals based in Singapore. Singapore no longer has an estate tax and the testamentary transfer of assets is generally tax free.

In the family office and funds context, a potential Singapore tax exposure can arise for the fund vehicles where they are managed by a Singapore-based manager. The appointment of a local manager, particularly on a discretionary basis, creates a risk that trading gains may be Singapore sourced. It also creates a nexus of the fund vehicle with Singapore such that foreign-sourced income which is remitted into Singapore is potentially taxable. The local tax rules contain a number of exemptions which address this tax risk which would otherwise prove to be a serious impediment to the development of the local asset management industry. These are complemented by trust-based incentives which are generally available

where a licensed Singapore trust company is appointed to administer a trust structure.

The fund tax incentives all require a Singapore manager which is either licensed or exempt under local securities law for providing fund management services. Where a single-family office is established, it is typical for this to be structured so that it is exempt from regulation. This is often on the basis that the single-family office is a 'related corporation' of the family fund vehicle. It is also possible to seek an ad hoc exemption from licensing which may be granted to a single-family office where it can be demonstrated that it only manages the assets of the same family.

There are specific fund tax exemptions available for both Singapore resident and offshore fund vehicles which are managed by family offices in Singapore. Many families are starting to question the use of offshore vehicles to hold accumulated family wealth given reputational and practical concerns. Correctly structured, it is possible for a Singapore company to obtain a fund tax exemption. This structuring offers a viable alternative for UHNW families keen to ensure that their assets are held in tax-compliant and tax-efficient structures.

The scope of the exemption from Singapore tax under the fund incentives is broad. This is shaped by two defined terms – 'specified income' and 'designated investments'. The term 'designated investments' is an inclusive list which covers most financial investments but notably does not include Singapore real estate – for obvious reasons. All income from designated investments is considered to be 'specified income' with a limited number of exceptions. These two definitions are often reviewed and were further liberalised this year.

Set out below is a summary of the key features of the three main fund tax exemptions which are available in Singapore.

***The Enhanced-Tier Fund Exemption Scheme (ETF Scheme)***

The ETF Scheme under Section 13X of the Income Tax Act (Cap 134 of Singapore) (ITA) is a much-coveted tax exemption scheme for many funds managed by family offices in Singapore. The ETF Scheme has a number of qualifying conditions and requires the approval of the MAS. The qualifying conditions include:

- The fund must have a minimum fund size of S\$50 million at the time of application;

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*The Resident Fund Scheme requires the fund to be a Singapore resident company or a VCC and the fund administration work has to be performed in Singapore.*

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- The fund must be managed or advised by a Singapore fund manager (which can be a single-family office exempt from licensing under the Securities and Futures Act (Cap 289 of Singapore) (SFA) or a multi-family office licensed under the SFA);
- The family office must employ at least three investment professionals in Singapore who are substantively engaged in an investment management or advisory role; and
- The fund must incur at least S\$200,000 in business spending in Singapore (which usually can comprise the investment management fees payable to the family office).

The ETF Scheme has recently been extended to all forms of fund vehicles (including managed accounts and Singapore Variable Capital Companies (VCCs)). However, as mentioned below, the VCC structure is not yet available for use in a typical single-family office structure. Families who would like to use similar liability segregation or cell companies have been advised to consider using segregated portfolio companies established in the Cayman Islands or the British Virgin Islands with a view to eventually re-domiciling such companies to a VCC under the inward domiciliation rules, if desired.

The ETF Scheme, together with the Resident Fund Scheme and the Offshore Fund Scheme, have recently been extended to 31 December 2024. Approval under the ETF Scheme (which can be made on a single entity or on a consolidated Master-Feeder-SPV or Master-SPV basis) and the Resident Fund Scheme is ultimately at the discretion of the MAS and therefore cannot be guaranteed even if all qualifying conditions are satisfied. Once approved, the tax exemption under the ETF Scheme and the Resident Fund Scheme will be available for the life of the fund, provided that the terms and conditions for the relevant exemption are fulfilled for the relevant year.

#### ***The Resident Fund Scheme***

The Resident Fund Scheme was originally introduced in 2006 in order to facilitate and encourage fund domiciliation in Singapore.

The Resident Fund Scheme requires the fund to be a Singapore resident company or a VCC and the fund administration work has to be performed in

Singapore. Even though there is no requirement for the Singapore family office to hire at least three investment professionals (per the ETF Scheme), a minimum annual spending requirement still applies. Further, if certain Singapore-based investors should hold more than a prescribed percentage in such Resident Fund, such investors would still be required to pay a financial penalty, to be computed in accordance with a specified formula, to the Inland Revenue Authority of Singapore (IRAS).

The requirement to use a Singapore incorporated company presents a number of considerations for the family to consider. These include:

- Compliance with the Companies Act (Cap 50 of Singapore) – A Singapore company is required to have at least one Singapore resident individual as a director, it is subject to potential audit requirements, restrictions as to declaration of dividends and annual filing requirements with the Singapore Accounting and Corporate Regulatory Authority, which might include a requirement to file its financial statements if the exemption conditions are not fulfilled;
- Stamp duty – Stamp duty is chargeable on the transfer of shares in a Singapore company which is computed based on the consideration or net asset value of the shares transferred, whichever is the higher;
- Goods and Services Tax (GST) – A family office providing fund management services to a Singapore fund will not be able to zero-rate its supplies and may, if the relevant thresholds are crossed, not be able to be exempt from GST registration and will thus be liable to register for GST in Singapore; and
- Transfer pricing (TP) – A taxpayer may be required to prepare contemporaneous transfer pricing documentation where certain conditions are met. A revenue threshold of S\$10 million is used variously within these rules to identify whether a taxpayer is subject to this requirement.

The above requirements may be different or in fact relaxed in various offshore jurisdictions. Yet, as will be described below, a Singapore company is not subject to the economic substance laws which have recently been implemented in the offshore jurisdictions. Being able to reduce the number of jurisdictions in the

corporate structure may now seem attractive for some families not only because the family does not need to consistently monitor the developments in the law in the various offshore jurisdictions, it can also result in the simplification of reporting if all the entities and controlling persons are incorporated and resident in one jurisdiction.

### ***The Offshore Fund Scheme***

The Offshore Fund Scheme requires the offshore fund entity/arrangement to be either a managed account of an individual, a company or a trust which must be a non-tax resident of Singapore, with no taxable presence in Singapore (other than the appointment of the family office or fund manager).

Similar to the Resident Fund Scheme, financial penalties would apply for certain Singapore-based investors holding more than a prescribed percentage in the Offshore Fund. On the other hand, there is no minimum spending and hiring requirement. Approval from the MAS is not required as the exemption under the Offshore Fund Scheme is on a due claim basis provided that all the requirements of the scheme are satisfied for the relevant year.

### ***Tax incentives for the manager***

Aside from the tax exemption schemes available to the fund vehicles, family offices in Singapore could apply for a tax incentive under the Financial Sector Incentive – Fund Management Scheme (FSI-FM) which incentivises fund management and the provision of investment advisory services.

Various qualitative and quantitative conditions would need to be satisfied by the applicant family office, including minimum assets under management, employment thresholds and sound business plans. Once approved, the FSI-FM family office will be accorded a concessionary tax rate of 10% (as compared to the usual corporate tax rate of 17%) on income from managing or advising qualifying funds. This is especially relevant for multi-family offices, where the scale of operations and the income derived from managing or advising qualifying funds could be substantial.

### **Introduction of the VCC**

Touted as a game changer for the Singapore funds industry, the introduction of the VCC offers an important addition to the suite of fund vehicles available in Singapore (eg, private companies, limited partnerships and trusts) and is intended to further enhance Singapore's appeal as an international fund management hub. It expands Singapore's existing toolbox of domestic vehicles and brings it into closer alignment with competitor jurisdictions such as Hong Kong, Luxembourg, Ireland and traditional offshore jurisdictions. A VCC is essentially a corporate vehicle

with two main defining features. The first is the ability to establish segregated cells, while the second is the concept of variable capital.

Although not presently available for use in the single-family office context, given that the VCC must be managed by a 'permissible fund manager', which does not currently include single-family offices structured as a fund manager exempt from licensing, the MAS has indicated that it is open to allowing a VCC to be managed by an exempt fund manager in the near future. That is expected to make setting up a Singapore family office even more attractive, given that the fund entity (if a VCC vehicle is preferred) could then be resident in the same jurisdiction as the family office. Once that happens, the Singapore regime also allows foreign corporate entities to be re-domiciled to Singapore as VCCs, which would potentially see a large inflow of fund vehicles re-domiciled into Singapore.

### **Other global developments**

The last few years have seen the gradual implementation of Organisation for Economic Co-operation and Development (OECD) sponsored initiatives to counter aggressive tax planning strategies using offshore tax havens and ensuring transparency through exchange of financial information between countries.

As a reputable jurisdiction where it is possible to establish real commercial presence given its developed infrastructure and pro-business environment, thereby offering extra protection against potential tax challenges, Singapore is not affected by the recent implementation of the economic substance laws in various offshore jurisdictions such as the British Virgin Islands, Cayman Islands and the Bahamas. In brief, under the economic substance laws of the various offshore jurisdictions, legal entities formed or registered in such jurisdictions are required to demonstrate economic substance in the respective jurisdictions if they are carrying on a 'relevant activity', otherwise they would be subject to various penalties including fines and imprisonment terms. Navigating the various rules and guidance (some of which are still in draft form despite the main legislation being in force) can be cumbersome and confusing. There is also at present a diversity in the views among local practitioners as to how certain key provisions ought to be interpreted and implemented by the local authorities (eg, the definition of the pure equity holding company in the British Virgin Islands). Having to consistently keep abreast of all these developments may be a time-consuming affair and some families are seriously considering consolidating their myriad of offshore holding companies into one or two main jurisdictions, including Singapore.

Apart from the impact of the economic substance laws, the advantage of having the investment holding



companies and family office resident in the same jurisdiction as most of the family members is the ease of managing requisite reporting within just a single jurisdiction.

### **Conclusion**

The combination of the reasons above makes Singapore an attractive place to establish a family office. In addition to the various tax incentives and exemptions available to the family office and associated fund vehicles, Singapore's well-established and world-class financial services sector, with its strategic location in Asia and a strong rule of law, stable political environment, high standard of living

and robust economy and well-educated workforce makes it appealing for families to base and carry out their operations in and from Singapore.

Clearly, each family's circumstances, objectives and needs should be carefully reviewed before a decision can be made on the most appropriate structuring and the suitable tax exemption(s) for the family office and fund vehicles. A key planning consideration is the applicable tax rules of the jurisdictions where family members may be resident or domiciled, and how those rules may shape a final structure. Building a good founding structure, with properly considered advice, will enable the family office to better achieve the key objectives set by the family.

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