Strengthening Singapore's wealth management ecosystem - a key engine of economic growth

February 2021

As the Singapore Budget 2021 will be delivered in Parliament on 16 February 2021, we take this opportunity to consider what measures could be introduced by the Singapore Government and what we would like to see from a private client and wealth management industry perspective.

Singapore saw an unprecedented four Budgets in 2020 with the Unity, Resilience, Solidarity and Fortitude Budgets targeted at saving jobs, helping businesses and supporting families through the challenging COVID-19 situation. Although we expect the Government to continue to support key sectors, businesses and individuals who are the most impacted by COVID-19, we also envisage that the Government will need to recover some of the close to **SGD 100 billion** that it has dedicated to support Singaporeans during this crisis. We therefore provide our insight into and opinions on how the Government might raise additional funds and revenue below, and how this might impact our clients and Singapore's existing wealth management ecosystem at large.

Tax Controversy and Disputes

In recent years, we have seen increased scrutiny on the international tax transparency of financial assets and economic substance significantly changing the global tax landscape. For example, the introduction of the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS), means that financial information is readily being exchanged internationally with the aim of curbing tax evasion. In addition to this, we have seen the introduction of the Economic Substance regulations in popular offshore jurisdictions such as the British Virgin Islands and the Cayman Islands, which has meant that wealthy families now need to consider where investment, wealth planning and business activities will be physically carried out, decide where they will establish substance and align this to their wealth planning structure. Put simply, it is no longer feasible to not have a taxable presence and pay no tax. Hence Singapore, with a favourable personal tax regime, stands out as a jurisdiction to locate wealth and build substance.

Given the way that the rest of the world is moving in terms of tax transparency and economic substance, we expect the approach of the Inland Revenue Authority of Singapore (IRAS) to be similarly fortified by allocating additional resources towards tax controversy and audits in the coming years. Putting aside the introduction of additional taxes, additional scrutiny on taxpayers is one direct way to boost tax revenue and prevent tax leakage from the authorities' standpoint. Singapore adopts a risk-based approach to identify compliance risk and deter taxpayer non-compliance and we have seen that in recent years, the IRAS has begun to take an increasingly active stance by conducting more tax audits but at the same time, also working closely with taxpayers to resolve tax matters.

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However, we anticipate that more will be done to identify and challenge those who fail to comply with their tax obligations; or those who orchestrate their affairs artificially to obtain tax advantages. For example, we expect the IRAS to investigate into taxpayers to confirm that they are legitimate tax residents of Singapore, as the Singapore tax residency status increasingly becomes a much sought after prized status. Qualifying as a Singapore tax resident would not be a simple 'check the box' exercise, regardless whether its companies or individuals, especially for those having presence in multiple jurisdictions. Taxpayers should therefore have the necessary controls and documentation in place to maintain and substantiate commercial substance in Singapore to ensure that they meet the relevant requirements.

In recent years, we have seen much focus by IRAS on medical practitioners structuring their revenue across multiple companies to achieve an overall lower tax liability but going forward, we expect to see such scrutiny stepping up to cover a wider range of other professional practices. The IRAS could also take a tougher position on consequences such as penalties and naming and shaming. Clients may therefore wish to take pre-emptive measures to manage potential tax risks, for example by obtaining an advanced ruling from the IRAS for confirmation on certain tax treatments and seeking professional advice from tax advisers in respect of complex tax structures. Furthermore, where taxpayers are aware that their current tax filing may not be correct, they should also seek tax advice and correct their tax filing position under the Voluntary Disclosure Program, which offers significantly reduced penalties. Coming back to the topic of CRS mentioned earlier, we are already seeing a number of CRS audits launched by the IRAS in respect of recent CRS compliance so we also expect this trend to continue going forward. In fact, we are assisting some clients with 'health checks' in preparation for the impending formal CRS reviews.

Tax Rises

In addition to enforcing existing tax legislation, there is also the hot topic of discussion as to whether the Government will introduce any new taxes or increase tax rates to raise additional funds. For example, we know that Goods and Services Tax (GST) is due to raise by 2% in the next few years and certainly we expect that this will happen sooner rather than later given the current economic situation. However, the GST hike is only expected to raise additional Government revenue of about 0.7%[1] of GDP per year so the Government may look at other options in addition to this measure.

In view of the global economic downturn, we do not foresee an increase in Corporate Income Taxes or Personal Income Taxes. In fact, we are seeing other jurisdictions lowering tax rates to compete with Singapore's favourable tax system. For example, we recently saw Indonesia drop its corporate tax rate to ultimately become 20% by 2022 under the recently passed Omnibus Law. Having said that, there is a tempting pot of honey created by a strong performance in the Singapore property market during the pandemic, demonstrating the resilience of such an asset class, reinforced by purchases made by foreign high-net-worth individuals (HNWI). Recent figures released by the Government also show that the prices of public housing resale flats surged to multi-year highs last year in defiance of the recession, while private property prices also climbed. This pot of honey is simply too shiny to ignore not just from the perspective of tax but also the potential effects on the society in terms of housing affordability. It is therefore not surprising to hear more discussions about the Singapore Government bringing in further cooling measures soon such as increasing Stamp Duty taxes.

One idea that has also been floating around, is the possibility that Singapore could introduce a wealth tax. It is clear that there is a gap between the haves and the have-nots in Singapore, especially with the increasing number of HNWIs in the region. This is particularly topical as we have seen other countries introduce wealth taxes over the years, including Argentina which passed a new wealth tax in December 2020 to help the Government pay for health supplies and economic relief measures amid the ongoing COVID-19 pandemic. We also know that other countries in Latin America have pushed for similar measures.

Argentina's wealth tax is expected to collect up to USD 3.7 billion[2], which is eye-catching for other Governments. In the US, we understand that there is some expectation that President Biden will consider tax rises[3] and some states are pushing for wealth taxes at state level. It is now not unimaginable that one day, wealth taxes could be introduced worldwide. That said, given that Singapore is wanting to continue to build Singapore as an international financial hub and an attractive place for families from an immigration and wealth management perspective, we do not expect the Singapore Government to introduce such a measure at this stage. The Government has, in recent years, adjusted its personal tax rates to be more progressive and we expect that it may continue with these kind of adjustments.

This then brings us to the core discussion of this article, strengthening Singapore wealth management ecosystem.

Enhance Singapore's Wealth Management Ecosystem

Notwithstanding the two points above, we believe that one of the key engines of recovery for Singapore is to boost and enhance its already thriving Family Office and private wealth management ecosystem. We know that Singapore is already a successful international wealth management hub that offers certainty and stability for foreign investors and has the capabilities to support the industry in terms of professionals such as in tax, legal and financial services. We therefore consider how this could further be enhanced to boost investment in Singapore, which would ultimately generate more employment and economic activity; and consequently increased revenue for the Singapore Government.

A trend set to continue

A combination of the implementation of the new international regulations mentioned above as well as the rising growth of Asian wealth has influenced families' decisions globally. In Asia, a region with some of the world's top billionaires, we have seen more families considering the need to consolidate and professionalise the management of their family's wealth through formal structures such as Family Offices in recent years. We consider that Singapore can capitalise on this to further support and develop the already robust wealth management ecosystem as we expect the trend for Singapore Family Offices to continue. In particular, BDO has seen a recent increase in wealthy families from Indonesia (the Omnibus Law may play a part in this) and mainland China setting up Family Offices in Singapore to manage their family wealth; and at the same time kickstart their plans to permanently reside in Singapore.

Already doing well and let's do even better

As the icing on the cake, Singapore offers a choice of three attractive tax incentive schemes for Singapore-based and offshore fund vehicles that can be managed by Family Offices in Singapore. These schemes (13X, 13R and 13CA) are administered by the Monetary Authority of Singapore (MAS) and its Family Office Development Team that was established in 2019[4], in a bid to enhance the country's competitiveness as a Family Office hub. We have been impressed with the success of these schemes in recent years and with over 200 single Family Offices already established in Singapore, we certainly expect the trend to continue, further contributing to Singapore's wealth management ecosystem. In view of the success that the MAS has seen from its Family Office Development Team, which was formed as a strategic partnership with the Economic Development Board (EDB)[4], we feel that this could be developed and brought to the next level by enhancing the cross-agency efforts with the Ministry of Manpower (MOM). Although we have seen a remarkable acceleration of growth in the Family Office industry, even in the past year during the coronavirus pandemic, we see areas that could be fine-tuned to improve the ecosystem even further, based on our "on the ground" involvement in assisting clients with the implementation of Family Office structures.

We were pleased to see the MAS introduce the 3-pillar strategy to enhance the environment, develop the capabilities in the industry and attract global Family Offices to be more connected as well as the "FO circle" sharing platform and the Family Office advisor skills map to give advisors more guidance on their roles.

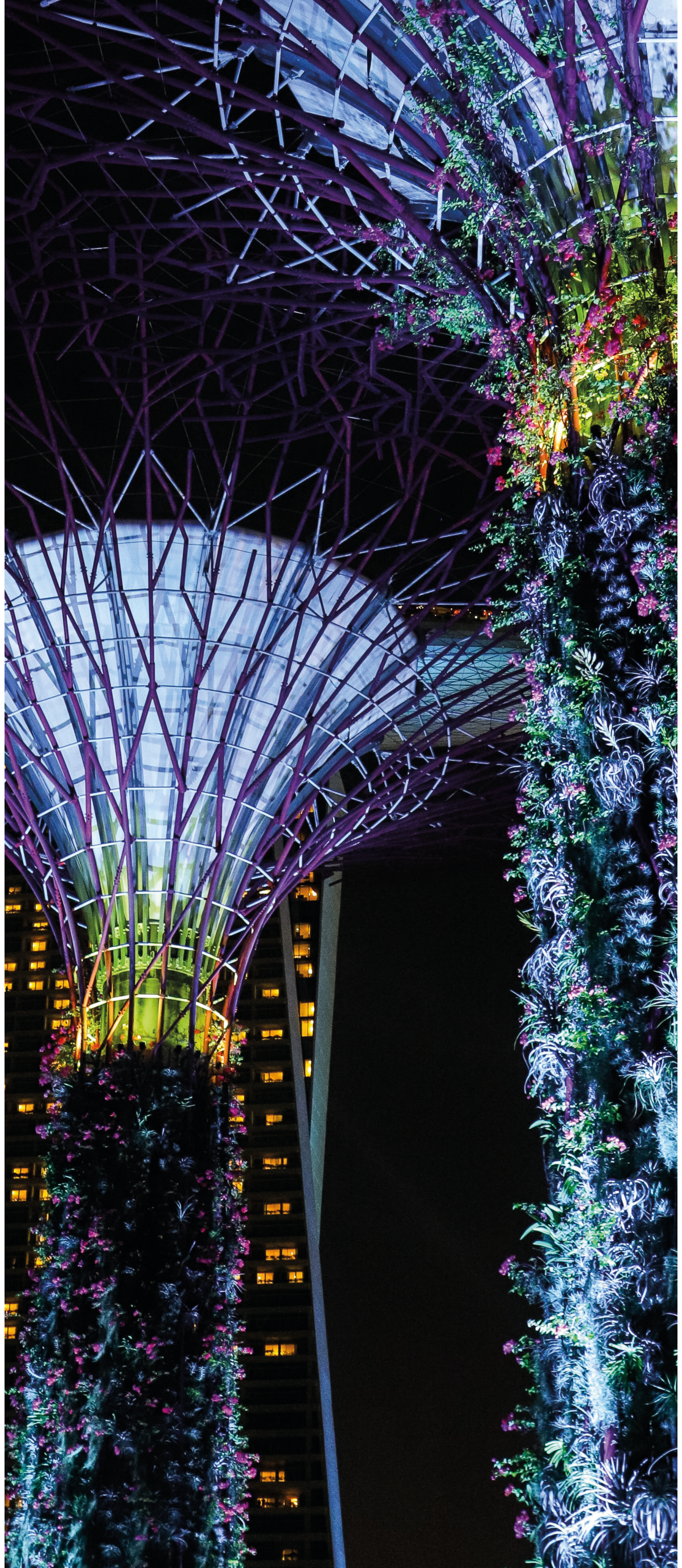
However, we do feel that there remains some disconnect between the MAS and another key Government agency i.e. the MOM, which often leads to delays in the process of setting up a Family Office in Singapore. Although the MAS has pro-actively taken steps to facilitate the application of Employment Passes (EP) with the MOM, there is seemingly still some difficulties in terms of the flow of information from the MAS to the relevant MOM personnel handling the EP applications on the ground. We have been impressed with the MAS's nimble reaction to the pandemic and how quickly the 'interim arrangement' was introduced to allow 13X tax incentive applications to be submitted before the EPs are issued, due to the ongoing difficulties with international travel. However, our view is that there could still be some more flexibility in terms of the In-Principle Approvals (IPA) that only have six-months validity with limited extensions. We also note that 13R approvals are currently taking much longer to receive approval (possibly due to the volume of applications), whereas 13X applications appear to be relatively quicker. With further streamlining of the tax incentives application process in a Family Office context, we expect there to be no limit to the success of Singapore's wealth management ecosystem as spin-off benefits to the wider economy can be generated.

In respect of the fund incentive schemes, we also wonder if the Government will seek to extend the scope of specified income from designated investments that are exempted from tax under the incentives to include income from new alternative assets in the future such as cryptocurrencies, which some may view as a controversial move, but it might encourage more foreign investors (especially the successive generations of wealthy families) as cryptocurrencies such as stablecoins are more acceptable internationally. Given our earlier discussion on the Singapore property market, it is also important to remember that income from Singapore properties is not covered by the incentives and we do not expect this to change in the future.

A further development that we expect to see in the not-too-distant future for the wealth management industry, is the enhancement of Singapore's Variable Capital Company (VCC) that launched in January 2020 to become available for single Family Offices. The MAS was quoted recently saying that it is looking into "widening the scope of permissible fund managers to allow SFOs to manage VCCs". We do expect that it will take some time to work out the logistics of how this will work from a regulatory perspective to ensure that Singapore maintains its strong regulatory framework. However, we are pleased to hear that this positive move is being considered by the authorities and we look forward to hearing how this develops. This means a lot for families who treasure control in relation to investment management activities as well as the flexibility offered by the VCC.

The wealth management ecosystem must contribute back

In terms of how private wealth is boosting investments in Singapore, we note from trends we see with our Family Office clients that there are particular areas of interest such as FinTech, ESG, private equity / venture capital, education, medical and philanthropy investments. Recently it was reported that billionaire Ray Dalio, founder of Bridgewater Associates, would open a Family Office in Singapore to run his investment and philanthropy activities in the region[5]. We therefore want to see more from the Government in terms of supporting and developing these key areas. We understand that Singapore attracted around SGD 17.2 billion in fixed assets investments in 2020, which was significantly higher than the EDB's target and a 12 year high for Singapore so we would like the authorities to build on the success in this area and extend the focus to these popular areas, which we believe are also in line with the overall direction of the Government. For example, by supporting Singapore start-ups as we consider that more could be done to stimulate the start-up scene in Singapore. This will work well with the increase in demand we are seeing for Government-backed schemes such as the Global Investor Programme (GIP), where individuals are seeking to invest in Singapore and reside here permanently and thereby obtain Singapore Permanent Resident status. Facilitation can be done to encourage the channelling of investments committed by the GIP applicant to the above-mentioned targeted areas, especially when we hear on the ground feedback that certain requirements for economic commitments (e.g. in a Family Office context) may not be practical.



Having said the above, we are pleased to see that the EDB and MAS are already working closely to 'matchmake' investors and businesses in areas such as FinTech and host events such as the Singapore FinTech Festival. Singapore has worked hard to implement forward-looking policies that generally help businesses grow and encourage innovation and trade. We urge this kind of support to continue, especially now that the socially and environmentally conscious next generation are now 'taking the helm' of many Family Offices and are keen to diversify investments. The Government may also consider introducing preferential tax rates or investment schemes for particular investments such as ESG investments, which seek to improve the long-term impact on society, sustainability and the environment. In addition, we also hope to see Government authorities such as the MAS further facilitate the training and development of the next generation so that they are fully prepared to take over the wealth management responsibilities for their families. The training and development by itself then sustains the ecosystem by providing a constant supply of professionals with the relevant expertise and experience.

Furthermore, Singapore's appeal as a strategic location for regional headquarters is obvious and BDO has seen an increased demand from clients seeking to deepen their family business presence in Asia (after establishing their Family Office structure in Singapore for purposes of their family wealth) and leverage off Singapore as a place to establish their international headquarters for their family business (from which their family wealth is generated). This is partly due to the ease of doing business in Singapore, with its openness to trade and innovation, political stability and connectivity to the region but also due to its highly skilled workforce. We therefore expect the Government to further support its pool of talent by offering more incentives to train and develop skills such as by topping up training credits under the SkillsFuture campaign. We understand that Singapore is home to the largest number of headquarter jobs from global Fortune 500 companies compared with other key Asia hubs[6], thereby contributing back to the Singapore community by creating more employment opportunities. In terms of what the Government could do to further strengthen its position, there are already a number of incentives available for businesses to set up in Singapore via the EDB and we hope for the Government to further support these businesses in the future. In particular, we are seeing an increase in queries from clients based in North Asia demonstrating that Singapore is indeed being regarded as the gateway to Asia.

In summary, we expect an enhanced wealth management ecosystem to have 'spill-over' contributions back to the larger economy; and it is critical to carefully drive and direct these 'spill-overs' to generate further economic activity, meet the strategic objectives of Singapore; and thereby bringing tangible benefits to the wider population.

Concluding comments

There is no question that the COVID-19 spending has to be recovered. Amongst a range of options and tools in the Government's toolbox, let's start off by targeting the low hanging fruit of strengthening and directing the already successful wealth management ecosystem in Singapore.

Sources

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