

THE RISE OF FAMILY OFFICES IN SINGAPORE

As many high-net worth families are transitioning into the next generation, there is a growing demand from these families to put in place proper family office structures to manage their wealth and assets. With various developments in the international tax landscape, most families are looking at implementing structures that are simple, compliant, feasible and tax efficient.

Developments In The Overall International Tax Landscape

There have been substantial changes to the international tax landscape over the last decade. This includes greater tax transparency and more scrutiny on economic substance as well as an increase in the number and size of tax audits, assessments and disputes with tax authorities. This has led to the introduction of global measures in recent years in an attempt to combat international tax avoidance.

For example, in 2013, the Organisation for Economic Co-operation and Development ("OECD") introduced the Base Erosion and Profit Shifting ("BEPS") actions and more recently, the BEPS 2.0 two-pillar approach, focusing on digitalisation and a global minimum tax, which aims to improve international tax certainty and increase tax equity. What started as an initiative to tackle tax avoidance by multinationals that exploit gaps in tax rules has now reshaped the global tax architecture by putting increasing pressure on international businesses to pay a minimum level of tax, regardless of the jurisdiction where the profits are earned.

This may be a relevant consideration for many family businesses with significant international presence, should they intend to undertake restructuring exercises to consolidate their various business entities under a family office structure.

Greater Transparency And Information Exchange Amongst Jurisdictions

Consistent with the move towards greater tax transparency, we saw the introduction of the Foreign Account Tax Compliance Act ("FATCA") by the United States in 2014, which was shortly followed by the Common Reporting Standard ("CRS") by the Organisation for Economic Co-operation and Development ("OECD") in 2016. As a result, many tax jurisdictions now have better access to information on the assets of wealthy families.

Tax jurisdictions have since introduced programmes to regularise tax reporting for taxpayers as a compliance improvement strategy. For example, in 2016, Indonesia enacted a tax amnesty law to encourage the repatriation of assets held by Indonesian taxpayers outside of



Indonesia. Also, in 2019, Malaysia introduced a new Special Voluntary Disclosure Programme to encourage taxpayers to voluntarily disclose any unreported income. Locally, the Inland Revenue Authority of Singapore ("IRAS") has started to conduct risk reviews on Financial Institutions' compliance with the various tax transparency and exchange of information requirements; a sign that tax transparency is at the top of their agenda.

Why Singapore?

Singapore has various attractive factors to be considered as an ideal jurisdiction for a family office. Singapore – known for its stable political environment and resilient economy – is also being positioned as a well-established financial hub with a strong regulatory framework. Some foreign families which already own Singapore properties also view Singapore as a relatively safe and conducive place to live in, not to mention the robust education system available for their children. For families with an international business presence, setting up global or regional headquarters in Singapore which acts as a control tower to manage and direct their global business activities is also a rising trend in the recent years.

With the above in mind, there are also some interesting observations in relation to the unique factors considered by high-net worth families from various key jurisdictions, when concluding that Singapore is the ideal jurisdiction to set up a family office.

North Asia

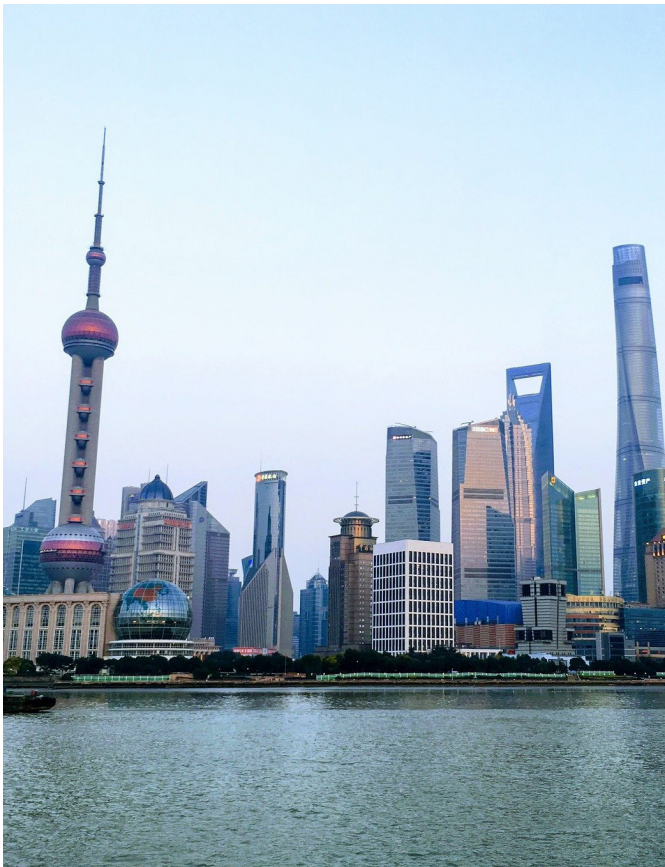
Political stability and certainty is a key consideration for high-net worth families when deciding the location of their family office. The recent political events affecting countries in the North Asia region e.g. the earlier political unrest in Hong Kong, long drawn geopolitical tensions between China and the United States, China's actions on its tech giants, etc. are

some of the factors that could have catalysed the surge in family office structures being set up in Singapore by high-net worth individuals and families coming from the North Asia region.

Indonesia

In the past year, an increasing number of Indonesian private clients have expressed their interest to set up family offices in Singapore. Through the course of the COVID-19 pandemic, Singapore has demonstrated its resilience and ability to manage crisis. Singapore's relative success in managing the pandemic, coupled with the fact that Singapore is a major medical centre for the Asia Pacific region has drawn many high-net worth individuals and families from Indonesia to Singapore.

This trend is further accelerated by the introduction of the recently signed Jobs Creation Law, commonly referred to as the Omnibus Law in Indonesia. With the changes, and subject to meeting the relevant conditions and requirements, Indonesian tax residents may now hold a majority stake in foreign corporations without being taxed on the net income of the foreign corporation. It may also now be more tax efficient for Indonesian tax residents to hold and manage investments via a fund vehicle and family office outside Indonesia, rather than in their individual names. Such arrangements would need careful planning so that various necessary conditions and requirements are satisfied.



Malaysia

Closer to Singapore, as mentioned earlier, Malaysia introduced a new Special Voluntary Disclosure Programme to encourage taxpayers to voluntarily disclose unreported incomes. This has indirectly motivated high-net worth individuals and families in Malaysia to regularise their tax affairs and to set up compliant family office structures in Singapore to hold and manage their portfolio of assets and investments. As Malaysian taxation follows a territorial basis, setting up a family office structure in Singapore could provide a level of tax certainty in respect of their investment income being regarded as sourced in Singapore. Further, Malaysian families tend to have a good understanding of Singapore and are familiar with living and operating in Singapore, due to the close business and social connections between the two countries.

Europe

In Europe, things have changed considerably in recent years with many families seeking alternative jurisdictions to live in due to uncertainties such as “Brexit”, political instability and rising taxes. In addition, the COVID-19 pandemic has meant that families and businesses have had more time to take a step back and rethink their affairs. Consequently, there has

been an increase in the number of families and businesses moving to Singapore from Europe and much greater interest in setting up family office structures that provide substance and certainty in tax treatments.

Singapore

Even locally, there is significant interest from Singapore private clients in setting up family office structures, mainly to consolidate their local and overseas investments under one platform as well as to professionalise the management of their personal wealth.

The family office provides a formal and professional platform for successive generations of families to participate in the management of the family wealth. The fund exemption schemes applicable to family office structures also provide the much-desired certainty in tax treatment for these Singapore families when carrying on their investment activities. It is likely with the COVID-19 situation where family members have more time and opportunities to interact with one another, discussions on inter-generational wealth transfers can take place, prompting interest in the family office structure. As these families are already in Singapore, it is only natural and convenient for them to look internally; and not beyond the shores for an alternative jurisdiction to base their family office in.



Singapore Variable Capital Companies ("VCC")

There has been much interest from private clients to explore the feasibility of using the new corporate structure, VCC, for their family office structures.

A key current requirement for a VCC set up is that the VCC must be managed by a licensed or regulated fund manager. However, in a single-family office context, the family's fund management company is typically exempt from such licensing requirements and the family may not have an appetite for fund management licensing and registration.

As a result, the VCC idea is often being shelved for future discussions.

The good news is that the Monetary Authority of Singapore ("**MAS**") is looking to introduce an enhancement to the VCC framework by liberalising the above-mentioned requirement (for example, possibly allowing single-family offices to manage VCCs set up for the family). It is, however, foreseen that the actual liberalisation may take some time. This development should be monitored closely as the VCC does offer certain features (such as the sub-fund concept) which are sought after by families with multiple family members each intending to own separate pool of assets.

Final Words

While family office is not a new concept in Singapore, with the ongoing COVID-19 pandemic, fast-changing business environment and tightening of the international tax landscape, high-net worth families are increasingly considering Singapore as a good location for their funds and family office structure. These families view Singapore as an ideal location to preserve and grow their assets in a compliant and tax-efficient environment.

We, at BDO Private Client Services Singapore, would be happy to understand your family needs and walk with you on the journey towards the set up and maintenance of your family office to last for generations. Please feel free to reach out to any of the contacts listed.

In the meantime, general information relating to the various tax exemption schemes, the typical family office structure, the VCC, relevant timelines as well as our service offerings, can be found in the next few pages for your reference.



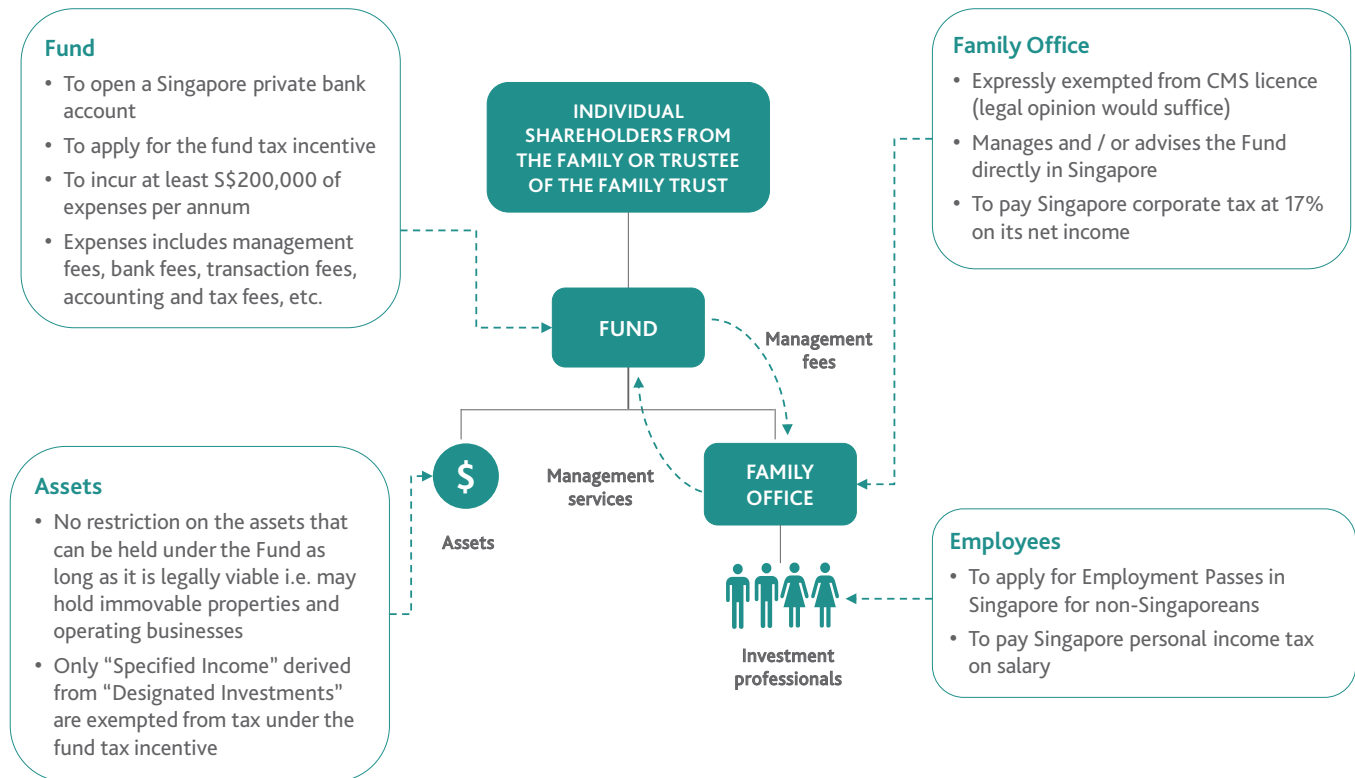
Fund Tax Incentive Schemes In A Family Office Context

Below is a brief summary of the three fund tax incentives that are applicable to family offices.

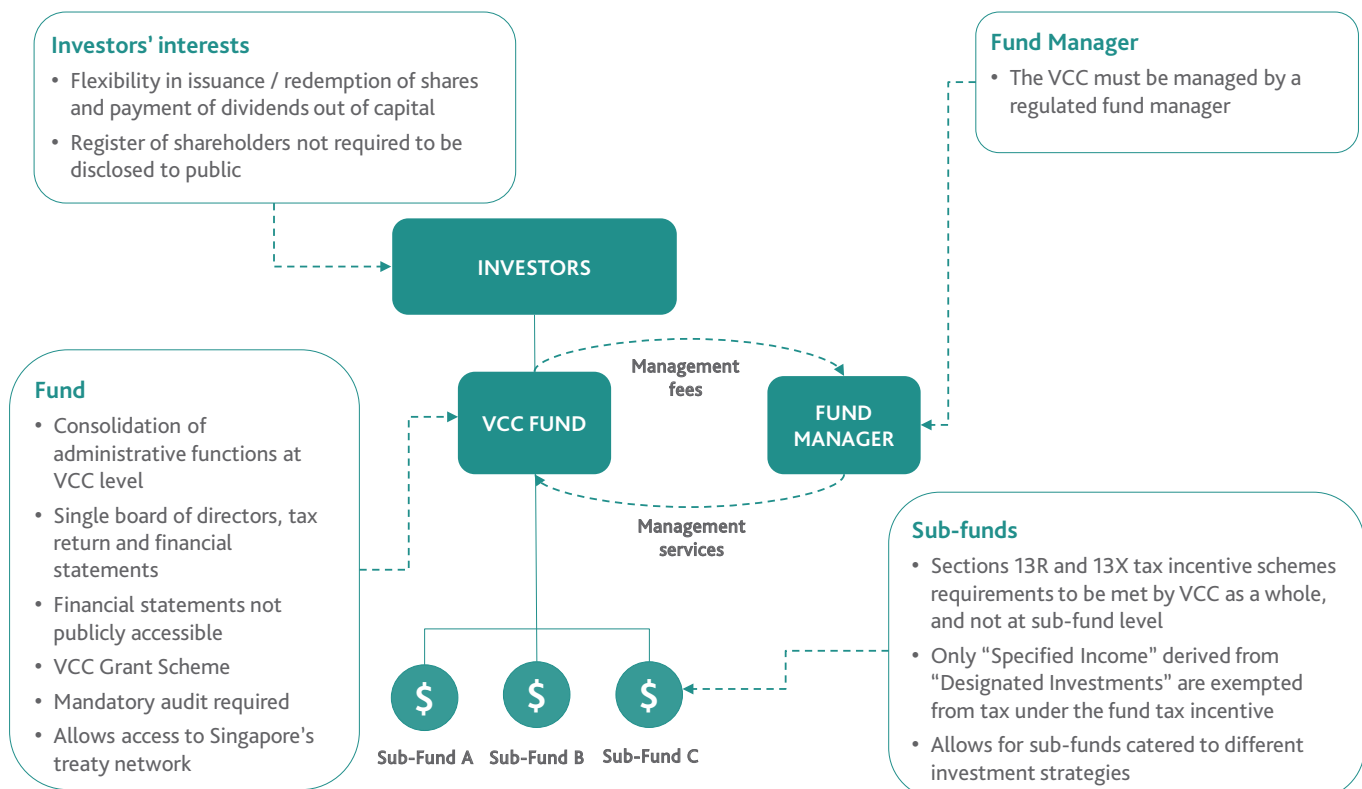
	Offshore Fund Tax Incentive (Section 13CA of Income Tax Act)	Onshore Fund Tax Incentive (Section 13R of Income Tax Act)	Enhanced-Tier Fund Tax Incentive (Section 13X of Income Tax Act)
Fund's tax residency	<ul style="list-style-type: none"> Non-Singapore tax resident 	<ul style="list-style-type: none"> Singapore tax resident 	<ul style="list-style-type: none"> Any
Fund's legal form	<ul style="list-style-type: none"> Company Trusts Individuals 	<ul style="list-style-type: none"> Singapore incorporated company Singapore VCC 	<ul style="list-style-type: none"> Any, including Singapore VCC Managed accounts
Fund administrator	<ul style="list-style-type: none"> No restriction 	<ul style="list-style-type: none"> Singapore based 	<ul style="list-style-type: none"> Singapore based if the Fund is a Singapore incorporated company and tax resident in Singapore
Investors	<ul style="list-style-type: none"> Non-qualifying investors¹ subject to financial penalties 	<ul style="list-style-type: none"> Non-qualifying investors¹ subject to financial penalties 	<ul style="list-style-type: none"> No restriction
Application	<ul style="list-style-type: none"> No application required 	<ul style="list-style-type: none"> Application to MAS 	<ul style="list-style-type: none"> Application to MAS
AUM requirement	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> S\$50 million at point of application, net of leverage
Business spending requirement	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> S\$200k annual business spending 	<ul style="list-style-type: none"> S\$200k annual <u>local</u> business spending
Headcount requirement	<ul style="list-style-type: none"> None (in respect of single family offices, at least 1 investment professional required to demonstrate substance) 	<ul style="list-style-type: none"> None (in respect of single family offices, at least 1 investment professional required to demonstrate substance) 	<ul style="list-style-type: none"> At least 3 investment professional
Compliance obligations	<ul style="list-style-type: none"> No declaration to MAS required Corporate tax filing to IRAS not required unless non-exempt income taxable in Singapore is derived 	<ul style="list-style-type: none"> Annual declaration to MAS required Corporate tax filing to IRAS required 	<ul style="list-style-type: none"> Annual declaration to MAS required Corporate tax filing to IRAS required
Common features	<ul style="list-style-type: none"> Managed or advised by a Singapore based fund manager that is either holding a Capital Markets Service ("CMS") licence or expressly exempted from holding a CMS licence or as otherwise approved by the Minister Tax exemption on "specified income¹" from "designated investments¹" derived by the Fund 		

¹Definitions of the above terms as per the Singapore Income Tax Act and its Regulations as well as the latest MAS Circular FDD Cir 09/2019.

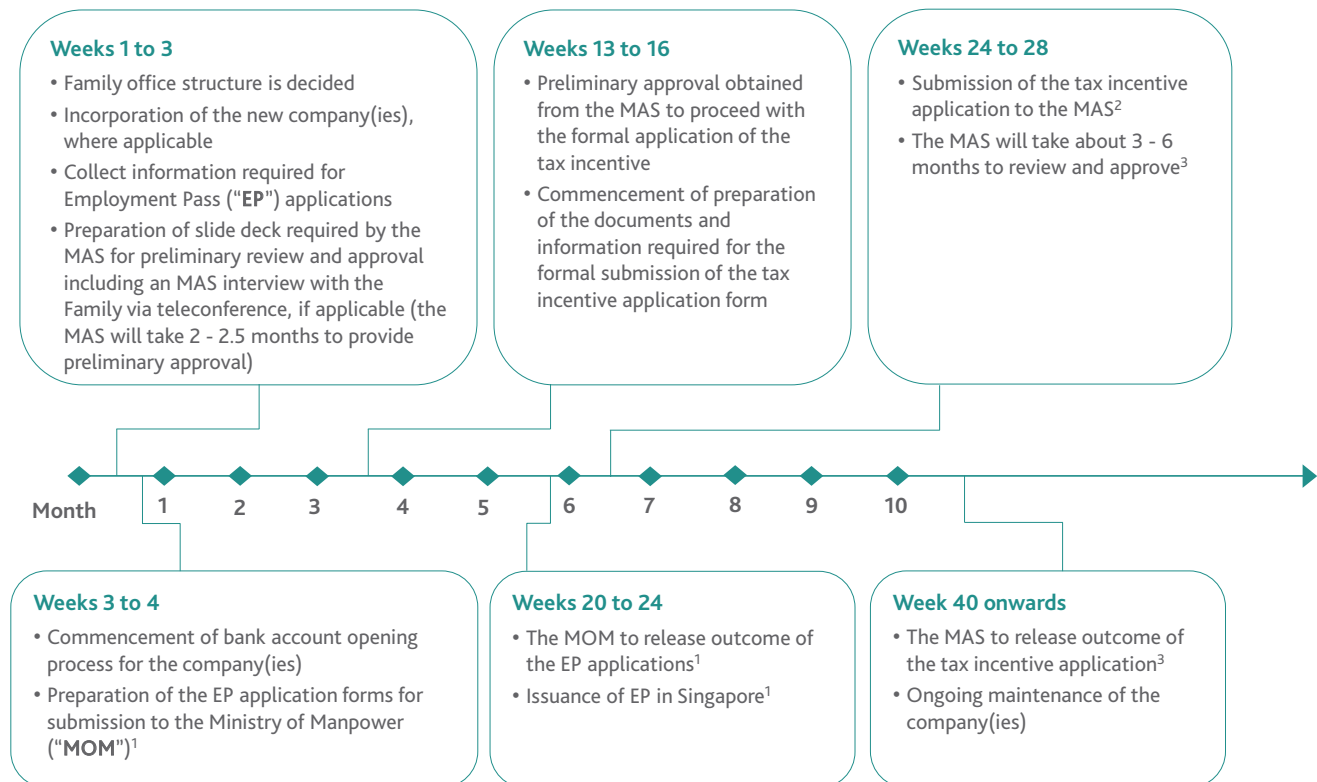
Key Features Of A Typical Family Office Structure



Key Features Of A Singapore VCC



Typical Timeline For Family Office Set Up



¹Please note that the above is a typical timeline for EP applications and the actual timeline of the application may differ due to several factors e.g. travel restrictions caused by the COVID-19 pandemic, approval from regulatory bodies, etc.

²Submission of the tax incentive application form depends on the availability of the EP approval.

³The time required by the MAS will vary on a case by case basis.

How Can BDO Private Client Services Help?

Preliminary consultation and advice

Our role as Project Lead:

- ▶ Coordinate and facilitate correspondences with different stakeholders (i.e. bankers, trustees, lawyers, fund managers, overseas advisors, etc.).
- ▶ Provide advice on:
 - The fund structure from a taxation perspective.
 - Immigration matters i.e. employment pass, residency, citizenship, etc.
 - FATCA and CRS matters.
- ▶ Where required, prepare/review tax reports, advice and memorandums.

Implementation of the structure

Our role as Project Lead:

- ▶ Coordinate with the service provider for incorporation and corporate secretarial related services.
- ▶ Coordinate with you and the MOM for employment pass applications.
- ▶ Coordinate with bankers, lawyers and the MAS for the tax incentive application for the fund.

Ongoing maintenance of the structure

Together with the relevant service providers, we will be able to provide the following ongoing corporate services (where relevant and applicable) for the companies under the structure.

- ▶ Corporate secretarial services.
- ▶ Accounting services – Book-keeping, payroll, etc.
- ▶ Audit services.
- ▶ Corporate tax compliance and advisory services.
- ▶ FATCA and CRS compliance and advisory services.
- ▶ GST compliance and advisory services.

We will be able to provide the following individual services for employees under the structure.

- ▶ Individual tax compliance and advisory services.
- ▶ CPF compliance, employment pass renewals, etc.

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