

[Important Alert] New MAS Guidelines: Updated Conditions for Singapore Family Office Schemes

12 April 2022

To all family office advisors and clients: This important and urgent alert relates to new Monetary Authority of Singapore (the MAS) conditions which will **take effect from 18 April 2022**.

Introduction

The MAS recently issued an alert on new guidelines on the updated conditions for Section 13O (formerly 13R) and Section 13U (formerly 13X) Tax Incentive Schemes under the Income Tax Act 1947 (the s13O & s13U Schemes) for family offices in Singapore. The rationale behind these changes is to recognise that the family office eco-system in Singapore has grown, and the applicable regulations, policies, and incentives should be updated accordingly.

Who is subject to the new conditions for the s13O & s13U Schemes?

The new conditions will only apply to fund vehicles that are managed or advised directly by a family office which:

- (a) Is an exempt fund management company who manages assets for or on behalf of the family/families; and
- (b) Is wholly owned or controlled by members of the same family/families.

“Family” is defined by the MAS to refer to individuals who are lineal descendants from a single ancestor, and includes spouses, ex-spouses, adopted children and stepchildren of these individuals. For the avoidance of doubt, the new conditions will not apply to investment funds set up by other types of applicants (e.g., funds managed by licenced/registered fund managers, etc.).

As such, the following applications/applicants are not subject to the new conditions:

- (a) Applications which have submitted preliminary information before 18 April 2022 **and** with correspondences with the MAS in the last six months; or
- (b) Applications that the MAS had received formal MASNET application before 18 April 2022, but approved after 18 April 2022; or
- (c) Applications which were formally approved, with the issuance of a formal Letter of Offer from the MAS, before 18 April 2022.

Updated Conditions for s13O & s13U Schemes

Minimum Asset under Management

Previously, the conditions for the Section 13O Tax Incentive Scheme (s13O Scheme) did not stipulate a minimum fund size.

Key Changes:

- The new conditions explicitly require a **minimum fund size of S\$10 million** at the point of application and the fund must commit to increase its AUM to **S\$20 million within a two-year grace period**.
- The minimum fund size for Section 13U Tax Incentive Scheme (s13U Scheme) **remains unchanged at S\$50 million** at the point of application.

With this update, there is now greater clarity and transparency. Clients intending to apply for the Section 13O Tax Incentive will now need to have a clearer plan or purpose, and be ready to commit more capital when setting up their family office.

Investment Professionals

s13O Scheme – Currently, the s13O Scheme only required the fund to be managed or advised directly by a fund management company (FMC) in Singapore, where the FMC holds a capital markets services licence pursuant to the Securities and Futures Act 2001 (SFA) or is exempt from the requirement to hold such a licence under the SFA.

From 18 April 2022, the fund must now be managed or advised directly throughout each year by a family office in Singapore, where the **family office employs at least two Investment Professionals**. An Investment Professional includes:

- portfolio managers;
- research analysts; and
- traders;
- who are earning more than S\$3,500 per month; and
- must be engaging substantially in the qualifying activity.

If the family office is unable to employ two Investment Professionals at the point of application, the fund is given a **one-year grace period** to employ the second Investment Professional.

s13U Scheme – The fund must also be managed or advised directly throughout the year by a family office in Singapore, where the family office employs at least three Investment Professionals. More importantly, one of the three Investment Professionals **must be a non-family member** of the beneficial owner(s). The same definition of “family” discussed above is applied here as well. If the family office is unable to employ one non-family member as an Investment Professional at the point of application, the fund is given a one-year grace period to do so.

In addition, it should be noted that **Investment Professionals must be tax resident in Singapore**. These updates reflect MAS’ intention to encourage family offices to hire Singaporeans to assume the role of Investment Professionals, and also increase the professionalism of family office professionals in Singapore.

Business Spending

Currently, funds under the s13O Scheme must incur at least S\$200,000 in expenses in each financial year.

Key Changes – From 18 April 2022, the fund will need to incur at least **S\$200,000 in total business spending** in each financial year, subject to the **tiered business spending framework** (set out below). In addition, the MAS has specified that “total business spending” should relate to the operating activities of the fund and does not include financing activities. For example, typical expenditure includes, but are not limited to, remuneration, management fees, tax advisory fees, and operating costs.

For the s13U Scheme, funds will now need to incur at least **S\$500,000 in local business spending** (up from S\$200,000 in local business spending) in each financial year, subject to the tiered business spending framework (set out below). Similarly, “local business spending” should only relate to the operating activities of the fund, and does not include financing activities.

Tiered business spending framework

	Minimum Total Business Spending	Minimum Local Business Spending
AUM range	13O	13U
AUM < S\$50 million	S\$200,000	S\$500,000
S\$50m ≤ AUM ≤ S\$100m	S\$500,000	
AUM ≥ S\$100 million	S\$1 million	

As such, funds would now need to monitor the size of their funds and ensure that if the AUM of the fund increases to above S\$50 million, a fund under the 13O Scheme would need to incur S\$500,000 in total business spending in each financial year. Whereas, if the AUM increases to above S\$100 million, a fund under the s13O or s13U Scheme would need to incur at least S\$1 million in total business spending, or local business spending, respectively.

Local Investment

Regardless of whether the fund intends to apply for the 13O or the 13U Scheme, the fund will now need to invest at least **10% of its AUM or S\$10 million**, whichever is lower, in **local investments** at any one point in time. The MAS has specified that local investments could include:

- a) Equities listed on Singapore-licenced exchanges;
- b) Qualifying debt securities;
- c) Funds distributed by Singapore-licenced/registered fund managers; or
- d) Private equity investments into non-listed Singapore-incorporated companies (e.g., start-ups) with operating business(es) in Singapore.

For a fund intending to apply for the s13O Scheme, it would thus need to invest at least S\$1 million in local investments at the point of application, and at least S\$2 million in local investments once the two-year grace period is up. In addition, it should be noted that the local investment requirement must be met “at any one point in time”. This means that if the AUM of the fund subsequently increases, the family office managing the fund would need to increase their local investments accordingly to satisfy this requirement.

In addition, if the fund is unable to meet the local investment requirement at the point of application, the fund would need to indicate the planned amount of AUM that will be invested into local investments, and the types of local investments that the fund vehicle plans to invest in.

Summary of the Updated Conditions for s13O & s13U Schemes

	13O (formerly 13R)	13U (formerly 13X)
Minimum Asset under Management (AUM)	<ol style="list-style-type: none"> a) The fund has a minimum fund size of S\$10 million at the point of application. b) The fund commits to increasing its AUM to S\$20 million within a 2-year grace period. 	The fund has a minimum fund size of S\$50 million at the point of application.

<p>Investment Professionals</p>	<p>a) The fund is managed or advised directly throughout each basis period relating to any year of assessment by a family office in Singapore, where the family office employs at least two Investment Professionals.</p> <p>b) In the event that the family office is unable to employ two IPs by the point of application, the fund would be given a one-year grace period to employ the second IP.</p>	<p>a) The fund is managed or advised directly throughout each basis period relating to any year of assessment by a family office in Singapore, where the family office employs at least three IPs with at least one IP being a non-family member.</p> <p>b) In the event that the family office is unable to employ one non-family member as an IP by the point of application, the fund would be given a one-year grace period to do so.</p>
<p>Business Spending</p>	<p>The fund will incur at least S\$200,000 in total business spending (relating to operating activities of the fund) in each basis period relating to any year of assessment, subject to the tiered business spending framework that is set out in the table below.</p>	<p>The fund will incur at least S\$500,000 in local business spending (relating to operational activities of the fund) in each basis period relating to any year of assessment, subject to the tiered business spending framework that is set out in the next table.</p>
<p>Local Investment</p>	<p>The fund managed by the family office will invest at least 10% of its AUM or S\$10 million, whichever is lower, in local investments at any one point in time.</p> <p>Products may include: i) equities listed on Singapore-licensed exchanges, ii) qualifying debt securities, iii) funds distributed by Singapore-licensed/registered fund managers, iv) private equity investments into non-listed Singapore-incorporated companies (e.g., start-ups) with operating business(es) in Singapore.</p>	

Please feel free to contact us should you have questions regarding the updated conditions for the s13O and/or s13U Schemes.

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