

# Singapore Family Office Landscape Outlook 2024

15 March 2024

Grow | Protect | Operate | Finance

## Background

During Singapore Budget 2024, the government announced revisions to the tax incentive schemes for qualifying funds. Specifically, the schemes will be extended from end of 2024 to end of 2029 and some key changes will be made:

| Name of Tax Change   | Existing Tax Treatment   | New Tax Treatment   |
|--|--|---|
| Extend and revise the tax incentive schemes for funds managed by Singapore-based fund managers (referred to as “Qualifying Funds”) | <p>Under sections 13D, 13O and 13U of the ITA, Qualifying Funds are granted the following tax concessions, subject to conditions:</p> <ul style="list-style-type: none"> <li>a) Tax exemption on specified income derived from designated investments;</li> <li>b) Withholding tax exemption on interest and other qualifying payments made to non-resident persons (excluding permanent establishments in Singapore); and</li> <li>c) GST remission on relevant expenses incurred.</li> </ul> <p>The schemes are scheduled to lapse after 31 December 2024.</p> | <p>To continue to grow Singapore’s asset and wealth management industry, the scheme will be extended till 31 December 2029.</p> <p>In addition, the following key changes will be made:</p> <ul style="list-style-type: none"> <li>a) The section 13O scheme will be enhanced to include Limited Partnerships registered in Singapore; and</li> <li>b) The economic criteria for Qualifying Funds under the section 13D, 13O and 13U will be revised.</li> </ul> <p>These key changes will take effect from 1 January 2025.</p> |

Table Source: <https://www.mof.gov.sg/docs/librariesprovider3/budget2024/download/pdf/annexh1.pdf>

Senior Partner Loh Kia Meng, Dentons Rodyk’s Co-Head of Private Wealth and Family Office practices shares his views on the likely impact of these revisions on Singapore family office (FO) industry and provides insights on the latest developments.

**Q1 How would revisions to the tax incentive schemes for Qualifying Funds impact the FO industry? Would we see more establishment of FOs in Singapore due to the enhanced incentives and why?**

A First, the extension of the existing tax treatment relating to:

- a) tax exemption on specified income derived from designated investments,
- b) withholding tax exemption on interest and other qualifying payments made to non-resident persons (excluding permanent establishments in Singapore), and
- c) GST remission on relevant expenses incurred for another 5 years to 31 December 2029

is not unexpected, and of course, very much welcomed.

This signals the government's continued support towards strengthening and growing the investment funds and the FO industry.

Second, I note that the key change for the section 13O scheme to include Limited Partnerships registered in Singapore will widen the scope for investment funds to be structured using the general partner (GP) / limited partner (LP) investment structure, which is more popular in the US and in Europe. This enables FOs to participate in a wider range of investment fund models. The section 13U scheme is more flexible than the section 13O scheme in terms of structuring options, and as such, already allows limited partnerships to be set up for the purposes of applying for the 13U tax incentive. This expansion of the 13O rules would allow funds with relatively smaller AUMs, and which are interested to apply for the 13O tax incentive, to band together as LPs for investments managed by a GP, which can be a professional asset manager.

Since the GP/LP investment structure is more popular in the West as compared to Asia, this could be seen as a means to attract investors from the West who are more familiar with the LP model to invest into Singapore.

Personally, I do not see more FOs being established here in the interim since we are still uncertain of the details. The second key change in the economic criteria for Qualifying Funds under sections 13D, 13O and 13U will be revised by 3Q 2024 and will take effect from 1 January 2025. Since further details will only be provided by 3Q 2024, it is too early to tell how this will impact on the FO industry, although FOs operating under section 13O scheme already have a wider scope to manage their investments under the LP model.

**Q2 Do you think that these revisions are significant/sufficient to grow Singapore's wealth management industry? What more can be done?**

A The extension of the tax treatment by another 5 years to December 2029 provides certainty to the wealth management industry. This certainty is also useful for wealthy families and high-net-worth individuals (HNWI) who want to establish FOs in Singapore, provided they fulfil the higher criteria imposed over the last two years. These are positive factors but not very significant, taken into consideration the grander scheme of things.

Nevertheless, given that further details will only be announced in Q3 of 2024, we will have to wait and see if the updated conditions and enhanced economic criteria will improve the quality of FOs in Singapore. Advisors in the wealth management industry would need to realise that they too, would need to upskill and develop in order to serve these higher quality FOs.

On what more can be done, perhaps offering more flexibility to FOs in structuring their investments like allowing LPs registered in Singapore is a good step forward.

### Q3 How is the demand for FO market this year as compared to last year? Why do you see such a trend?

A We have just started the year so it might be too early to tell for certain.

I anticipate the first half of this year is likely to be the same as last year in terms of demand for establishing new FOs. The trend has been that demand to establish new FOs has decreased since the criteria was enhanced twice in the last two years for section 13O scheme. That said, the quality of FOs has increased since more substantial AUM is needed to establish a FO under section 13 incentive schemes. This trend is likely to continue even with the inclusion of LPs registered in Singapore.

Another trend could be that FOs established under the former section 13R scheme (now section 13O), in the height of fund inflow into Singapore from 2018 to 2020, are nearly met or are nearing their 5-year investment plans. Those who managed to establish a FO with AUMs of S\$10m or less could be evaluating their costs to income efficiency ratio to determine whether they ought to continue running their investments through a FO or simply invest them directly through a private bank. Some FOs under this category may increase their AUM in order to achieve a lower cost to income ratio.

### Q4 Do you think that Chinese investors will continue to be interested in Singapore?

A Yes, I believe so. We continue to receive enquiries from Chinese investors on establishing FOs in Singapore. The recent trend is that the owners of large private enterprises in China, including some listed companies, want to expand their business outside China using Singapore as a base. Related to this trend would be the gradual move of corporate assets to private wealth over time, and the owners are likely to use FOs to manage their private wealth.

I was in Shanghai in early March with the Singapore Law Society delegation to visit Shanghai law firms. One of the partners from a large Shanghai law firm confirmed the trend of China business investing outside China (commonly termed as “Chu Hai” / “出海”, which literally means “going overseas”) and sought the expertise of Singapore lawyers to work with China lawyers to facilitate this progression. There is apparently a humour quip in the China business community that goes “不出海，就出局”，which basically means, “if you don’t go overseas, then it’s game over”.

### Q5 There have been reports of rejections of FO applications lately. Do you see this as linked to the SGD3b money laundering case?

A Being a key global financial centre, Singapore has always taken a zero-tolerance approach towards money laundering, corruption and financing of terrorism using illicit funds. So high levels of compliance on source of wealth/funds have always been in place. That said, we have recently seen increasing enquiries on FO applications being rejected or enquiries on compliance with Singapore’s AML/CFT laws. There could be a causal connection between the money laundering case and the MAS’s closer scrutiny on sources of wealth/funds entering Singapore. While these rules are tough for investors and their service providers (e.g., their lawyers), I see this as something positive that has to be done to preserve Singapore’s reputation as a global wealth hub, where clean business is done.

## KEY CONTACT



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