MAS recent policy move to mandate Singapore Family Offices to invest more of their moneys in Singapore Capital Markets is a great move.

It will hopefully garner better valuations for the many decent companies listed in the Singapore Exchange.

ASSET MANAGEMENT

MAS tightens criteria for family offices to qualify for tax incentives

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Bar will be raised from Apr 18, with new requirements on fund sizes, AUM growth and business spending, among other stricter specifications

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THE bar for family offices to qualify for tax incentives will be raised from Monday (Apr 18), with new requirements on fund sizes, AUM (assets under management) growth and business spending, among other stricter criteria.

From that day, applications for funds managed and/or advised directly by a family office must have a minimum fund size of S$10 million at the point of application. Applicants must commit to increasing AUM to S$20 million within a 2-year period, under the new Section 13O of the Income Tax Act, which pertains to funds for which fund vehicles are incorporated and based in Singapore.

Previously, the conditions for tax incentives under this section did not stipulate a minimum fund size.

MAS informed stakeholders of the impending changes this past Monday. Tax experts *The Business Times* (BT) spoke to were unsurprised by the tightened requirements, with many saying that they will enhance the quality of family offices in Singapore.

A "family office" refers to an exempt fund-management company that manages assets for or on behalf of a family or families, and which is wholly-owned or controlled by members of the same family/families.

Under the new guidelines, family offices under Section 13O must also have at least 2 investment professionals. There is now no prescribed minimum number of employees for single family offices.

Whithers KhattarWong's tax lawyers Stacy Choong and Yeoh Lian Chuan said in a note on the changes that while not expressly stated in the guidelines, MAS may be more stringent in assessing the academic and professional experience of proposed investment professionals, be they family members or unrelated persons.

Under the new Section 13U, which pertains more broadly to funds managed by a fund manager in Singapore, the family office must have at least 3 investment professionals, with at least 1 of them being a non-family member. The fund will be given a 1-year grace period to employ the non-family member as an investment professional.

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For family offices under S13O and S13U, the minimum total business spending requirements are now subject to a tiered framework pegged to AUM size. The original spending floor of S$200,000 in total business spending for S13O will remain for funds with AUM smaller than S$50 million.

Under S13U, funds of AUM smaller than S$100 million will now need to incur at least S$500,000 in local business spending.

Currently, S13U applications have to incur at least S$200,000 in local business spending - already a tighter requirement than "total business spending" for S13O cases.

For both cases, minimum spending will be raised to S$1 million for funds of S$100 million and above. Again, these pertain to "total business spending" for S13O cases and "local business spending" for S13U cases.

MAS specified that "total business spending" should relate to operating activities of the fund and excludes financing activities.

The changes also require funds under both schemes to invest at least 10 per cent of their AUM or S$10 million, whichever is lower, in local investments at any one point in time. Examples include equities listed on Singapore-licensed exchanges, qualifying debt securities, funds distributed by Singapore-licensed fund managers, or private-equity investments into non-listed Singapore-incorporated companies, such as start-ups.

Funds that are unable to meet the local investment criteria at the point of application will have to indicate the amount and types of local investments they plan to invest in. They will be given a one-year grace period to do so.

Yeoh said the stricter criteria will "enhance the level of substance" of family offices in Singapore, even as it may deter smaller players from setting up shop here.

Ong Sim Ho, a director at Drew & Napier, said the changes were expected. "The family office sector has seen robust growth over the last 3 years, and it is the right time to deepen the quality and professionalism of family-office management," he noted.

Singapore has gained prominence as the preferred base for family offices, with their numbers here doubling to 400 in 2020, compared with the year before.

Denton Rodyk's senior partners Loh Kia Meng and Edmund Leow agreed that the tightened requirements reflect the success of MAS' schemes for family offices. "The fact that MAS is doing this now shows that they can afford to be a bit more selective. The backlog of applications is prolonging the waiting time and is not good for our reputation for efficiency," Loh said.

Leow noted that the schemes, with their current requirements, have sometimes been misused for activities other than fund management. "Having a higher qualifying AUM raises Singapore's profile in the market and (sends a signal that it is) not where you can 'buy' a passport by purchasing a condo for US$2 million," he added.

Ultra-high net worth families with "genuine intentions" to set up family offices here are unlikely to be deterred by the new requirements, Ng Aik-Ping, HSBC Global Private Banking's head of family office advisory for Asia Pacific said.

Anuj Kagalwala, asset and wealth management tax leader at PwC said that the raising of the bar is a "natural logical step" and noted that the new requirements can help stimulate Singapore's economy by creating more jobs and greater capital flows to local businesses.

In response to BT's queries, an MAS spokesperson said that the new changes "seek to increase the professionalism of family offices in Singapore, and enhance the positive spillovers to the Singapore economy".

Raising the bar

Changes to tax incentive schemes for family offices from April 18

	SECTION 13O	SECTION 13U
Minimum AUM	**Currently:** No stipulated fund size. **New:** S$10m at point of application, to be increased to S$20m within a 2-year grace period.	**No change:** S$50m at point of application.
Investment professionals (IPs) IPs include portfolio managers, research analysts, or traders, who are earning more than S$3,500 per month and substantially engaged in the qualifying activity.	**Currently:** Fund can be managed or advised directly by a fund management company in Singapore. **New:** Each family office must employ at least 2 IPs.	**New:** Each family office must employ at least 3 IPs, with at least 1 being a non-family member.
Business spending	**Currently:** Fund needs to incur at least S$200,000 in total business spending per financial year. **New:** Fund will be subject to a tiered business spending framework. The original spending floor will remain for funds with AUM smaller than S$50 million. In funds with AUM of between S$50 million and S$100 million, minimum total business spending will now be raised to S$500,000. For funds with AUM above S$100 million, minimum total business spending will be raised to S$1 million.	**Currently:** Fund needs to incur at least S$200,000 in local business spending per financial year. **New:** Fund will be subject to a tiered business spending framework. For funds with AUM smaller than S$100 million, minimum local business spending will be raised to S$500,000. For funds with AUM of S$100 million and above, minimum local business spending will be raised to S$1 million.
Local investment Examples include equities listed on Singapore-licensed exchanges, qualifying debt securities, funds distributed by Singapore-licensed fund managers, or private-equity investments into non-listed Singapore-incorporated companies, such as start-ups.	**New:** Fund managed by a family office must invest at least 10 per cent of its AUM or S$10million, whichever is lower, in local investments at any one point in time.	

Compiled by BT