

Establishing Inbound Family Offices In Singapore

Practical Considerations

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SINGAPORE | HONGKONG
20 YEARS IN PRACTICE



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INTRODUCTION



INTRODUCTION

- What is a Family Office?
- Single Family Office vs. Multi Family Office
- Recent trends in Singapore
- Factors to consider when setting up a Family Office

Family Office:
An organisation who
assumes day-to-day
administration and
management of a
family's affairs.

What is a Family Office?

- Simplest definition: an organisation who assumes day-to-day administration and management of a family's affairs.
- In practice, it means a lot of different things to different people.
- Most family offices focus on a combination of management of investments, liaison with private banks, tax planning, estate & philanthropic planning
- Increasingly many also focus on family governance and succession planning

Single Family Office vs. Multi-Family Office

- Traditionally family offices were single-family offices, which consist of dedicated staff serving the broad needs of a single ultra high-net worth family.
- This has now broadened to include a wider range of wealthy families, and given the costs of running a single-family office, the multi-family office concept has become increasingly popular.
- A multi-family office typically consists of an organisation which provides investment management services to multiple high-net worth families

Recent trends in Singapore

- Aligned with Singapore's growth as a centre for private wealth and an attractive tax regime, the following has been witnessed:
 - an increase in the number of wealthy individuals from abroad looking to relocate to Singapore and to set-up a structure to manage their wealth
 - Foreign professionals (typically with a banking background) looking to set-up multi-family office type structures to provide wealth management solutions to high-net-worth clients in South-East Asia
 - An increase in law firms and trust companies to support the above activity

When looking to set up a family office in Singapore, need to consider:

- Tax Implications
- Residency Options
- Regulatory Rules
- Other Considerations



SINGLE FAMILY OFFICES



High-net worth individuals seeking to relocate to Singapore are typically exploring 2 options:

- Assets held in **Personal Name**, with staff hired either through a sole-proprietorship or a separate entity
- Assets held through a **Company**, which then hires the necessary staff to support the family office

Taxation

Consider tax treatment of both holding assets in either personal name or company for:

- Dividend Income
- Interest Income
- Capital Gains

NB: This also applies to offshore companies which are managed and controlled from Singapore & hence could be Singapore tax resident.

Taxation - Dividends

	Personal Name	Company
Dividends from Singapore companies	Dividends from Singapore companies are exempt under the one-tier tax system	
Dividends from overseas companies	Exempt	Exempt under Foreign Sourced Income Exemption when remitted (subject to qualifying conditions)

Taxation - Interest

	Personal Name	Company
Interest from Singapore	Exempt if from a bank or finance company approved by MAS	Taxable
Interest from overseas	Exempt	Taxable if remitted or deemed remitted into Singapore

Taxation - Gains

Personal Name	Company
<p>No Capital Gains Tax</p> <p>BUT</p> <p>Gains may be assessed as trading income and hence taxed</p>	<p>As with Personal Name, but there are laws or incentives which can give certainty</p>

Law & Incentive Schemes

Using a company has an advantage in that it can give certainty:

- Capital Gains safe harbour rules
- Enhanced Tier Fund Scheme

Capital Gains Safe Harbour

In the 2012 budget, the government introduced safe harbour rules for capital gains.

Gains upon disposal of an equity investment are guaranteed not to be treated as trading income provided:

- The investment was held through a company
- The investment represented at least 20% of the underlying company
- The investment was held for at least 2 years

This safe harbour rules are in place for disposals made until May 2017

Enhanced Tier Fund Scheme

Designed for funds, but can be used for family office companies

- Administered by MAS – need to make application

If below guidelines are met, specified income (including trading gains) from designated investments could be exempt.

- Must have at least S\$50m in assets
- Must be managed by a licensed, registered or exempted fund management company
- Vehicle must be administered by a Singapore fund administrator
- Must hire at least 3 people each earning greater than S\$3,500 per month
- Must incur at least S\$200,000 in annual business spending

Assets held in a trust:

Where assets are held by a trust:

- Where neither the settlor nor beneficiary is a Singapore resident or citizen, then the trust is a Qualifying Foreign Trust
 - Specified Income from Designated Investments (including gains) are tax exempt
 - Includes income derived by an “eligible holding company” (one of whose conditions is that it’s not incorporated in Singapore)

- Where there is a resident individual settlor, the trust can be a Qualifying Domestic Trust (provided the settlor isn’t sole beneficiary)
 - Singapore-sourced investment income and foreign sourced income is exempt
 - Also applies to holding companies under the trust
 - Intention is to mirror rules for investments held by resident individuals

- The above are subject to further conditions



Residence

2 main options for residence in Singapore:

- Permanent Residence
- Employment Pass

Permanent Residence

- Applies to either holding assets in personal name or through a company
- Financial Investor Scheme no longer exists
- Global Investor Programme available, but high barrier to entry
 - Must invest at least S\$ 2.5m in a new business or designated fund
 - Must have a substantial business track record
- Regular PR process is long and not usually open to non-residents of Singapore

Employment Pass:

- Only applicable to those holding assets through a company, though the individual could opt to set-up a separate company for employment purposes
- Employment Passes are available to candidates with appropriate qualifications & experience
- MOM will also look at salary and share capital of the company
- Recent “Fair Consideration Framework” advertising rules will (from August 2014) only apply to companies with at least 25 employees and for salaries < S\$12,000

Regulatory Considerations

Personal Name	Company
<p>Managing own investments held in personal name is not a regulated activity</p>	<p>Subject to certain conditions, a wholly owned company carrying out fund management for either the individual (or connected persons) is exempted from having a fund management licence</p> <p>[second schedule of Securities and Futures (Licensing and Conduct of Business) regulations]</p> <p>This exemption would still make the asset holding company eligible to apply for the Enhanced Tier Fund Scheme</p> <p><i>NB: where the assets are held in a company under a trust, the family office should take care not to act in the role of a trustee (which is a regulated activity)</i></p>

Other Considerations

When deciding between holding in personal name vs. a company must also consider:

- Liability
- Employment of staff under either arrangement
- Administration costs

SFO- Conclusion

	Personal Name	Company
Advantages	<ul style="list-style-type: none"> • Lower Administrative & Compliance burden • More cost-effective 	<ul style="list-style-type: none"> • More options to get residence • Certainty on tax position • Limitation of liability • Easier to employ staff
Disadvantages	<ul style="list-style-type: none"> • PR only route to residence unless separate co formed • Lack of certainty on tax treatment • No limitation of liability 	<ul style="list-style-type: none"> • More expensive – less practical for smaller FOs <ul style="list-style-type: none"> • Compliance requirements



MULTI FAMILY OFFICES (MFO)

MULTI-FAMILY OFFICES (MFO)

MFOs in Singapore will be set up as companies

- Residence rules will be similar to those of SFOs
- Tax and regulatory considerations are different

Taxation

MFOs won't hold any assets directly and will either manage assets in special purpose entities or via Limited Powers of Attorney

- Income will usually be management & performance fees, which will be taxed at standard corporate tax rates
- FSI-FM exemption is available for fund managers

Taxation

FSI-Fund Management Award (FSI-FM) is available for fund managers, which reduces the tax rate to 10%. At a minimum, these conditions are:

- Manager must be licensed, registered or exempted from having a capital markets services licence
- Manager must employ at least 3 experienced fund management professionals (each earning at least S\$ 3,500 per month)
- Assets under management of at least S\$250m
- MAS may also take into consideration other factors such as growth targets, assets under management and business spending

Regulation

If MFOs are performing an investment management function for their clients, then they are required to be regulated.

- As all MFO clients will be high net worth investors, the degree of regulation will depend upon
 - the number of investors
 - the amount of assets under management

MFO- Regulation

Criteria	Investor Profile	Assets under Management
Registered Fund Manager	Up to 30 Qualified Investors	Up to S\$250 million
Licensed Fund Manager – Accredited Investors	Qualified investors	No restriction

Qualified investors include Accredited Investors or funds offered to Accredited Investors

Accredited investors are individuals with net worth exceeding S\$2m or with annual income of at least S\$300,000; or corporates with net assets exceeding S\$10m

MFO- Regulation

Key requirements for Registered Fund Managers:

- Base capital of S\$250,000
- At least 2 resident professionals with greater than 5 years' experience
- At least 2 directors, at least one of which is resident
- Appropriate compliance and risk management arrangements in place

Licensed (A/I) Fund Managers have additional risk-based capital requirements, increased reporting and require representatives to be registered

MFO- Conclusion

There are fewer options for a multi family office compared with a single family office

- A multi family office will be incorporated as a company and hence will be subject to corporate tax rates (though there is an incentive scheme available)



There is a
greater
regulatory
burden





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