

# Changes to Singapore's family office tax regime

Updated guidelines by the Monetary Authority of Singapore



The Monetary Authority of Singapore (MAS) has announced changes to Section 130 and Section 13U – two tax incentives commonly used to establish family office structures in Singapore. These changes came into effect on 18 April 2022.

## Background

The Section 130 and Section 13U tax incentive schemes have been popular among those looking to establish family office structures in Singapore. Initially developed in an institutional funds context, these incentives have found application in the design of private wealth structures over the years.

These structures typically involve the appointment of a Singapore family office to provide investment management services on a discretionary or non-discretionary basis.

Under the Securities and Futures Act 2001, a single family office (SFO) providing services to the wealth structure of only one family can be exempt from regulation. This means that such SFOs can be established in Singapore with minimal substance requirements. In theory, they would only require one local director.

Some economic substance is required of a Singapore SFO if the fund vehicles it manages apply for approval under the Section 13U scheme. This scheme requires three investment professionals to be employed by the SFO. It is common for these individuals to be family members who may relocate to Singapore to establish the structure.

The Section 130 scheme has no minimum fund size criteria or staffing requirements for SFOs. Given the lower thresholds on economic and operational substance requirements, the scheme has become the more popular tax incentive within the family office context.

The removal of a condition in 2019 which stated that the structure could not be entirely held by Singapore persons has added to its appeal. This meant that it was possible, at least in theory, for the same one or two high-net-worth individuals to be both the owners and sole investment professionals of the structures.

## Administrative changes

The MAS has implemented a series of changes to SFO-managed fund vehicles applying for approval under the

Section 130 and Section 13U schemes. These changes are not applicable to fund vehicles managed by licensed managers. Private wealth structures managed by multi-family offices or external asset managers should therefore remain unaffected by the updated guidelines.

The changes may be summarised as follows:

### Section 130

- **Minimum fund size:** SGD 10m at the time of application with a commitment to increase the fund size to SGD 20m within two years. There was previously no minimum fund size criteria. Applicants hoping to apply for the Section 130 scheme will need to place greater care in identifying the right timing and manner of funding. A standing requirement of the Section 130 scheme is that the applicant was not previously carrying on a business in Singapore, where that business generated taxable income. While there are a few administrative safe harbours, including one for the warehousing of investments, it is not clear how these requirements will work together in practice.
- **Investment professionals:** A minimum of two investment professionals are required. A one-year grace period is permitted if this requirement cannot be satisfied at the point of application and if the SFO has at least one investment professional at the time. Even though fund management has always required the involvement of some personnel, there was previously no stated requirement for this.



- **Business spending:** A minimum of SGD 500,000 per annum business spending is required if the fund size is more than SGD 50m but less than SGD 100m. Such minimum spending increases to SGD 1m per annum where the fund size is in excess of SGD 100m. Previously, the minimum spending amount was SGD 200,000 per annum, irrespective of the fund size. This tiered business spending framework is a new addition to the scheme, but it is not immediately clear how it will apply to SFOs managing multiple vehicles approved under Section 13O.
- **Local investment requirement:** A fund must invest 10% of its assets or SGD 10m, whichever is lower in local investments at any one point in time. A one-year grace period is permitted if this requirement is not met at the time of application. Local investments for these purposes include Singapore-listed equities, qualifying debt securities (which are essentially debt instruments arranged or distributed by financial institutions in Singapore), funds distributed in Singapore by local licensed / registered fund managers, and private equity investments in Singapore companies with local operations. This requirement is a new inclusion in the scheme.

#### **Section 13U**

- **Minimum fund size:** SGD 50m at the time of application. This condition has not changed.
- **Investment professionals:** A minimum of three investment professionals are required and at least one of them must be a non-family member. Previously, there was no requirement for the inclusion of a non-family member. A one-year grace period is permitted if this requirement cannot be satisfied at the point of application.
- **Business spending:** A minimum of SGD 500,000 per annum business spending is required. Previously, the

minimum spending amount was SGD 200,000 per annum. The tiered business spending framework described in Section 13O also applies here.

- **Local investment requirement:** The same local investment requirement as described above in relation to Section 13O funds now also applies.

#### **Conclusion**

The changes announced by the MAS are a welcome change to the local family office landscape. They help to ensure that the Section 13O and Section 13U tax incentives are appropriately targeted at high-net-worth families hoping to establish structures that positively impact the local ecosystem.

A key observation to note is the significant gap that now exists in Section 13F, a trust-based incentive, and Section 13D, an offshore fund incentive. Both schemes have the same scope of tax incentives and require the use of offshore companies but do not require approval from the MAS. This may encourage high-net-worth families to consider the use of vehicles in the Cayman Islands or British Virgin Islands in circumstances where there has been a trend towards onshoring of funds. There is scope for both schemes to be aligned with the recently announced administrative changes to Sections 13O and 13U.

Another key point to note is the comment made by the MAS that the fund sizes of the Section 13O and Section 13U schemes need to exclude shareholder loans. This is arguably out of step with the definition of assets under management as it is framed in a regulatory context. It also creates a requirement to use equity in circumstances where debt offers much greater flexibility to upstream cash and transfer economic interests between private wealth vehicles and family members without incurring stamp duty in Singapore.





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