

Family Offices - Updated Conditions

The Monetary Authority of Singapore (“MAS”) has announced updated conditions for family offices that wish to apply for the Section 13O and Section 13U tax incentives. These conditions take effect 18 April 2022.

In essence, the MAS has raised the bar by requiring incentivized entities to have higher minimum Assets Under Management (“AUM”). Section 13O now requires at least 2 investment professionals who are Singapore tax residents and increased minimum business spending where the AUM exceeds S\$50million. There is also an introduction of a new requirement for Section 13O and 13U funds to invest in local investments.

1. Who is impacted?

Family offices who wish to apply for Section 13O or Section 13U (formerly known as Section 13R and 13X respectively) tax incentives from 18 April 2022 will have to meet updated conditions.

To be clear, the updated conditions apply **only** to fund vehicles who hold assets on behalf of families and are wholly owned or controlled by members of the same families. In practice, family refers to individuals who are lineal descendants of a single ancestor and includes spouses, ex-spouses, adopted children and stepchildren of these individuals.

Fund vehicles of family offices managed by licensed fund managers applying for Section 13O or Section 13U exemption are not subject to the updated conditions.

The MAS has clarified that the updated conditions would not apply in the following situations:

- Applicants who have submitted the preliminary information before 18 April 2022 and are in correspondence with the MAS in the last 6 months
- Applicants who have received an invite to apply for a MASNET account before 18 April 2022 but approved after 18 April 2022.

The MAS has clarified that applications which were formally approved by the MAS before 18 April 2022 are not subject to the updated conditions.

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2. What are the updated conditions?

The updated conditions are as follows:

Criteria	Section 130	Section 13U
AUM	<p>Minimum fund size of S\$10 million at the point of application.</p> <p>A commitment to increasing the AUM to S\$20 million within a 2-year grace period.</p>	<p>Minimum fund size of S\$50 million at the point of application.</p>
<p>Investment Professionals (“IPs”)</p> <p><i>IPs refers to individuals who are Singapore tax residents. They should be substantially engaging in performing the role of portfolio manager, research analyst and traders and are earning more than S\$3,500 per month</i></p>	<p>Employs at least 2 IPs at the point of application.</p> <p>A one-year grace period can be given to employ a second IP if this requirement is not met at the point of application.</p>	<p>Employs at least 3 IPs, with at least one IP being a non-family member, at the point of application.</p> <p>A one year grace period can be given to employ one non-family member as an IP if this requirement is not met at the point of application.</p>
Minimum annual business spending	<p>Incur a minimum of Total Business Spending (“TBS”) depending on their AUM:</p> <p>AUM less than S\$50 m: TBS of S\$200,000</p> <p>AUM more than (or equal to) S\$50m but less than S\$100m: TBS of S\$500,000</p> <p>AUM more than (or equal to) S\$100 m: TBS of S\$1m</p>	<p>Incur a minimum of Local Business Spending (“LBS”) depending on their AUM:</p> <p>For AUM less than S\$100m: LBS of S\$500,000</p> <p>For AUM more than (or equal to) S\$100m: LBS of S\$1 million</p>
Local investment	<p>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>A one-year grace period would be given if the above requirement is not met by the point of application.</p> <p>Local investments include the following:</p> <ul style="list-style-type: none"> • Equities listed on Singapore licensed exchanges • Qualifying debt securities • Funds distributed by Singapore-licensed/registered fund managers • Private equity investments into non-listed Singapore incorporated companies with operating businesses in Singapore 	

3. Other notable updates

There is greater scrutiny by the MAS on the quality of IPs. The MAS now require applicants to specify the number of years of experience that each IP has in managing personal/family investments as well as the asset classes for which the IP has experience, indicating the investment strategy and past investment performance. The IP is also expected to have relevant academic background or professional experience.

To ensure that the updated conditions are met, the MAS reserves the right to review the annual declarations submitted and call for supporting documentation or audit certification for selected entities.

4. Our comments

We are very supportive of these changes. The updated conditions signal only a minor course correction in Singapore's strategy for attracting family offices. Having more stringent conditions mean that Singapore will continue to attract qualified family offices who demonstrate a commitment to the jurisdiction.

Whilst there will be greater compliance requirements to ensure that the updated conditions are met, we are optimistic that this should not deter families from choosing Singapore as a jurisdiction for their family offices.

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