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MAS tax exemption tweaks may not move the needle for most single family offices: industry watchers

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While most family offices welcome the change, there were also calls to go beyond tax incentives in growing the family office space in Singapore. PHOTO: BT FILE

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RECENTLY announced tweaks to the tax incentive scheme for single family offices (SFOs) are a good nudge for greater investments in Singapore, industry watchers said, but may do little for the bulk of the players here.

Some of the new requirements are already being practised, while others may be so novel that SFOs are not prepared to embrace them just yet.

Mahesh Asrani, founder and chief executive of Collab Consultants, which works closely with several family offices, said: “The first reaction of the companies is that there are too many changes, too soon. It is becoming difficult to keep track of the changes and what applies to whom.

“To be fair to the regulators, the entire family office scene is still evolving in Singapore… Hence, it is natural for the regulatory system to learn and evolve.”

Last week, the Monetary Authority of Singapore (MAS) said it would adjust how it measures and metes out tax incentives for SFOs.

Presently, SFOs enjoy a tax exemption on income from investments managed in Singapore if they:

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- Employ a minimum of two or three investment professionals, contingent on the exemption scheme;
- Incur business spending of S$200,000 to S$1 million within one financial year, dependent on the size of the SFO's funds; and
- Invest at least S$10 million or 10 per cent of their assets under management (AUM) – whichever is lower – in Singapore equities, bonds, funds, or Singapore operating companies.

Most of the changes announced relate to what types of investments count towards the AUM requirement, and how that requirement is met.

For instance, there will be a higher weight for concessional capital investments, a recognition of grants towards blended-finance structures, and a greater emphasis on investments in Singapore-listed equities. Concessional capital accepts lower returns or higher risks, often in support of worthwhile but less attractive green and transition projects.

Bryan Goh, CEO of the Tsao Family Office, said the new policies are a "positive step". He hopes that these policies would encourage "more purposeful investments", particularly in addressing the climate crisis.

Other family office professionals polled by *The Business Times* said they would adopt a "wait-and-see" approach while assessing the climate-related and blended-finance investment options that are, or will be made, available.

"As with every new policy, especially when it requires capital injection, clients tend to wait until it is refined and finalised," said Carolyn Leng, managing director at Bordier & Cie Singapore.

"This is because new policies often undergo periods of adjustments and refinement."

Most still plan to fall back on traditional investment options to meet their required commitments, said Lim Kexin, a partner specialising in tax and entrepreneurial and private business at PwC Singapore. Concessional capital options will be considered as alternatives, she added.

Collab Consultants' Asrani said small SFOs are "more focused on the returns and compliance with the minimum requirements".

"To my mind, they are not yet thinking of larger social issues, although they are paying lip service to them," he added, though he believes the new changes would "definitely be an attraction to the mature and large SFOs".

Moving forward, SFOs would also be required to employ at least one non-family member in its team of investment professionals.

Most family offices interviewed said that while they already meet such requirements, it would also help if Singapore's regulators could gradually increase the number of local employees, or provide accelerated or incremental incentives for hiring more Singaporeans.

From Jan 1, 2024, family offices can also look forward to a new philanthropy tax incentive scheme (PTIS) that allows qualifying donors in Singapore to claim 100 per cent tax deductions for overseas donations made through qualifying local intermediaries.

"We see the introduction of the philanthropy scheme as a testimony of Singapore (knowing well) the needs on the ground, and being proactive in facilitating these needs," said Desmond Teo, EY Asia-Pacific family enterprise leader.

However, he hopes that the scheme would allow some "flexibility", so that the introduction does not inhibit the entrepreneurial efforts of the families in their philanthropic initiatives.

PwC's Lim, meanwhile, expressed concern about the "high thresholds" arising from the minimum requirement for a full-time philanthropic professional, the additional local business spending of S$200,000, and additional local headcount in order to qualify for PTIS.

These requirements for a "limited Singapore tax deduction" may keep family offices out – even those who are "seriously considering" philanthropic donations, given that not many will qualify, she said.

Pearlyn Chew, a family office and private clients partner at KPMG Singapore, said the requirements can be met only by a "relatively large SFO", noting that there are not many SFOs in Singapore currently focused on philanthropy.

There were also calls to go beyond tax incentives in growing the family office space.

"We need to attract large and mature family offices, which requires a lot more than just the tax incentives," said Collab Consultants' Asrani. "It needs a mature ecosystem."

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