How (and why) to establish a single family office in Singapore

January 2024

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Family offices are increasingly preferred stewards of wealth, acting as financial gateways for ultra-high-net-worth (UHNW) families across the globe. While protecting and growing private wealth, they often act more like an institutional player in terms of their governance, the tools they employ, and the investment firepower they hold in the global asset owner space.

Selecting the right jurisdiction(s) for your family office a crucial decision impacted by several factors, including the regulatory regime, tax efficient structuring, time zone, reputation, local talent, and infrastructure.

Singapore is increasingly well positioned as the Asia Pacific home and global gateway for family offices, with over 700 family offices currently based out of Singapore, and that number continues to grow year over year.

According to World Bank rankings, Singapore is the best country in Asia in which to do business and the second best globally, largely because it is a firmly established gateway to other rising markets in the Asia Pacific region and boasts a significant local talent pool and supporting financial, regulatory, and economic supporting 'ecosystem'.

Other factors contributing to Singapore's reputation as one of the most business-friendly jurisdictions in the world include:

- Political stability
- A competitive business environment
- A trusted legal system rooted in English law
- High-quality infrastructure
- Openness to foreign talent
- An attractive tax regime

These attributes make Singapore an appealing global hub for global and financial services in general, and for single family offices (SFOs) in particular.

Over the past few decades, Singapore has seen the wealth management industry in the country proliferate, which has led to the development of a sophisticated financial, legal and tax infrastructure.

This short white paper will explore what makes Singapore an attractive jurisdiction for a single family office. We will also discuss foundational considerations for establishing and structuring a Singapore-based SFO.

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What is a single family office (SFO)?

Family offices are privately held organisations that serve as wealth management 'hubs' for UHNW individuals and families. Unlike traditional wealth management services, family offices act as central, 'in-house' governance hubs for a wide range of end-to-end financial management, succession, reporting, concierge, philanthropy, and investment solutions for wealthy families. This allows UHNW families to leverage their financial assets and bring in critical expertise and control over the family's wealth to ensure that it is successfully transferred to the next generations. In years past, this was the domain of so-called universal private banks, but not so any longer.

UHNW families globally, including in Asia, are moving further away from such 'one-stop shops' and instead bringing more control in-house, whilst at the same time outsourcing selected specialist services to qualified independent third-party providers.

Why should you consider Singapore for your SFO?

Singapore has been proactive in strengthening its position as a global family office hub, such that industry experts now rank Singapore as the leading wealth management hub in Asia.

In March 2019, the Monetary Authority of Singapore (MAS) and the Singapore Economic Board (EDB) established the Family Office Development Team (FODT) with the aim of enhancing Singapore's status as a family office and global wealth management jurisdiction of choice. Since then, the number of family offices in Singapore has grown exponentially – jumping from around 400 at the end of 2020 to 700 just one year later.

What is it that makes Singapore such a favourable jurisdiction for family offices?

Competitive tax regime: Singapore enjoys a competitive tax regime with additional exemptions specifically for SFOs. The country is already internationally known for having one of the most competitive tax regimes on the global stage, with a flat low corporate tax rate (17%), no capital gains tax or dividends tax, and robust double taxation and investment treaties with other countries. Singapore also offers tax incentive schemes for funds and new businesses

Central location in Asia: Singapore's strategic location makes it an ideal jurisdiction for families and businesses looking to invest and expand across the Asia Pacific region

Light touch/proportional regulation: SFO structures in Singapore can gain access to exemptions from regulation under local securities law, allowing them to conduct fund management activities for the investment vehicles held by the family office without having to obtain a licence, so long as the SFO and its fund company are related corporations. (*More on this in the section on structuring*)

Start-up ecosystem: Over 3,000 start-ups are connected to a global network of over 300 private equity and venture capital managers, and more than 190 incubators and accelerators are based in Singapore. This vibrant start-up ecosystem gives family offices exciting opportunities to invest in up-and-coming industries in Singapore, including fintech, with Singapore having hit a three-year high for fintech funding in the first half of 2022, at US$2.14 billion

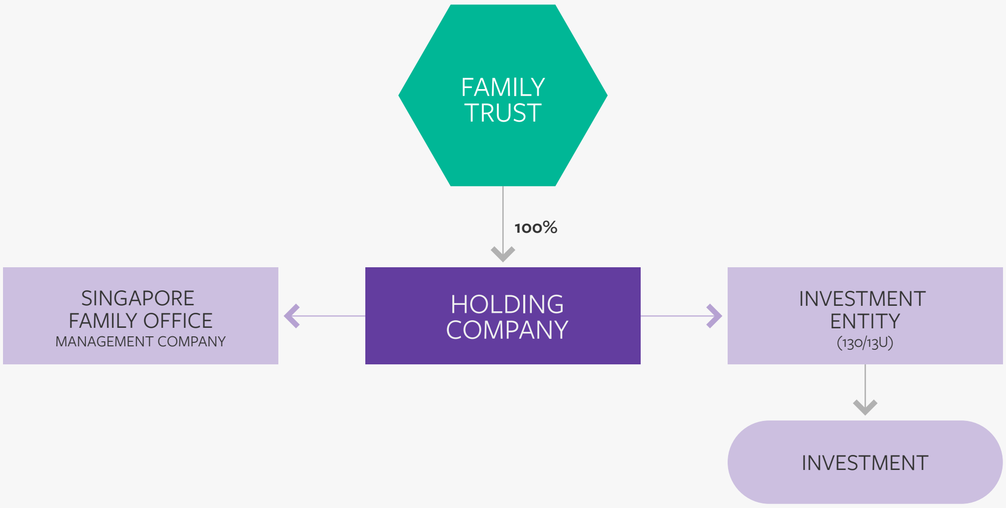
Infrastructure, rule of law, and strong financial markets: More broadly, Singapore offers a wide range of benefits that are important to (U)HNW families seeking the best jurisdiction for their family office:

- Skilled staff locally available, and the ability to relocate personnel to the chosen jurisdiction
- Robust infrastructure, with a world-class airport
- Political stability
- Strong rule of law and a sensible legal system
- Access to high-quality financial services
- High communication standards for privacy and confidentiality
- High quality of life for any family members or key stakeholders who may choose to establish residency within the chosen jurisdiction

Common SFO structures

There is no one globally standardised family office structuring model. That said, there are at least three fast-emerging typical structures for a single family office in Singapore. These ownership and operating structures range from straightforward to more complex, incorporating trusts and even using private trust Companies (PTCs) and private funds, as illustrated below.

STRUCTURE 1
Family members are shareholders



Family office

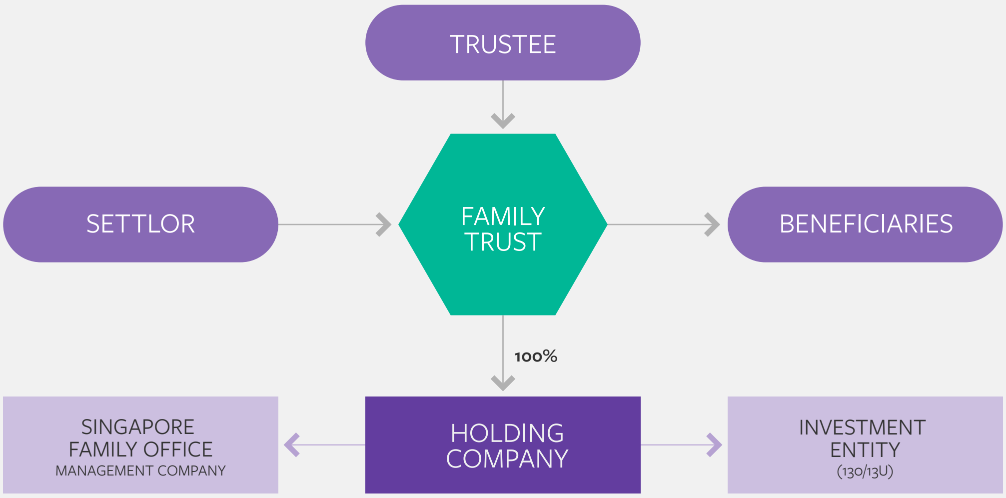
The family office entity itself will normally be a Singapore incorporated company, managing funds on behalf of a single family, often owned by a trust (or trusts) as noted above. To qualify for the Singapore investment licensing exemption under the Securities and Futures Act, the family office entity and fund entity must be within the same group of companies ('related corporations'). If the fund entity and the family office are held directly by the family trust or the individual family members, existing exemptions under the Securities and Futures Act are not available, and the family office must apply to MAS for a specific licencing exemption – a common route for most UHNW families.

In structures 1 and 2, the family office can rely on existing exemptions under the Securities and Futures Act, as both the family office and fund entity are related corporations, being wholly owned subsidiaries of the holding company.

In Structure 3, the family office may set up a PTC with a variable capital company (VCC). In this case, the family cannot rely on existing exemptions under the Securities and Futures Act. Instead, the family office management entity must hold a capital markets services (CMS) licence to operate either as a registered fund management company (RFMC) or licensed fund management company (LFMC). In either case, the family may outsource the asset management function to an external CMS licence holder.

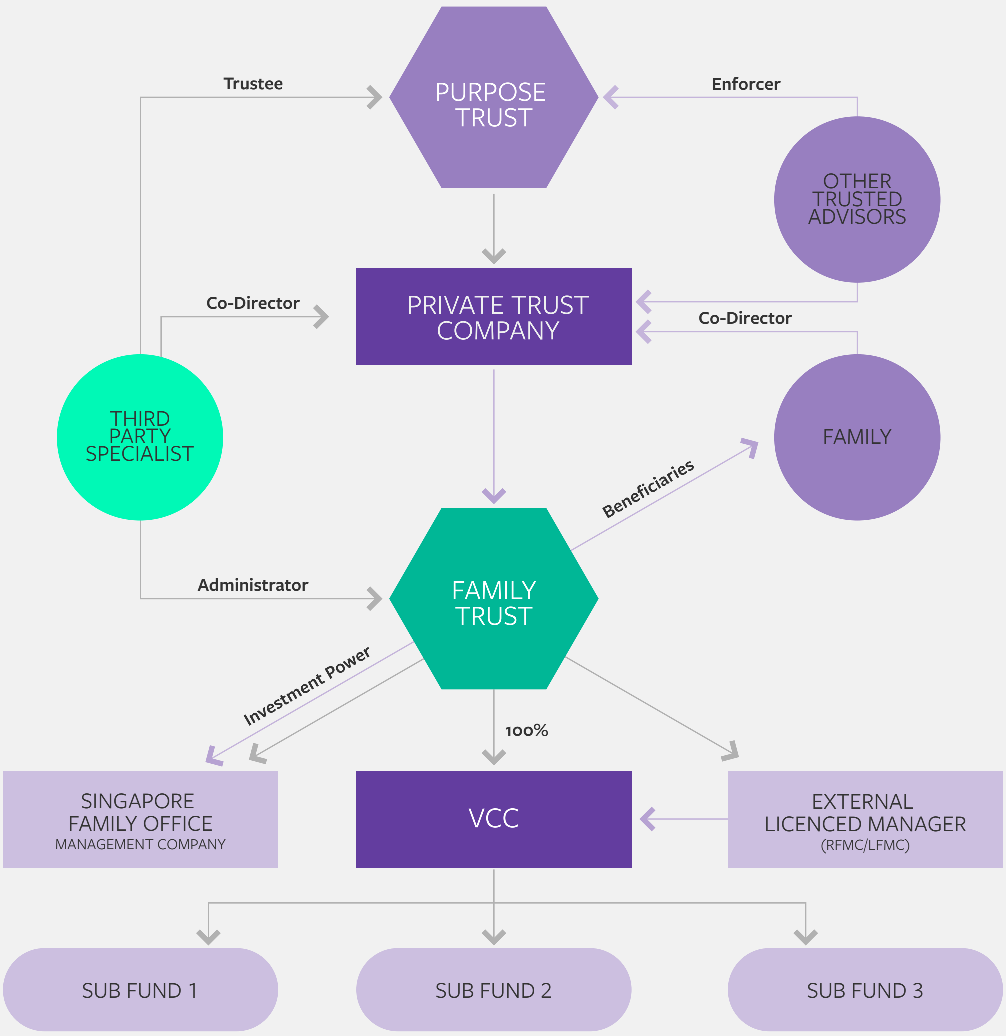
STRUCTURE 2

With a trust



STRUCTURE 3

With a trust and a PTC



Fund entity

SFOs may choose onshore (Singapore) or offshore vehicles as their underlying fund or other holding entity. Commonly used onshore vehicles in Singapore are a private limited company, limited partnership, and more recently the variable capital company (VCC). Popular offshore structures are often segregated portfolio companies in the Cayman Islands or British Virgin Islands (BVI). However, in recent years, there has been a movement towards more onshore and 'midshore' jurisdictions like Singapore.

The following factors must be taken into account when selecting a suitable fund or other holding vehicle and location:

- Tax considerations
- Complexity of set-up and related costs
- Privacy and ease of distribution
- Reporting and compliance obligation
- Non-tax factors such as political stability, robust financial regulations, and a supportive ecosystem

Holding company

The holding company can be a Singapore-based company, but is not required to be. If there is a trust structure, the trustee will generally prefer to interpose a holding company instead of holding the fund vehicles directly to mitigate risk and increase administrative ease.

Trust

As with the establishment of any trust, succession and estate planning and asset protection are key considerations, often overlooked by many investment focused wealth planners. Succession and estate planning facilitate the process of preserving a UHNW's global asset base, whilst enabling a clear mechanism and governance process to allow for efficient transfer of an estate after the settlor has passed away, avoiding lengthy and potentially costly probate. Asset protection provides security against future creditors or post-marital disputes.

Traditionally, trusts are established in a number of jurisdictions including Jersey, Guernsey, the Isle of Man, BVI and Cayman Islands. Singapore is also fast becoming a popular jurisdiction in which to establish a trust, as it is well and proportionally regulated and has robust trust laws to protect settlors and beneficiaries, but also importantly to set down minimum codes of conduct and properly govern the behaviour of trust companies in Singapore. Other benefits of establishing a trust in Singapore include many of the same benefits listed for SFOs: a competitive corporate tax rate; a territorial tax system; an extensive network of double tax treaties; no capital gains tax, estate or inheritance duty; and tax exemption for trusts.

The construction of trusts is very flexible, including the ability to have the trustee in one jurisdiction whilst employing the trust law of another, or have both in one place. Where Singapore is the governing law of the trust, there is statutory clarity and comfort over the settlor retaining (or granting to someone else) the investment or asset management powers over the trust, without invalidating the trust.

Individual shareholders/settlors/beneficiaries

Non-Singapore tax residents may be subject to their home country tax and reporting implications related to establishing a family office and transferring assets into the family office structure. Tax compliance globally has never been more important, and it is essential to consult advisors before the transfer to ensure minimal risk, proper compliance and maximised efficiency.

How to establish a family office in Singapore

If you are interested in establishing a family office in Singapore, here is a list of actions to consider:

Vision and mission of the family office

The vision and mission of your family office should be consistent with the family values, preferably clearly articulated and documented (e.g. in a family charter). Drawing up these documents is an essential step in establishing a family office in any jurisdiction.

Class of assets

Consider which asset classes should be held and overseen by the family office. Examples of common asset types include real estate, financial assets such as public securities, private equity or venture capital, as well as non-financial assets such as private planes, yachts, classic cars, artwork, precious stones and metals, and family heirlooms. Identifying the specific assets to be held is crucial, as tax and other considerations do vary based on the situs/location of such, and there will need to provide specific tax and legal advice to the family to evaluate the optimal mechanism for asset transfer and structuring to hold the assets.

Investment strategy

In tandem and collaboration with the family, SFOs should determine their investment objective and risk profile before establishing a clear roadmap of their ultimate investment strategy and business mandate.

Application for licensing and tax exemption

In order to gain the licensing and tax exemption benefits enjoyed by SFOs in Singapore, you must follow the updated S13O and S13U Application Process for Family Offices. If you have questions about this process, please get in touch—our team is happy to assist you.

Operational requirements

As with any jurisdiction, there will be operational requirements for operating your SFO, including:

- Opening and maintaining bank accounts for the family office
- Obtaining employment passes (work passes) for family members
- Preparing annual accounts, audits, annual meeting notes and tax reporting to fulfil regulatory reporting obligations
- Annual declaration to MAS for 13O/13U tax exemption

Succession planning

Clear and efficient governance is the primary enabler of the benefits that family offices and trusts inherently provide. Well-planned and well-paved succession plans, with clear governance bodies, mechanisms, operational and decision-making processes provide the much-needed framework for wealth to continue during the UHNW family's lifetime and beyond. Clear governance and related succession planning also helps to minimise confusion and disagreements over family affairs and promote harmony among family members.

At the end of the day, peace of mind is often the ultimate goal of UHNW families. This is a benefit that SFOs, including those in Singapore, can provide if established and run properly.

If you're considering establishing a single family office in Singapore, our experienced team can help advise and execute at every stage. Get in touch today.

To find out more about establishing a single family office in Singapore, contact:

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