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Client Alert

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Singapore: Updated conditions for S13O and 13U applications and launch of Philanthropy Tax Incentive Scheme for family offices

In brief

The Monetary Authority of Singapore (MAS) has issued guidelines with updated conditions for Section 13O and Section 13U tax incentive scheme applications for funds managed or advised directly by a single family office (SFO) in Singapore. These updated conditions took effect from 5 July 2023.

MAS has also issued guidance concerning the introduction of a Philanthropy Tax Incentive Scheme (PTIS) for qualifying donors with a SFO operating in Singapore. Approved qualifying donors will be able to claim 100% tax deduction (capped at 40% of their statutory income) for overseas donations made through qualifying local intermediaries for a period of five years. The PTIS will take effect from 1 January 2024.

In this issue

Key takeaways

Changes to the Section 13O and Section 13U incentive schemes

- MAS has revised the conditions for the 13O/U tax incentive scheme for funds managed by SFOs.
- The updated conditions will apply to all new 13O/U applications from 5 July 2023 onwards. However, funds with existing 13O/U awards may elect to take advantage of the changes to the business spending requirement and local investment requirement (now called the Capital Deployment Requirement).
- Under the updated conditions, there is no longer a grace period for applicants to meet the minimum conditions of the 13O/U scheme at the point of application, in particular the minimum Assets Under Management (AUM) requirement, minimum number of investment professionals employed by the SFO, and minimum number of investment professionals who are not family members of the beneficial owners. In addition, only local (and not overseas) business spending will be recognised under the minimum business spending requirement.
- Eligible donations to Singapore charities as well as grants to qualifying blended finance structures may now be recognised under the minimum business spending requirement. In particular, two dollars for every dollar spent on grants to qualifying blended finance structures may be recognised when computing if the minimum business spending requirement is met.
- Under the Capital Deployment Requirement (CDR), more categories of eligible investments have been added. Additionally, the amount invested in certain eligible investment categories will be scaled by a multiplier of 1.5 times or 2 times, when computing if the CDR is met.

Introduction of the PTIS for SFOs

- The PTIS seeks to encourage greater philanthropic giving among SFOs and the development of philanthropic capabilities in Singapore. The scheme is available to SFO applicants who are managing a fund with a 13O/U award.
- Approved qualifying donors will be able to claim 100% tax deduction (capped at 40% of their statutory income) for overseas donations made through qualifying local intermediaries for a period of five years.

- The qualifying donor may be the SFO applicant, the Ultimate Beneficiary Owner (UBO) or beneficiary of the 13O/U fund, or a related family business.
- The SFO will also be required to meet the following economic commitments (in addition to the relevant 13O/U conditions): (i) appoint and maintain a philanthropy professional, (ii) incur additional local business spending of SGD 200,000, and (iii) employ an additional local professional headcount.

In more detail

Changes to the 13O/U incentive schemes

To whom do the updated conditions apply?

The updated conditions apply to funds that are managed or advised directly by a SFO that: (i) is an exempt fund management company that manages assets for or on behalf of the same family; and (ii) is wholly owned or controlled by members of the same family.

All new 13O/U applications submitted to MAS from 5 July 2023 onward will be subject to the updated conditions.

However, funds with existing 13O/13U awards, in particular those who applied and were approved after 18 April 2022 (and thus subject to the local investment requirements), may elect to take advantage of the changes to the business spending requirements and the Capital Deployment Requirement.

What are the updated conditions?

The updated conditions are set out in the table below. Changes which took effect from 5 July 2023 are in red:

<table>
<tr><th></th><th>Section 13O</th><th>Section 13U</th></tr>
<tr><td>AUM</td><td>• Minimum SGD 20 million in Designated Investments at the point of application and throughout the incentive period</td><td>• Minimum SGD 50 million in Designated Investments at the point of application and throughout the incentive period</td></tr>
<tr><td rowspan="2">Investment professionals</td><td>• Employ a minimum of two professionals, of whom at least one is not a family member of the beneficial owners at the point of application and throughout the incentive period</td><td>• Employ a minimum of three professionals, of whom at least one is not a family member of the beneficial owners at the point of application and throughout the incentive period</td></tr>
<tr><td colspan="2">• Relevant formal work experience or academic qualifications to qualify as investment professionals.
• Qualified investment professionals must be employed as a portfolio manager, research analyst or trader who will earn more than SGD 3,500 per month and engage more than 50% of the time in the qualifying activity.
• Qualified investment professionals must be Singapore tax residents throughout the incentive period.</td></tr>
<tr><td rowspan="2">Spending requirement</td><td>• Tiered spending requirement (discussed below), with minimum SGD 200,000 in local business spending</td><td>• Tiered spending requirement, with minimum SGD 200,000 in local business spending</td></tr>
<tr><td colspan="2">• Donations to Singapore charities and grants to blended finance structures with substantial involvement of financial institutions in Singapore recognised in Tiered Spending Requirement computation</td></tr>
<tr><td>CDR</td><td colspan="2">• Investing lower of SGD 10 million or 10% of AUM in:
• Equities, REITS, business trusts, or ETFs listed on MAS-approved exchanges
• Qualifying Debt Securities
• Non-listed funds distributed by licensed financial institutions in Singapore
• Investments into non-listed Singapore operating companies
• Climate-related investments
• Blended finance structures with substantial involvement of financial institutions in Singapore</td></tr>
</table>

	• 1.5x or 2x amount invested in eligible investments (discussed below) recognised for Capital Deployment Requirement computation
Private banking account	• The fund must have a private banking account with a MAS-licensed financial institution at the point of application and throughout the incentive period

Tiered spending requirement

AUM of fund at the end of its financial year	Spending Requirement in each year of assessment	Spending requirement may be met by
Less than SGD 50 million	Minimum SGD 200,000	Minimum SGD 200,000 local business spending
Between SGD 50 million and below SGD 100 million	Minimum SGD 500,000	Minimum SGD 200,000 local business spending + Eligible donations to local charities + Grants to blended finance structures (recognised as 2x spending)
SGD 100 million and above	Minimum SGD 1 million	Minimum SGD 200,000 local business spending + Eligible donations to local charities + Grants to blended finance structures (recognised as 2x spending)

CDR

Formerly known as the local investment requirement, the CDR allows for more categories of eligible investments. The amount invested in certain eligible investment categories will be scaled by a multiplier when computing whether the CDR is met. The table below sets out the categories of eligible investments and their applicable multiplier.

2x multiplier	1.5x multiplier	1x multiplier
• Deeply concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore • Equities listed on MAS-approved exchanges • ETFs with primary mandates to invest in Singapore-listed equities on MAS-approved exchanges • Non-listed funds distributed by licensed financial institutions in Singapore with primary mandates to invest in Singapore-listed equities on MAS-approved exchanges	Concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore	• REITS, business trusts or ETFs (whose primary mandate is not to invest in Singapore-listed equities) listed on MAS-approved exchanges • Qualifying Debt Securities • Non-listed funds distributed by licensed financial institutions in Singapore (with no primary mandate to invest in Singapore-listed equities) • Investments into non-listed Singapore operating companies • Climate-related investments • Non-concessional capital invested in blended finance structures with substantial involvement of financial institutions

Note:

"**Concessional capital**" refers to financing where the financier accepts a lower rate of return or higher risk than that which the borrower or issuer ordinarily has to offer to financiers seeking commercial risk-adjusted rate of return. Concessional capital must be provided to unrelated entities or third-party blended finance or concessional capital vehicles.

"**Deeply concessional capital**" is capital that (i) has zero income earned on the investment or (ii) bears first loss before any other equity (including other capital contributions that are already concessional with lower returns) and earns lower return than any other equity or debt.

"**Blended finance structures with substantial involvement of financial institutions in Singapore**" include blended finance structures that are "substantially arranged, managed, executed or originated in Singapore", which in turn is defined as:

1. More than half of the entities involved in arranging, managing, executing or originating the blended finance structure must be entities licensed by MAS; or
2. More than half of the gross revenue from arranging, managing, executing or originating the blended finance structure must be attributable to Singapore licensed entities; or
3. More than half of the costs incurred in arranging, managing, executing or originating the blended finance structure are for expenses paid to and attributable to revenue earned by entities in Singapore.

Philanthropy Tax Incentive Scheme for family offices in Singapore

The PTIS was introduced at Budget 2023, to encourage SFOs to make Singapore their base for their philanthropic activities. The scheme is available to SFO applicants who are managing a 13O/U fund.

Key features of the PTIS

Qualifying donors approved under the PTIS will be able to claim 100% tax deduction for their overseas donations made through qualifying local intermediaries for a period of five years starting from an approved incentive commencement date within the period from 1 January 2024 to 31 December 2028. The deduction allowed will be capped at 40% of the approved qualifying donor's statutory income.

Overseas donations refer to cash donations made towards any charitable, benevolent, or philanthropic purpose whose main objective is to benefit persons, events or objects outside of Singapore.

The SFO will also be required to meet the following economic commitments (in addition to the relevant 13O/U conditions):

- Appoint and maintain a philanthropy professional to manage the philanthropic activities of the family. The philanthropy professional may be an employee of the SFO, or an external service provider based in Singapore.
- Incur additional local business spending of SGD 200,000.
- Employ one additional local professional headcount, who must be engaged substantially in philanthropic activities or fund management.

Who is a qualifying donor?

The SFO applicant must specify one qualifying donor in its application, which may be any one of the following:

- The SFO managing a 13O/U fund
- The Ultimate Beneficial Owner (UBO) of a 13O/U fund
- The beneficiary of a 13O/U fund
- A related family business, i.e., an unlisted corporate entity that is based in Singapore and whose largest shareholder belongs to the same family as the UBO(s) or beneficiary(ies) of the 13O/13U fund.

Who is a qualifying local intermediary?

The overseas donation must be made through qualifying local intermediaries, which include the following:

- Selected registered and exempt charities with a valid Fundraising for Foreign Charitable Purpose (FRFCP) permit
- Charitable institutions and not-for-profit organizations established by financial institutions in Singapore, as specified by MAS
- Selected grantmakers under the Ministry of Culture, Community & Youth's Grantmaker Scheme
- Other selected entities, as approved by MAS

What next?

The new changes to the Section 13O/U guidelines and the introduction of the new philanthropy tax scheme reflect a policy focus in incentivising local investment and supporting purposeful contributions.

The changes to the CDR and the business spending requirement are a welcome move as they recognise a wider range of locally focused investments, as well as climate-related investments both overseas and in Singapore. Further, the recognition of local donations under the business spending requirement and the introduction of the PTIS is a heartening and timely development that addresses the growing interest in philanthropic activities among SFOs in Singapore.

The removal of the grace period to meet the minimum 13O/U conditions may present a higher bar to entry for prospective applicants, who should take these into account in their planning and set-up timelines.

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