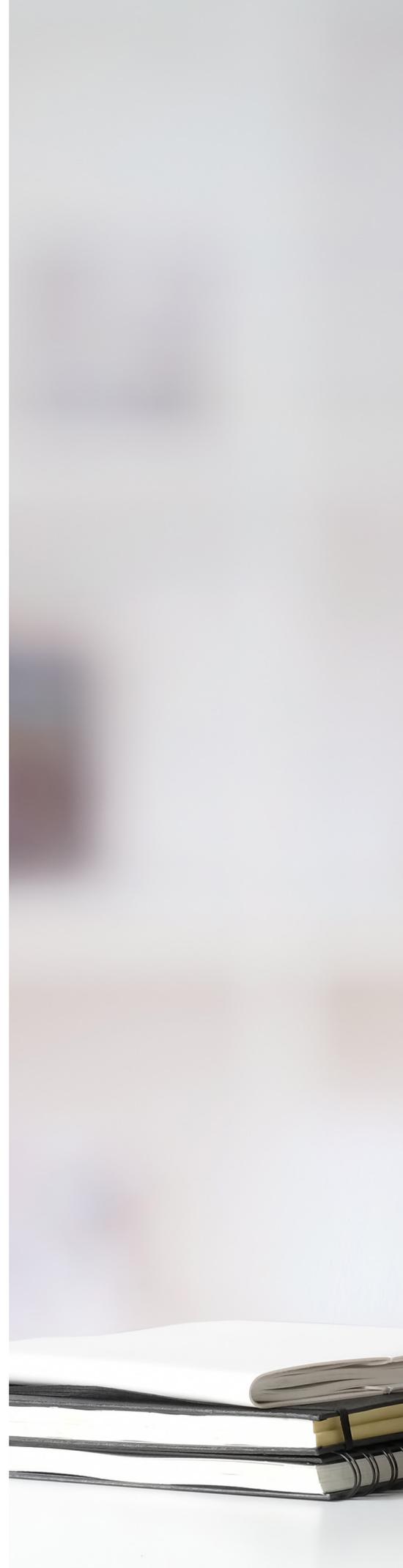




Setting up a single family office in Singapore
Empowering families on their
wealth planning journey

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Foreword by Deloitte



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The global impact of the COVID-19 pandemic has prompted high net worth (HNW) individuals and families to re-examine succession and estate planning, as well as intergenerational wealth transfers. According to a Knight Frank report¹, nearly 60% of HNW and ultra high net worth (UHNW) individuals globally have reassessed their succession planning since the pandemic. For older wealthy generations, the pandemic-driven market volatility and severe global economic downturn have also disproportionately affected them, making them rethink their succession planning strategies.

Wealthy families continue to seek a stable environment to grow their wealth, which is one of the reasons Singapore is gaining international recognition as a preferred destination to set up family offices. A critical aspect of most family offices is the intergenerational transfer of wealth, highlighting the need to create succession plans and ensure sustainability. In a family business, succession planning is crucial to maintaining continuity.

Family offices have played an important role in contributing to the family legacy since the 19th century, and the global pandemic has brought to light the even greater importance of establishing a family office for those who have not done so. This publication, produced in partnership with Bank of Singapore, aims to provide guidance to stakeholders on how to set up a family office; explain its functions, operational challenges, and compliance concerns; and highlight how the features of such a structure can contribute to family business success.

As a trusted advisor to families, our Deloitte professionals have successfully guided families with our holistic solutions tailored to their wealth preservation goals. As the world transitions into a new normal, we are here to support the wealth planning needs of Asia's investors and wealthy families, helping them adapt to changes and achieve their goals for generations to come.

Foreword by Bank of Singapore



Mr. IG (Leong Guan) Lim
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The rise of Asia and the phenomenal growth seen in businesses have led business families to seek a sustainable solution to address the future management of their wealth and business interests.

Wealth in Asia is relatively young and largely controlled by 1st and 2nd generation business owners. The experience found in Asia of families transitioning their wealth is limited. The search for proven solutions is therefore directed towards families in other parts of the world, especially those who have successfully passed their wealth beyond 3 generations.

Many first-generation families from Europe and America made their first pot of gold through their family businesses. As families grew and as more members became involved, complexities arose. Many families listed their businesses or resorted to disposals. Regardless of these outcomes, some families stayed together to manage their investments and business interests. These families continue to succeed despite weathering through various crises. Common setups comprise professionally run family offices to manage the family's wealth to achieve its vision and objectives.

In Asia, wealth mobility has just started. Notwithstanding the disruptive pandemic and volatile capital markets, the number of ultra high net worth individuals continues to increase with a growth of their combined net worth to US\$35.5 trillion according to Wealth-X report issued in 2021². It is no surprise that we see a tremendous growth in families professionalising their wealth management with the setup of their family offices – especially in Asian countries where private wealth grew at a faster pace compared to other parts of the world.

As Asia's global private bank, we operate from a strong and open economy in Singapore where we are headquartered. With excellent infrastructure, political stability, transparent legal and regulatory frameworks, world class healthcare and education systems, and a business friendly environment with a pool of talented professionals – Singapore will continue to be an attractive destination for wealthy families to set up their family offices. Bank of Singapore has established a dedicated Family Office Advisory team to discuss and journey with families on their interest and set-up of their family offices, integrating their family and investment needs and pursuing their wealth purposes.

We want to be with our clients at every step of this journey.

Introduction

Planning for succession in a family business is one of the most difficult and uncomfortable things to get started on. This is especially so in Asia where it is sometimes seen as a taboo topic.

COVID-19 changed that, prompting many wealthy families to work out their succession plans to prepare against uncertainty.

As a result, wealth preservation and legacy planning have taken on a renewed urgency. About 60% of wealthy individuals worldwide have reassessed their succession plans because of the uncertain times we live in, according to Knight Frank's Wealth Report 2021¹. Succession planning can be a means to assure and ensure continuity, especially during a time of uncertainty.

Most wealthy families have global businesses or investment presence in several countries or have family members across the globe. This adds complexity to succession planning, and this can be difficult without the right advice or depth of knowledge.

As part of their succession planning, many HNW families are considering moving their assets across the globe to a jurisdiction that offers a higher level of political and economic stability.

In some situations, wealthy families with family members stranded in a foreign country for a period longer than expected due to the pandemic may find themselves confronting the issue of their tax residency status and the impact this has on their current succession plans.



Where the heirs to the family wealth are multigenerational, have different nationalities and tax residences across the globe, and hold assets located in multiple jurisdictions, multi-jurisdictional tax reporting may surface as a challenge.

This could be more acutely felt when the wealth is passed to the younger generation. Families often need to factor in the complexities of cross-border reporting and possible double taxation in their succession planning, especially in an era of increased tax transparency.

In planning for intergenerational wealth succession in the current environment, it is important to understand the multi-jurisdictional reporting and tax compliance requirements and attempt to mitigate tax exposures unwittingly created through unplanned tax residency (where possible) to ensure an efficient wealth transition across generations.

Professionalising the family's wealth management through a family office to support succession planning, wealth preservation, and wealth transfer to the next generation is an increasingly popular option amongst HNW families.

What is a family office?

A family office is a professionalised private investment and wealth management entity designed to oversee the day-to-day administration and management of a family's financial and non-financial affairs. A family office can help provide a formal platform for families to discuss their private investment matters.

What are the functions of a family office?

In addition to managing the family's wealth, the family office works with other specialists to provide personalised and highly responsive advice on tax, legal, property, and estate management matters, as well as lifestyle services and education advice for younger generations.

A family office also assists in formulating an investment strategy, taking into account family values, overall needs and goals, and family dynamics. Investment professionals within the family office facilitate the development of a well-thought-out investment policy and process that includes selection and oversight of money managers, effective diversification, and consolidated performance reporting.

In essence, a family office is used as a comprehensive approach to professionalising and protecting a family's wealth.

What are the key benefits of establishing a family office?

A family office coordinates and handles the components of a family's financial affairs, thereby saving time, minimising complexity and ensuring their objectives are met. Costs can be saved through pooled purchasing power.

Families can use the family office and expertise to develop a strategic approach to philanthropy and explore and build a culture of shared purpose. A family office also provides the assurance that if something happens to the chief decision-maker, there is already a structure that supports - and ensures - a smooth transition.

Each family office is unique

A family office will likely embed its family values, culture, personal ethos and beliefs. Yet cultural differences may occur within a family due to generational gaps and contrasting views, posing challenges when setting direction and mandates for the family office.

For instance, the younger generation might be more open to philanthropic giving and ESG (Environmental, Social and Governance) investing that are closer to their hearts than their predecessors. As a result, they might want to allocate a significant portion of their wealth to these causes. However, the elders in the family may not share these same values, which can lead to conflict.

The structure and services of a family office will also vary. For instance, a family who chooses to establish a family office to manage US\$100 million or less of assets may require two or three employees at the outset focused on providing investment services. In contrast, a family office that manages assets above that threshold may require more people with diverse skillsets to serve the family's needs.



Different approaches to family offices

According to Campden Wealth's 2019 study³, an estimated 7,300 single family offices (SFOs) worldwide manage US\$5.9 trillion in assets, with the largest proportion based in North America (42% or 3,100 offices), followed by Europe (32% or 2,300 offices), Asia Pacific (18% or 1,300 offices) and the emerging markets of South America, Africa and the Middle East (8% or 600 offices). The strongest growth has come from the emerging markets (+50%), followed by Asia Pacific (+44%), North America (+41%) and Europe (+28%).

Single family offices have proliferated in Asia in the last decade due to a large increase in wealth in China and emerging markets in the region, and as first and second-generation wealth is being transferred. According to Campden Wealth's research³, Asia has experienced a 44% increase in the number of family offices since 2017. Similarly, the number of SFOs granted tax incentives by Monetary Authority of Singapore (MAS) rose to 1,100 by the end of 2022, marking a significant increase from the 700 in 2021⁴, with many UHNW individuals choosing Singapore as the world's safest haven⁵.

These family offices collectively managed about S\$90 billion worth of assets as at 2021, less than 2 per cent of the S\$5.4 trillion total assets managed in Singapore.

There are a few differences in the approach adopted by Asian family offices as compared to that adopted by the European and American families:

• Reliance on family heads

A significant amount of wealth of European and American families is inherited and consequently considered as "old money" passed down through generations, whereas Asian wealth has only been created over the past three to four decades and widely regarded as "younger" and built through first-generation entrepreneurship.

As a result, in Asia, patriarchs and matriarchs are heavily involved in the family office, with the family business serving as the primary source for wealth

generation. On the other hand, family offices of European and American families have existed much longer and are well equipped to run independently to handle investment mandates, family governance, succession planning and other non-financial matters.

When it comes to philanthropy and ESG investments, the European and American family offices are ahead as they have implemented more defined programs that reflect the family's values and legacy. Family offices have moved beyond managing financial affairs to giving back to societies and pursuing other broader goals. In Asia, giving is more subtle and informal and traditionally a top-down approach initiated by the family head in the form of cheque writing. This is set to change as more of Asia's wealthy millennials are getting proactively involved in the family's philanthropic agenda, and where it involves social impact investing⁶. More Asian families are institutionalising their giving through setting up formal structures, such as a charitable foundation or trust, or through their family office, while imparting social responsibility and charitable values. While the concept of ESG investments is relatively new for Asian families, ESG awareness and investment have been rising rapidly in Asia⁷.

• Investment management vehicle versus a one-stop shop

Asian families consider the family office as more of a private investment arm to manage the families' investment interests commonly held in various holding companies and special purpose vehicles in different jurisdictions.

On the other hand, European and American families set up family offices primarily as a one-stop shop – to handle a broader scope of services from wealth management and investments to philanthropic giving, tax planning and estate planning. They also utilise the governance, education, social and administrative functions of the family office. This full-service model has yet to unfold in Asia, although there is a growing trend in this direction.

Considerations in choosing a jurisdiction



There are a few things families must consider when deciding where to locate their family office:



- **Ease of doing business:** the competitiveness of the jurisdiction and whether business-friendly policies are in place.



- **Political stability and a robust regulatory framework:** the rights and protection offered to local business structures.



- **Attractiveness of the jurisdiction:** such as safety, the quality of the education system, healthcare system, living standards and lifestyle.



- **Local wealth management ecosystem:** whether the jurisdiction has an established financial services industry and the availability of banks, trust companies, fund management companies, lawyers, and accountants.



- **Cost of having a family office in the jurisdiction:** including the setup and ongoing expenses.



- **Tax regime:** the competitiveness of the local tax regime and availability of tax incentives and/or exemptions.

Singapore as the jurisdiction of choice



Singapore has increasingly become the jurisdiction of choice for establishing a family office for the following reasons:

Business-friendly environment with political stability and a robust legal and judicial framework

Singapore is politically stable and has pro-business policies with a high level of transparency and rigorous standards of governance. According to the 2023 rankings by the Economist Intelligence Unit, Singapore has retained its status as the world's best business environment⁸. As a signatory to 27 free trade agreements⁹, Singapore has undoubtedly become one of the most competitive countries to conduct business.

Singapore's transparent and sound legal system has been a key enabler of the country's economic growth over the years. Singapore accepts the rule of law as a universal value, and the judiciary is well regarded globally for its fairness and impartiality.

Leading financial hub

Singapore is one of the world's top financial hubs and is strategically located as a gateway to Asia. It is an attractive asset management location for investors who wish to invest in Asia and Southeast Asia.

Excellent reputation

As a country with an advanced healthcare system, high standard of living, low crime rate and a world-leading education system, Singapore constantly ranks as one of the best and safest places to live in⁵. Many global investors and their families are thus keen to reside and invest in Singapore.

Supportive eco-system for wealth management

The Singapore government has been highly supportive of the country's role as a wealth management hub. The fund management sector in Singapore has been growing strongly due to the government's efforts to groom and attract talent and introduce various tax incentive schemes. In addition, a strong network of financial institutions provides ready access to global and regional financial markets while offering a full suite of wealth management services.

Availability of various fund structures

Singapore offers a wide range of fund vehicles for families – from corporate entities to tax transparent entities such as partnerships. Corporate entities include the private limited company as well as the newly introduced Variable Capital Company (VCC) structure. The VCC structure is a flexible fund structure with both corporate and unique characteristics (please refer to the VCC section on pages 19-20).

With the introduction of enhanced regulations for offshore structures, the relative costs of setting up a Singapore fund have also become more competitive.

Competitive tax regime and regulatory framework

Singapore has one of the most competitive tax regimes internationally. Personal and corporate income tax rates are relatively low compared to other countries. There is no capital gains tax or inheritance tax, or tax on foreign-sourced income for individuals. Along with an extensive network of double tax treaties, the Singapore taxation system is highly attractive to investors and families.

A family office managing the assets of a single family may be exempt from holding a fund management licence if it meets certain criteria. If it does not meet the requirements, a family office may apply to MAS for a licensing exemption. The licensing exemption reduces the administrative and regulatory burden of setting up single family offices, making Singapore a conducive place for incorporating a family office.

In recent years, the government has invested much effort to encourage fund management activities in Singapore and elevate Singapore’s position as a global wealth management hub. This can be seen in the variety of fund incentives available for both offshore and onshore funds.

Tax incentives for funds

Singapore has introduced various tax exemption schemes for both onshore and offshore funds managed by a Singapore-based fund manager, to mitigate the Singapore tax exposure for the fund, where the fund is managed by a Singapore fund manager or family office.

The three exemptions under the Income Tax Act 1947 that are most relevant for funds would be:

1. the Offshore Fund Tax Exemption (Section 13D);
2. the Onshore Fund Tax Exemption (Section 13O); and
3. the Enhanced-Tier Fund Tax Exemption (Section 13U).

Under the above schemes, specified income from designated investments is tax-exempt. The scope of the exemption is relatively broad and includes gains and income arising from financial assets such as stocks and shares, debt securities and loans. Gains and income arising from Singapore immovable properties are, however, excluded from the tax exemption.

Families who apply for the tax incentives enjoy tax certainty on the tax treatment of income/gains received by their funds.

Tax exemption schemes in Singapore for funds managed by a single family office

Item	Section 13D	Section 13O	Section 13U
Fund's legal form	Companies, trusts and individuals	Company incorporated in Singapore, including VCC	Companies, trusts, limited partnerships and all forms of fund vehicles, including VCC
Fund's residence	Non-tax resident of Singapore with no presence in Singapore	Singapore tax resident	No requirement
Fund administrator	No restrictions	Singapore-based	Singapore-based if the fund is a Singapore-incorporated and resident company
Investors	Non-qualifying investors (i.e., Singapore non-individuals investing above a certain percentage in the fund) would need to pay a financial penalty to the Singapore tax authorities	Non-qualifying investors (i.e., Singapore non-individuals investing above a certain percentage in the fund) would need to pay a financial penalty to the Singapore tax authorities	No restrictions
Minimum AUM (Net Asset Value)^a	No restrictions	S\$20 million in Designated Investments at the point of application and throughout the incentive period	S\$50 million in Designated Investments at the point of application and throughout the incentive period
Approval requirement	No approval required from the MAS	Approval required from the MAS	Approval required from the MAS
Reporting requirement	Annual statements to investors Tax filing to IRAS for non-qualifying investors	Annual statements to investors Tax filing to IRAS for non-qualifying investors	No requirement
Income tax filing	Generally not required	Annual tax return	Annual tax return
Annual declaration to MAS	Not required	Required	Required
Minimum spending of the fund	No restrictions	<ul style="list-style-type: none"> Tiered Spending Requirement, with minimum S\$200,000 in Local Business Spending Eligible donations and grants⁹ to blended finance structures with substantial involvement of financial institutions in Singapore can be recognized in Tiered Spending Requirement computation 	
Minimum investment professionals (IPs)	No restrictions	2 IPs, with at least 1 IP being an individual who is not a family member of the beneficial owner(s), employed by family office (FO) at the point of application and throughout the incentive period	3 IPs, with at least 1 IP being an individual who is not a family member of the beneficial owner(s), employed by family office (FO) at the point of application and throughout the incentive period

Item	Section 13D	Section 13O	Section 13U
Minimum Capital Deployment Requirement (CDR)	No restrictions	<p>The fund must invest the lower of: (i) 10% of its AUM or (ii) S\$10 million in:</p> <p>Option 1: Equities, REITs, Business Trusts or ETFs listed on MAS-approved exchanges</p> <p>Option 2: Qualifying Debt Securities</p> <p>Option 3: Non-listed funds distributed by licensed financial institutions in Singapore</p> <p>Option 4: Investments into non-listed Singapore-incorporated operating companies with operating business(es) and with substantive presence in Singapore</p> <p>Option 5: Climate-related investments</p> <p>Option 6: Blended finance structures with substantial involvement of financial institutions in Singapore</p> <p>The fund must meet the CDR by the end of the first full-year Annual Declaration^c and in each subsequent financial year.</p> <p>1.5x or 2x amount invested in eligible investments are recognised for CDR computation^d.</p>	
Private Banking (PB) account	No restrictions	The fund must have a PB account with a MAS-licensed financial institution at the point of application and throughout the incentive period.	
Other tax features	Not applicable	Access to the Singapore Double Tax Treaty network	<ul style="list-style-type: none"> • May have access to the Singapore Double Tax Treaty network • Cannot concurrently enjoy other incentives • Scheme is applicable to a Master-Feeder-SPV structure, subject to conditions which may need to be satisfied on an aggregate basis

^aAUM refers to the Net Asset Value based on accounting convention.

^bGrants refer to contribution with no return of principal and income.

^cThe assessment of the 10% of AUM or S\$10 million requirement is determined (based on monthly average figures) at the end of the financial year: Average month-end CDR met \geq S\$10 million or 10% of AUM as at the end of each financial year, whichever is lower.

^dThe CDR computation refers to the average monthly total CDR of the Fund.

Tiered Spending Requirement for 130/U tax incentive scheme

AUM of Fund at the end of its financial year		< S\$50 million	≥ S\$50 million and < S\$100 million	≥ S\$100 million
Spending requirement of the Fund in each Year of Assessment		≥ S\$200,000	≥ S\$500,000	≥ S\$1 million
Spending requirement may be met by	Local Business Spending		Minimum S\$200,000	
	Eligible donations to local charities	-	Recognised as 1x spending	
	Grants ⁹ to blended finance structures	-	Recognised as 2x Spending	

Capital Deployment Requirement (CDR)

The amount invested in certain categories of eligible investments are scaled up by a multiplier when computing if the CDR has been met:

2x multiplier	1.5x multiplier
<ul style="list-style-type: none"> 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 in Singapore with primary mandates to invest in Singapore-listed equities on MAS-approved exchanges 	<ul style="list-style-type: none"> Concessional capital in blended finance structures with substantial involvement of financial institutions in Singapore

The tables above reflect the revised conditions for the Section 13O and 13U schemes for single family offices, which came into effect on 5 July 2023.



Philanthropy Tax Incentive Scheme for Family Offices

The Philanthropy Tax Incentive Scheme for Family Offices (PTIS) seeks to encourage greater philanthropic giving among Single Family Offices (SFOs) and the growth of philanthropic capabilities in Singapore. The scheme is scoped to SFO applicants who are managing a fund(s) under Section 13O or Section 13U of the Income Tax Act 1947.

Whilst SFO applicants will be required to achieve additional hiring and economic commitments on top of their existing commitments in relation to the award of their Section 13O or Section 13U tax incentive scheme, Qualifying Donors approved under the scheme will be able to claim 100% tax deduction for their overseas donations made through Qualifying Local Intermediaries for a period of 5 years starting from an approved incentive commencement date within the period from 1 January 2024 to 31 December 2028. The tax deduction is capped at 40% of the Approved Qualifying Donor's statutory income.



Global Investor Programme

Singapore has improved the regulatory framework for the Global Investor Programme (GIP) for families. The GIP started in 2004. It is an investment-based route that awards Singapore Permanent Residence (PR) status to investors who invest at least S\$2.5 million in Singapore and meet certain criteria. Investors may invest in new or existing business entities in Singapore or in a GIP fund that invests in Singapore-based companies.

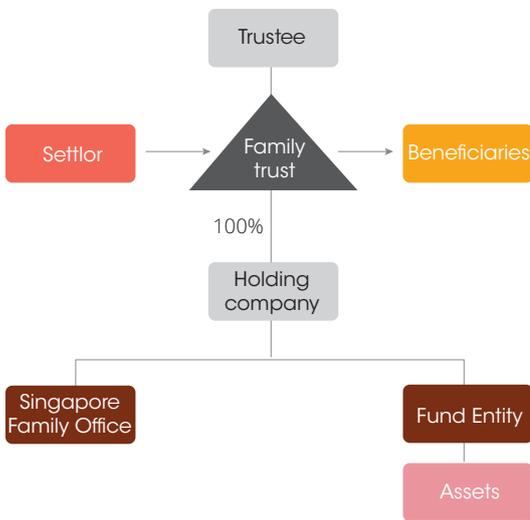
Investors can also qualify under the program if they invest at least S\$2.5 million in a new or existing Singapore-based single family office having net AUM of at least S\$200 million. The eligibility criteria were relaxed with effect from 1 March 2020 to encourage families and business owners to set up family offices in Singapore.

Selection of a suitable vehicle and structure

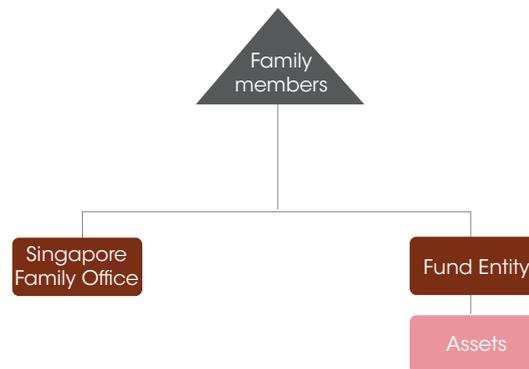
Depending on each family’s requirements, the family office fund structure could range from simple investment holding structures to complex arrangements involving multiple trusts, sub-trusts for individual beneficiaries, private trust companies, multiple funds and complex asset classes, among others. In the simplest form, the family members would hold the family office and fund directly.

Two common structures (with and without a trust) are shown in the diagram below.

Structure 1 – with a trust



Structure 2 – family members are direct shareholders



Singapore family office

The family office is a Singapore-incorporated company. Generally, single family offices managing funds on behalf of a single family will qualify for licensing exemption if the family office and the fund entity are within the same group of companies (i.e., they are related corporations). Family offices that do not meet the criteria may need to apply to MAS to obtain a specific licensing exemption.

In Structure 1 above, the family office can rely on existing exemptions under the Securities and Futures Act 2001 as both the family office and the fund entity are related corporations, being wholly-owned subsidiaries of the holding company. However, where the fund entity and the family office are held directly by the family trust or the individual family members (as in Structure 2), the existing exemptions under the Securities and Futures Act 2001 would not be available, and the family office would need to apply to MAS for a specific licensing exemption.

Fund entity

The choice of fund vehicles is wide-ranging, and families can choose between onshore (Singapore) and offshore vehicles. Commonly used vehicles in Singapore include a private limited company, a limited partnership and the VCC (refer to discussion on VCC below). Families also have the option of choosing offshore structures, such as the exempt limited partnership, exempted company and segregated portfolio company in the Cayman Islands and the BVI.

Historically, the BVI and the Cayman Islands have been used to establish fund vehicles primarily because such structures have typically been unregulated in these jurisdictions. This has changed with the introduction of private funds regulations in many offshore jurisdictions. In addition, offshore private wealth structures have become less attractive in recent years due to the increased international pressure to adopt stricter disclosure requirements and improve transparency. As a result, wealthy families are turning to onshore structures.



The selection of a suitable fund vehicle and location depends on various factors, including:

- Taxation (e.g., taxation of the vehicle, availability of tax incentives, establishing substance and tax residency, impact of anti-avoidance rules, application of controlled foreign corporation rules, among others)
- Complexity of setup
- Cost of setup and maintenance
- Privacy
- Ease of distributions
- Reporting and compliance obligations
- Non-tax factors including political stability, robust financial regulations, and supportive ecosystem

Holding company

Structure 1 involves a holding company that directly holds the shares in both the family office and fund entity. The holding company can be (although need not be) a Singapore company. Some investors may choose not to interpose a holding company between the trust and the family office and fund entities due to restrictions on investor profile under Section 130 and the additional setup, annual maintenance, and compliance costs resulting from additional layers in the structure.

Where the structure includes a trust, third-party trustees generally prefer to interpose a holding company instead of holding the fund vehicle directly to mitigate risk and facilitate trust administration.

Trust

Some families may incorporate trust structures on their family office platform. The primary purposes for setting up a trust include succession and estate planning, asset protection against creditors and in the event of a marital breakdown, wealth planning, maintaining confidentiality of asset information, ensuring continuity of the family business, and tax minimisation. In addition, a trust facilitates the process of transferring an estate after the settlor passes away whilst avoiding lengthy and potentially costly probate.

Families have traditionally set up their trusts in Jersey, the BVI or the Cayman Islands. Jersey is a renowned trust jurisdiction with tax exemptions for trusts with foreign grantors and beneficiaries. It is highly regulated, and this generally translates to more stringent requirements administratively. The BVI and Cayman Islands are considered tax havens and have increasingly come under increased global scrutiny and political pressure to improve disclosure and transparency. As a result, families are considering onshore jurisdictions to hold their wealth rather than traditional offshore jurisdictions.

Singapore is becoming a popular jurisdiction to set up a trust because it is regulated and has robust trust laws and other legislation to govern trust companies. Moreover, Singapore has a competitive tax regime for trusts, including a competitive corporate tax rate, a territorial tax system, an extensive double tax treaty network, no capital gains tax, estate or inheritance duty, and tax exemptions for trusts.

Where Singapore is the governing law of the trust, the settlor is able to retain investment or asset management powers without invalidating the trust. However, the trust period is limited to 100 years, whereas a trust governed by Jersey law may continue in perpetuity.

Trust planning can be complex, and due consideration should be given to the design of the trust. Each trust setup and governance framework would depend on a family’s unique objectives and circumstances.

Individual shareholders/settlers/beneficiaries

For the ultimate beneficial owners (non-Singapore tax residents), due consideration should be given to their home country tax and reporting implications arising from establishing a family office and transferring assets into the family office structure.

VCC

The VCC was introduced to increase the international competitiveness of the fund industry in Singapore by encouraging funds to incorporate and operate in the country through a more flexible corporate structure. The Variable Capital Companies Act 2018 came into effect on 14 January 2020.



The VCC has the characteristics of a Singapore company because it is a separate legal person, but has its own characteristics as well.

Unlike a company, the VCC offers greater privacy as its financial statements are not required to be made public. The VCC also provides flexibility in the issuance and redemption of share capital. The VCC can use its capital/net assets to redeem shares and distribute dividends out of capital.

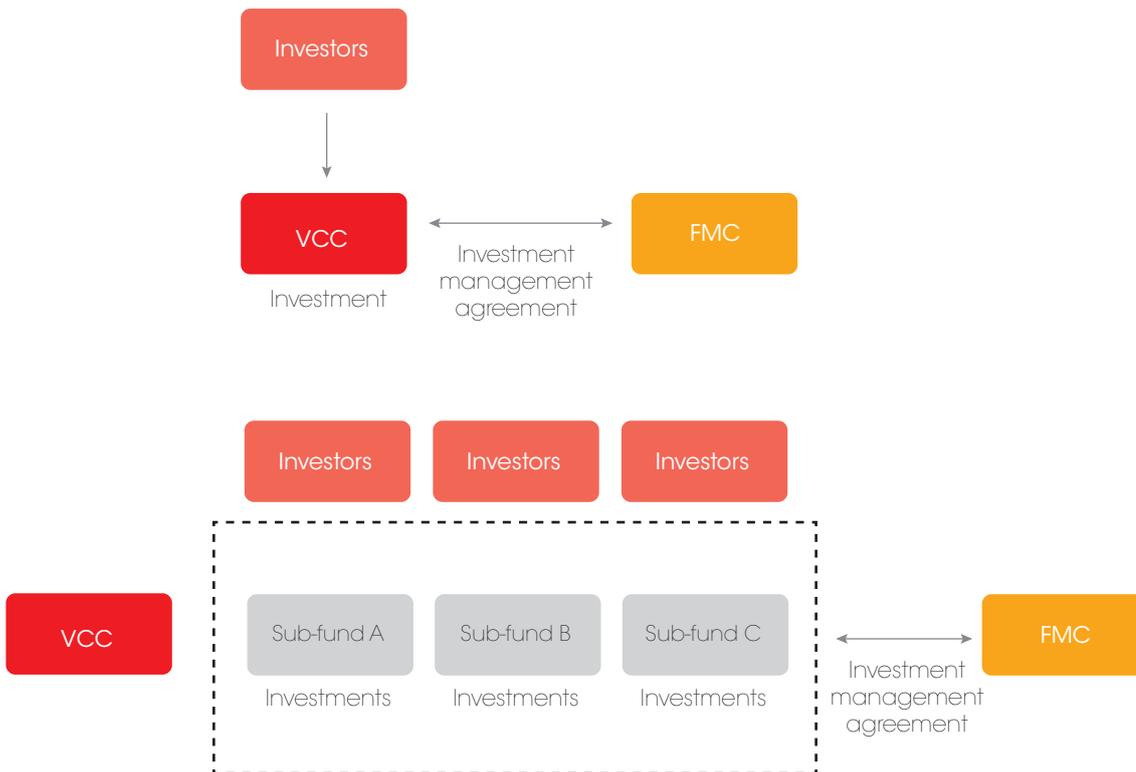
However, a licensed Singapore fund manager is required to manage the VCC. This means that single family offices are currently not able to access the advantages offered by a VCC structure.

The MAS is currently looking into the possibility of expanding the scope of permissible fund managers to allow single family offices to manage VCCs¹⁰. In the interim, there are licensed fund managers who are willing to work with families that wish to set-up a VCC.

A VCC can be set up as:

- 1 a single standalone fund; or
- 2 an umbrella fund with a segregated sub-fund structure, with each sub-fund having its own investment strategy and holding its own investment portfolio.

This is illustrated below.



Under the umbrella fund structure, the sub-funds do not have separate legal personality. The assets and liabilities of the sub-funds would however be ring-fenced (that is, legally segregated). This protects the investors in sub-funds, who would generally not be exposed to the risks under other sub-funds.

The VCC may therefore be a flexible option for multi-family offices that wish to implement various investment strategies under one investment company and accommodate the wishes of multiple family members.

The MAS has introduced a VCC Grant Scheme to help defray the costs of incorporating and registering a VCC. Tax incentives under the Section 130 and Section 13U schemes are also extended to a VCC.

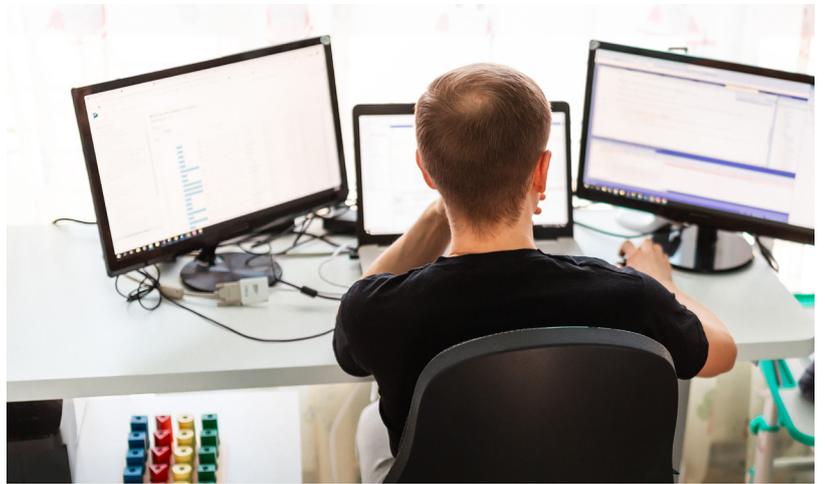
The MAS has seen significant interest in the VCC structure since its introduction¹¹, and the popularity of onshore fund structures is expected to continue to rise.

Private wealth structures in offshore jurisdictions and the impact of the regulatory environment

In recent years, there has been an increased international focus on the transparency and substance of offshore structures. As a result, offshore jurisdictions have implemented the OECD standards of transparency – in particular, the Common Reporting Standard (CRS).

In addition, several offshore jurisdictions (including the BVI and the Cayman Islands) have enacted local “economic substance” legislation in response to a move by the European Union to counter perceived harmful tax practices. The economic substance legislation mandates an “adequate” level of economic substance for resident entities conducting “relevant activities”. Carve-outs for certain entities and activities are in place.

In-scope entities are required to be managed and directed in the offshore jurisdiction and demonstrate that they possess adequate substance (e.g., suitably qualified employees, premises in the jurisdiction and operating expenditure). Reporting mechanisms have been implemented to ensure compliance, while penalties and sanctions are levied for non-compliance.



A few offshore jurisdictions have also introduced private fund regulations. The Cayman Islands introduced the Private Funds Law in 2020, and the BVI and other offshore jurisdictions followed suit. These regulations impose registration and ongoing compliance obligations, such as a requirement to prepare audited financial statements and possibly, record investments at fair value, which could mean significant valuation costs for families.

The stricter regulatory environment in the offshore jurisdictions has led to greater interest in using onshore structures such as Singapore fund vehicles.

Operational considerations

Governance

From an operational perspective, it is important to have an effective governance structure in place for the family office. Such a structure should formalise the activities of the family office, including how it is run and the relationship between the family office and family members. The governance framework should serve as the means by which family members make decisions on key issues. The governance framework can be regularly updated to accommodate the changing circumstances of the family (such as marriage, divorce, children and other external events).

Without an appropriate governance structure, the survival of the family office would be threatened when families have disputes, and the family wealth could be put at risk because of missed investment opportunities. Some important factors to consider in implementing a governance framework, include:

- **Segregating duties between shareholders, employees, the board of directors and the family members.** There should be a clear delegation, and the roles and responsibilities of the family members and the rights and obligations of the management and board of directors should be set out. The board should be focused on how decisions are made and how those decisions should be implemented, whether through external professionals or family members or both.
- **Opening up communication channels among family members.** A culture of transparency and communication should be promoted to facilitate decision-making and openness among family members. This can be done through the family office arranging frequent meetings among family members and between family members and the family office staff.
- **Developing a vision and mission for the family office.** The family should be involved in drafting the vision and mission, and these should be consistent with the values of the family. The mission and vision are often documented in the form of a family charter, which can be continually revised over time. A shared vision and mission would ensure that decisions align with the family's values.
- **Succession planning for the family.** The family office has an vital role to play in the wealth transition and succession planning for the family. A well-planned and well-paved succession provides a level of assurance on the procedures to be undertaken after the family patriarch or matriarch passes on. This will help minimise confusion and disagreements over family affairs and promote harmony among family members.
- **Ensuring a suitable composition of the board of directors.** There should be involvement of both executive and independent directors on the board to maintain a degree of independence. Senior family members can also be involved. The directors chosen should have the relevant expertise.
- **Ensuring the appropriate mix of staff.** A combination of professionals with the right skillsets and values should be hired in the family office. The following section elaborates on the appropriate organisational structure to support the family office and governance structure.





Organisational structure

The size of the family office may range from minimal headcount (i.e., one or two people) to a larger headcount depending on the AUM and the functions to be carried out. Hiring considerations should include individuals with the relevant expertise and individuals with similar beliefs and cultural compatibility with the family.

A family office would usually consist of:

- An executive team (which can include a CEO, CIO, CFO and/or COO) that reports directly to the family members or a representative of the family board.
- An investment team (led by experienced managers who are supported by analysts), that sources deals and investment opportunities, executes transactions and monitors the performance of the investments. The structure of the team would depend on the investment focus of the family office (e.g., financial investments, private equity, venture capital, renewables, art collections, impact investments and more).
- Back-office team to provide support on accounting, legal, tax and risk management, HR and operations, IT and portfolio management.
- Family members who are normally employed in the family office as part of the executive and/or investment team.

Regardless of the size of the family office, there should be a structured hiring policy in place, as family offices are competing with other institutions to attract top talent. Securing the best talent demands an awareness of the market rate for such skills and, increasingly, an understanding of more flexible reward structures especially for those employed in specialised sectors such as private equity and real estate. It is crucial for family offices to identify their talent needs and have proper recruitment and retention policies to ensure the successful running of the family office and make sure that the family's objectives can be met.

In evaluating their manpower policies, families should also decide the extent to which they wish to outsource their functions to achieve an appropriate balance between internal and external resources, and to secure an optimal cost/benefit result.

Family office cost models

With all the benefits a family office brings, there is a cost to running a family office, which varies from family to family. Though each family office is unique and there is no fixed rule on the operating costs - staff costs (compensation and benefits) generally take up a significant portion of the total running costs. This is because the level of talent would drive and determine the success of a family office. Other costs could include overheads and technology, external professional service fees, investment advisory fees and fund administration fees.

A family office that delivers customised services to the family should be adequately compensated. When the family office and the fund entity are considered related parties, there may be a risk of scrutiny by tax authorities of the fee charged for the services.

Therefore, the pricing basis of fees is crucial, and several pricing models exist as a matter of common industry practice:

- A fixed hourly fee for the actual services delivered.
- A fee as a percentage of assets under management.
- Cost-plus (using the costs incurred by the family office as a base).
- Fixed fees based on agreed scope of services.
- Hybrid (combination of any of the above).

Regardless of which pricing model is adopted, the fee should be commensurate with the assets to be managed and services to be delivered by the family office. Families can opt to perform a benchmarking study from a transfer pricing perspective to support the fee structure. Such a study would assure the family that the fees charged are reasonable and comparable to that charged by an unrelated third party.

Outsourcing solutions

Despite the wide range of functions that can be performed by the family office, some functions are better outsourced and delivered by external parties. Otherwise, the cost of maintaining a family office could be prohibitive. The decision to insource or outsource depends on a range of factors: the number of family members served by the family office, the variety and complexity of assets to be managed, expertise, data confidentiality, and more.



For example, the daily bookkeeping and record-keeping could be performed in-house, as data could be confidential. Performing these functions in-house provides the team with immediate access to, and control of the information. The same applies to cash management and administrative services, as these require close or daily monitoring.

Functions that require highly specialised skills or access to sophisticated technology platforms are commonly outsourced to third-party service providers. Doing so allows the family office to gain from the deep technical skills of experienced professionals and benefit from the economies of scale. In addition, by engaging an external advisor, independence and objectivity are maintained.

The diagram on the next page illustrates the types of services that are most commonly done in-house or outsourced.

Scope of family office services

Strategic services	Technology	Tax and wealth planning	Investments	Risk management	Philanthropy	Legal	Family	Finance	Operations
Family education	Social media	Tax compliance	Investment policy	Insurance	Philanthropic mission	Monitoring & oversight of outside counsel	Concierge services	Bookkeeping & reporting	Talent
Governance	Technology platform & controls	Tax planning	Asset allocation	Reputational Risk	Family foundation & operations	Document preparation	Household help	Cash Management	Office policies & procedures
Succession planning	Cloud computing	Wealth transfer planning	Manager selection	Fraud prevention & detection	Family foundation oversight	Contractual review	Property management	Budgeting & forecasting analysis	
	Family & business information continuity	Investment structure design	Bench-marking	Physical security	Charitable bench-marking	Contract oversight	Collections management		
			Performance reporting	Cyber risk	Due dillgence	Litigation oversight	Travel		
				Financial controls	Miscellaneous philanthropic activities	Regulatory compliance			

■ Most often done in-house
 ■ Sometimes done in-house
 ■ Most often outsourced

Source: Deloitte, The Family Office Handbook, 2020

Ultimately, the decision to outsource functions largely depends on the family’s expectations, objectives and focus. Outsourcing provides a way to manage costs and achieve greater operational efficiencies while allowing the family to stay focused on the roles and functions essential to the family office’s purpose.

While there are many benefits to outsourcing, the outcome of outsourcing would depend on the appropriate selection of third-party service providers. Therefore, in choosing external partners, families should be cautious not only to opt for service providers who are capable but who also understand the family’s values.

What challenges does a family office face?



Increased compliance burden

One key compliance challenge is the increased complexity in tax, regulatory and accounting requirements. Families are investing in diverse assets in global markets ranging from traditional equity and fixed-income securities to private equity, direct investments in ventures, real estate, derivatives, cryptocurrencies and hard-to-value art collections, among others. Moreover, the investments are made through separate entities spanning multiple jurisdictions, adding complexity to the structure and increasing the burden of compliance across the globe. As a result, it becomes a challenge to keep abreast of regulatory obligations and ensure compliance due to the depth of knowledge and experience needed.



Generational change

For many family offices, the greatest challenge is generational change. How do you prepare for and manage the transition from one principal, especially the original wealth creator, to the succeeding generation? Educating and motivating the next generation is seen as the single most significant concern for family offices.



Professionalising the family office

Family offices increasingly recognise the need for specialist skills and expertise in specific disciplines, particularly in areas such as IT and HR. Hence, identifying attracting and retaining the right talent to support the family's changing needs is a growing concern for family offices.



Competing priorities and blurred lines

Family offices are unusual in that they often have multiple centres of power and decision-making: the family members, the family office executives and the executive management of the operating companies. This may be further complicated by the family office executive(s) sitting on the board of the operating companies, and members of the family, especially the principal, may have roles in the family office and the operating companies. Consequently, there is an understandable concern with challenges with governance and effective communication in these circumstances.



Technology

Technological advance is another major concern for family offices. How do you stay up to date and secure? Family offices are right to be concerned – the risks and threats are multiplying and many families seem insufficiently aware of the vulnerabilities created by accessing online platforms.



Cyber security

The volume and complexity of cyber-attacks are rising, and family offices are as vulnerable, if not more so, than major corporates – not least because they often lack the expertise to assess the risk and the resources to protect themselves fully. The use of unsecured networks, social media, the mixing of corporate and private data – especially when travelling – and insufficient security around financial and confidential data all put the family's assets and reputation at risk.

Conclusion



As more HNW families hold assets and residencies across borders, the importance of succession planning, wealth preservation and wealth transfer has never been higher. Establishing a family office in Singapore, a jurisdiction that offers political and economic stability as well as excellent infrastructure, has thus become an attractive proposition.

In addition to managing the family's wealth, the family office provides a structured platform for families to formally engage with professional advisors to help provide personalised and highly responsive advice on tax, legal, and estate management matters, as well as guidance on key local matters such as education and healthcare. However, each family office is unique, and families must consider their values and objectives before selecting the structure and services to suit their needs – decisions that will also affect the tax treatment as well as the administration of the entity.

Beyond structure, there are many operational considerations when setting up a family office such as compliance requirements, technology and cybersecurity, while managing the challenges of generational transition. All of these factors mean that professional advice should be sought early in the process – from family office advisors to external wealth planners and tax and legal service providers – to ensure that the family's wealth is preserved for generations to come.

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