Deloitte Private's Junwei Han Provides Update on Key HNW & UHNW Tax Issues in Greater China

Junwei Han is a Director at Deloitte Private and specialises in tax matters. Junwei was a speaker at the Hubbis HNW Insurance Summit in Singapore on September 6 and offered delegates a detailed Workshop reviewing tax developments in the Greater China markets. This short review serves as a brief introduction to some of the central points that Junwei highlighted around tax-related developments in China, Taiwan, Hong Kong and all set with reference to the current HNW- and UHNW-specific wealth management and family office environment in Singapore.

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Junwei Han
Deloitte Private

Junwei is a legally trained tax professional with deep tax technical expertise in Singapore, and more broadly experience across the Asia Pacific region. He currently serves as a Director in the Deloitte Private tax practice in Singapore. He provides tax advice to clients across a broad range of matters, including wealth management, trust structures, international tax planning, fund structuring/formation, and CRS/FATCA, amongst others.

Deloitte Private is a specialised offering within Deloitte that serves HNW and UHNW individuals, family businesses, family offices and other private enterprises in the region.

Armed with a comprehensive slide deck, Junwei began with reference to Singapore, noting that it is a benign tax jurisdiction with relatively low rates of income tax, with minimal income tax on investments, and no capital gains or IHT.

Singapore - an island within the ocean of global compliance

But he cautioned that "tax can be a problem for clients who are coming into Singapore from the Greater China region or other high tax jurisdictions… And what I really want to focus on [in this session] is CFC, or Controlled Foreign Corporation, taxes."

Junwei explained that clients in Singapore who receive income through a vehicle in Singapore can often be structured to be non-taxable in Singapore, either by way of exemption or due to income falling outside Singapore's territorial tax system. Hence, Singapore's income tax is often not the key issue. However, for many clients from high tax jurisdictions, their home jurisdiction might impose CFC taxes on such a vehicle, even if vehicle and assets are based in Singapore.

He also explained that we live in a tax transparent world. "It is no longer the case that you can park money offshore, and hope that no one finds out," he cautioned, pointing out that Singapore exchanges CRS information with China, Hong Kong, Malaysia, Indonesia, Thailand, and India.

China

He then ran through the different countries, starting with China, which has worldwide taxation for its tax residents, and that is solely based on days spent there, but also on the names on house registrations or 'hukou'. "People can come to live and reside and work in Singapore, but if they still retain their 'hukou' in China, they are [in practice often] viewed from a China perspective to be China tax residents," he reported. "And Singapore will also view these individuals to be Singapore residents as well, so that involves dual tax residency." And he added that still being considered as tax resident in China creates issues related to CFC.

While a solution is to cancel the 'hukou' and give up the China tax residency, he explained some individuals may be reluctant as as the house registration links to certain entitlements, including access to social services. "So people coming to Singapore often want their cake and eat it, as the

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Junwei also pointed to China's shift to Big Data as part of tax administration (as exemplified by the Golden Tax System), which for now is focused on multinationals and corporates, but will likely eventually target individuals as well. "China's tax authorities clearly intend to strengthen enforcement, especially relating to HNW and UHNW individuals," he stated. "Tighter and more specific CFC rules are coming. More audits are coming. Information exchange will be happening. So, be fully aware that whatever structures any Chinese person has in Singapore will get reported back to China."

Taiwan

Junwei moved on to focus on Taiwan, noting that it is in many ways similar to China and its house registration and residence rules, albeit with some small differences. A key difference of note in the tax rules is that, unlike China, Taiwan has inheritance and gift taxes.

Taiwan's CFC laws took effect this year. With a threshold set at 50%, it has implications for residents moving to Singapore from Taiwan as Singapore is on Taiwan's so-called blacklist of low-tax countries.

Junwei then moved in some detail to how to mitigate CFC taxation related to Taiwan, noting that like in China, giving up the house registration comes with a variety of negatives for anyone who wishes to be connected to Taiwan in the future, and is therefore, he said, a personal hurdle for many.

Junwei also remarked that Taiwan is not a signatory to the Multilateral Competent Authority Agreement for CRS, and only currently has bilateral exchange treaties with Japan, Australia, and the UK, and thus far, surprisingly, not with Singapore, which might only join in once other centres such as Switzerland, Hong Kong and others sign up with Taiwan.

Hong Kong

This brought Junwei to Hong Kong, noting that it is also low tax, but that there is also a fairly sizable pool of Hong Kong HNWIs in Singapore. He noted that Hong Kong is responding by introducing a new tax exemption regime for family offices, similar to Singapore.

"Hong Kong is now more similar to Singapore in providing tax exemptions for family fund vehicles managed by a family office," he reported. "And there are specific and much clearer rules." Very evidently, the competition is really heating up.

He pointed to some key differences, such as Hong Kong's lower expectations around employees and their proven experience, amongst others, but concluded that he expects Singapore to remain reasonably competitive given its own incentives and the fast-growing wealth management ecosystem.

"Actually," he added, "for many of the big Hong Kong families who are in Singapore or have set up family offices in Singapore, the question may not be either [Singapore] or [Hong Kong], but can I do both?" Junwei commented. "[The family] might want to have a Singapore family office and funds in Singapore, but I also want to leverage the Hong Kong regime. That's something that we continue to explore with clients."

Selective capital gains taxes? Surely not!

He drew the Workshop towards a close by referring to the Hong Kong FSIE, similar in essence to its proposed Section 10L, which is a new capital gains tax on the disposal of foreign assets that are received in Singapore. "It has raised a bit of a stir," he

told delegates. This is essentially because in both cases they seem to be roundabout means of imposing capital gains selectively.

"Not all clients will be in the sights, but some will, and it is causing concern amongst the wealth management community in Singapore" he noted.

His final word was that Singapore is in an evolutionary phase in terms of the wealth management ecosystem, and in terms of life insurance solutions, there is rising demand for interesting wealth, estate and planning products, for example, Private Placement Life Insurance, or PPLI. "But whatever structures or products are employed, everyone must be very aware of the implications for domestic and international compliance," he concluded. ■

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