

How is Singapore Expanding its Importance as a Wealth Management Centre?

Singapore is a full service international financial centre with well-devised government schemes in place to enhance its scope and reputation, as well as a commitment to low taxes. The government has done much to boost brand 'Singapore' and the country also offers an excellent lifestyle, good education, strong security and a reputed legal infrastructure. A panel of leading lawyers surveyed Singapore's appeals as a wealth centre in the last panel of the Hubbis Asian Wealth Solutions event.

These were the topics discussed:

- *How is Singapore positioning itself in comparison to other financial centres?*
- *Is Singapore becoming more important in comparison to other centres as clients become better informed*
- *What are you currently seeing in the private client world in Singapore?*
- *What are the key tax issues you are advising clients on today in Singapore?*
- *How will the tax system in Singapore change?*
- *Will reducing or removing tax exemptions dramatically change the value proposition that Singapore represents?*
- *Will the foreign trust tax exemptions be scrapped?*
- *What changes will we see from Singapore to make it even more appealing?*

PANEL SPEAKERS

- **Kylie Luo, Executive Director, Tax, Private Client Tax Services Leader, BDO**
- **Dawn Quek, Principal in Tax and Wealth Management Practice, Baker McKenzie Wong & Leow**
- **Edmund Leow, Senior Partner, Dentons**
- **Vikna Rajah, Partner, Head of Tax, Trust & Private Client, Rajah & Tann**
- **Woon Hum Tan, Partner, Head of Trust, Asset & Wealth Management Practice, Shook Lin & Bok**



EXECUTIVE SUMMARY

Singapore has created a forward-looking "brand"

Singapore is a world-class international financial centre and services ecosystem offering a variety of tax-incentive schemes to appeal to wealthy families and businesses from across the globe. The government's stability, top-flight regulation, high-quality reputation and excellent lifestyle combine to draw in new money continuously.

Incentives are for "real" economic activity

The much-vaunted incentives such as the S-VACC (Singapore Variable Capital Company) and the 13X initiative that encourage the establishment of family offices, business headquarters and asset management expansion are designed to achieve real economic activity. Those who play "games" are not welcome and will not achieve the necessary approvals.

Singapore's AUM growing apace

The result of all these advantages and programmes saw the country's combined assets under management (AUM) surge more than 20% in 2017 alone to more than USD3.3 trillion. The growth continues apace.

Credibility the key

The island republic's long history of political stability dates back to its independence from direct British rule almost six decades ago. The rule of law, government stability, government reputation, government predictability, are all vital factors supporting the wealth management environment.

Substance supports the island's ecosystem

If corporate actions are conducted for solid, transparent business reasons, they are welcome. Singapore expects a company to have a business purpose, which will be essential also for those involved if they wish to reside here. The growth of tangible activity benefits the economy at large, with ever-improving lifestyle benefits.

Singapore is an onshore financial centre

Singapore is intent on developed its financial expertise and services ecosystem onshore. Decisions are made at home, and the offshoring of management or investment decisions, or of revenue flows are strongly discouraged.

Mainland Chinese HNWI's boosting Singapore

There are no specific incentives for China, but like the HNWI's from India and Indonesia in particular, their presence in Singapore is expanding rapidly, due to the island republic's many qualities and the perceived independence of Singapore.

Many international businesses setting up HQs in Singapore

The instabilities of many Western, Asian and other countries around the world, combined with the significant regulatory and tax tightening in many of those countries, is leading more and more international families to headquarter in Singapore, where they can more easily comply with transparent and stable regulations. As this happens and as more top-flight corporate leaders move to Singapore, the wealth sector will also benefit.



A LAW FIRM PARTNER BEGAN by highlighting some of Singapore’s incentive schemes, for example, the S-VACC (Singapore Variable Capital Company) initiative. “This is an excellent programme with a host of clear advantages,” he said. “First, distributions no longer have to be out of profits, the companies no longer need resolutions, and we can also achieve asset segregation within one company, so you can sell different assets. The result is the government has produced a new entity that will help further boost the island’s financial sector prominence.”

AUM rising fast

The same expert highlighted some key facts, including the 2017 estimate of USD3.3 trillion in assets under management (AUM), up more than 20% from 2016. “The government continues to forge ahead,” he reported, “so, for example, the low corporate tax rate remains low and there is no inheritance tax in place or planned. It is just as important to see what is not on the table as what programmes are in place to retain the attractions of this jurisdiction.”

The Chair alerted the panel to the findings of a survey taken amongst the delegates on the day of the event, finding that more than 90% believe Singapore’s appeals as a regional wealth management centre have improved in the past five years.



KYLIE LUO
BDO



EDMUND LEOW
Dentons

Smart regulation combined with forward-looking incentives

“Singapore has performed remarkably well from a tax and regulatory viewpoint,” opined one guest. “For example, there is no licensing required for a family office, unlike in Hong Kong, or Dubai, or even Luxembourg. The tax incentives are well constructed and are here to stay. We provide investors with a lot of certainties, great confidence. My HNW clients tell me they know exactly what the taxman wants here, it is totally clear, and the government then spends the tax revenue very wisely, reinvesting in the country.”

A fellow panellist gave further insight, adding that Singapore’s tax system does nevertheless evolve, along with international developments. “Tax here will continue to evolve, and I believe that the thresholds will in the future not be the minimum type levels for qualification, those days are coming to an end. The criteria will rise so that Singapore can also continue to build its economy.”

Another expert highlighted the island republic’s long history of political stability. “The rule of law, government stability, government reputation, government predictability, these are all vital factors supporting the wealth management environment here,” he observed. “Credibility encapsulates all this, I believe.”

As to substance, he reported that as long as all corporate actions are conducted for a business reason - unlike for example an entity created in an offshore centre such as the BVI - then the promoters are clear with the authorities.

“Singapore expects a company to have a business purpose,” he elucidated, “which will be essential also for those involved if they wish to reside here. Singapore does not allow people to ‘game the system’, everything must be for a defined purpose, especially as we have a highly comprehensive list of double tax treaties. If not, those jurisdictions would not sign up with us.”

Virtuous circles within virtuous cycles

Another expert noted that rules on local and independent directors are of considerable importance and that there is a virtuous circle of incentives, investment and business activity, all recycling activity into the economy.



DAWN QUEK
Baker McKenzie Wong & Leow

“We are not offshore, not even mid-shore, we are an onshore international financial centre,” he explained. “Our infrastructure here relies upon substantive activity that in turn supports the ecosystem, and in return, the relevant tax incentives are allowed.”

Another lawyer focused attention on the Section 13X (Enhanced Tier Fund Scheme) supporting the development of family offices in Singapore. “We will learn in coming years whether that be kind of incentive scheme will need to be calibrated to require more economic activity taking place in Singapore,” she noted. “I also want to add that

clients must be aware that taking advantage of the specific rules in a technical but very contrived manner will not be convincing. We see in Singapore, as well as around the region, how authorities are really tightening their enforcement activity and really looking at situations where people are taking advantage of the tax rules for tax avoidance purposes.”

Players no longer welcome

She explained that she had wanted to emphasise this because many law firms have issues with clients potentially seeking to play the system. “For example, we might have a potential client from another country come to the office aiming for 13X treatment, with USD15 million to invest and looking to appoint three fairly lowly-paid investment staff. But when the MAS reviews the application and does not see sufficient economic activity emanating, and therefore not enough benefit to Singapore, they will not grant the exemption. Contrived efforts to take advantage of schemes are not welcome.”

Another expert referred to the practice of certain fund managers based in Singapore to charge based on cost-plus, on the basis that there is an offshore investment committee making the discretionary decisions. “In some cases, this might be legitimate,” he said, “but if it is simply offshore rubberstamping of onshore Singapore decisions, it is dubious to allocate the remuneration of the Singapore fund manager simply based on cost.”

Singapore’s credibility rising inexorably

One lawyer remarked that some clients traditionally did not understand the difference between tax evasion and tax planning. “Our role is to advise them on how to minimise their taxes, within the law,” he commented. “We want Singapore to be a credible jurisdiction. I am certainly hoping that as the world gets more transparent there are fewer clients in denial on these matters. My hope then is that everyone comes to us because they want proper advice on how to minimise their taxes within the law and because Singapore is the jurisdiction that can give them that credibility in the eyes of the world.”

A fellow lawyer added that having some offshore



TAN WOON HUM
Shook Lin & Bok

“BANKERS ARE BECOMING INCREASINGLY WORRIED ABOUT DEALING WITH CLIENTS WHO ARE OPERATING AT ZERO TAX BECAUSE OF THE TRICKLE-DOWN EFFECT OF CRS,”

vehicle in an exotic location but paying no tax is especially dangerous, as the liability is actually on the substance of where the controlling people are. “Where the management decisions are made, that is where the tax is due,” she stated.

“Bankers are becoming increasingly worried about dealing with clients who are operating at zero tax because of the trickle-down effect of CRS,” another guest remarked. “As a result of that, I think you are going to see fewer people using an offshore vehicle such as a BVI company with no apparent substance.”

China marches on...and in

The discussion turned to the growing importance of Singapore as a wealth centre for mainland China’s HNWIs and their families as their private wealth continues to grow, almost exponentially.

“There is nothing specific for China from a policy standpoint,” stated one lawyer, “and Indonesia, India and China are all expanding their presence here. “They see us as an investment gateway, as an international financial centre, and a very strong robust asset and wealth management centre with clear a rule of law, strong government and judiciary, and a host of other advantages we have discussed here today. Our clients have been coming to us to set up a single-family office, to get PR [permanent residency], to convert PR to citizenships, to convert single to multi-family offices and so forth. They are creating the substance for their offspring and future generations. We tell them – pay the right taxes, benefit from the schemes and above all, be compliant.”

A fellow panellist reported how many ultra-HNW families are moving their international businesses to Singapore for headquarters. “Perhaps they are wary of high taxes at home, or of uncertainties such as Brexit or fearful of inheritance tax overseas. Some have even said to me they don’t want to pay such levels of tax at home that it feels like paying out protection money.”

He reported that his firm is, therefore, working on a lot of restructuring of regional businesses or international businesses to relocate to Singapore. “So, we are seeing not only a shift of the UHNWs of their family wealth assets through family offices but moving their top business management and other people to Singapore. All this will drive the wealth industry’s growth here.”

Independence and dependability

A lawyer added that Singapore’s independence was a strong appeal to those families seeking to shift their business HQs. “Singapore has been neutral, with a positive relationship with the other Asian countries,” she remarked. “Singapore is a bridge between the east and west, so we are now a major international arbitration centre because if, for example, a western multinational has a dispute with an Asian company this is a place both find neutral.”

Another noted that many HNWI’s from the region are moving to Singapore because of the change in tax laws in their home country. Taiwan,



VIKNA RAJAH
Rajah & Tann

Indonesia, China have all been changing their laws regarding effective management control of offshore vehicles,” she explained. “From January 1 next year, China will have very stringent CFC [controlled foreign corporation] rules for individuals holding offshore vehicles; previously it was only applicable to corporations holding offshore subsidiaries, now it covers individuals holding offshore vehicles. The result is offshore vehicles such as BVIs will be taxed where the control is.”

No more grumbling about ‘boring’ politics

Closing the discussion, panellists focused again on Singapore’s stability. “The government can plan ahead, which is incredibly rare in this world,” he said. “For housing, they are planning 70 years to the future, for example. Foresight combines with the political ability to make very long-term decisions.”

“Yes, we used to grumble in Singapore, right?” another expert quipped. “Imagine that we used to grumble about the fact the politics here are so boring. And now we look around and see the instability in many other countries, for example, the UK, the US and Europe, countries that you thought were politically stable, but actually, maybe they are not. Maybe our boring politics are not so bad after all.” ■