

14 September 2023

Tax alert

Philanthropy tax incentive scheme for family offices

In Budget 2023 announced on 14 Feb 2023, the Minister of Finance announced that the Philanthropy Tax Incentive Scheme for family offices (PTIS) would be introduced to encourage family offices operating in Singapore to conduct philanthropy activities out of Singapore.

A key policy development under the PTIS is the introduction of a 100% tax deduction for donations made overseas, complementing the current 250% tax deduction for donations made to Institutes of Public Character in Singapore.

Prior to the announcement, the Monetary Authority of Singapore (MAS) announced plans in September 2022 for Singapore to become Asia's centre for philanthropy as part of the financial sector's Industry Transformation Map 2025 strategy.

On 5 July 2023, the MAS announced details of the PTIS, including the group of qualifying donors, the qualifying intermediaries through whom donations can be channelled, as well as the conditions to be met to enjoy the associated tax deductions.

The introduction of the PTIS broadens the suite of incentives supporting philanthropy work carried out in and from Singapore.

In this alert, we highlight the key conditions and qualifying requirements of the PTIS and explore the opportunities it presents for family offices in Singapore.

Benefits of the PTIS

Under the PTIS, a qualifying donor approved under the scheme will be able to claim 100% tax deduction for their overseas donations made through qualifying local intermediaries. Once approved, the qualifying donor will be able to claim such a deduction for a period of five years starting from the approved incentive commencement date, which should fall within 1 January 2024 to 31 December 2028. This five-year period is known as the incentive approval period.

The tax deduction is capped at 40% of the qualifying donor's statutory income and any unutilised deductions cannot be carried forward to offset against income from any subsequent Year of Assessment. The deduction also cannot be transferred to another company within the same business group under group relief arrangements provided for under the Income Tax Act (ITA).

Qualifying donor

The PTIS recognises the following individuals and entities who can benefit from the associated tax deduction as a qualifying donor:

- ▶ The single family office (SFO) that manages a fund approved for tax exemption under Sections 130 or 13U of the ITA.
Or
- ▶ An ultimate beneficial owner (UBO) of such a fund.
Or
- ▶ A beneficiary of such a fund.
Or
- ▶ A related family business, which should be an unlisted corporate entity based in Singapore, and whose largest shareholder belongs to the same family as the UBO(s) or beneficiary(ies) of such a fund.

There can only be one approved donor at any point in time, and a change of such a donor during the incentive approval period is only allowed for upon the demise or ineligibility of the original approved donor. Such a change will also be subject to approval by the MAS.

Qualifying local intermediary (QLI)

In order to qualify for the tax deduction on overseas donations, the donations need to be channelled through QLIs. These could include:

- ▶ Selected registered and exempt charities (as defined under the Charities Act, 1994) that possess a valid Fundraising for Foreign Charitable Purpose permit.

- ▶ Charitable institutions and not-for-profit organisations (as defined under the Charities Act, 1994) established by financial institutions in Singapore, as specified by the MAS.
- ▶ Selected grantmakers under the Ministry of Culture, Community & Youth's Grantmaker Scheme.
- ▶ Other selected entities, as approved by the MAS.

The list of QLIs will be made available on the MAS' website.

When an overseas donation is made through a QLI, approved qualifying donors will receive a PTIS donation acknowledgement receipt. The donor should retain this receipt for at least five years from the relevant YA or risk the possibility of the deduction being disallowed and penalties.

Philanthropy professional

An SFO that applies for the PTIS will need to appoint and maintain a Philanthropy Professional at the point of application and throughout its incentive approval period. Such a professional should be a Singapore tax resident who is earning a basic salary of more than S\$3,500 per month and is engaged substantially in managing the philanthropic activities of the family.

Should an SFO not have an existing philanthropy professional, it could meet the requirements by:

- ▶ Employing a new philanthropy professional to undertake such a role.
Or
- ▶ Pivoting an existing headcount to take on such a role.
Or
- ▶ Employing an external service provider based in Singapore, either by the SFO or by the approved qualifying donor, to provide philanthropy advisory services.

Should an applicant not be able to fulfil this requirement at the point of application, MAS will issue a six-month in-principle approval until the applicant can fulfil the criteria. A letter of approval will be issued by the MAS once it has assessed that the criteria has been fulfilled.

Economic commitments

On top of the need to hire a philanthropy professional, the SFO will also be required to make additional economic commitments in order to benefit from the tax deduction.

First, the SFO will need to incur additional S\$200,000 local business spending on top of the local business spending incurred by the SFO in the financial year prior to applying for the PTIS.

Second, the SFO will need to hire an additional local professional headcount, on top of the headcount employed by the SFO on the day prior to submitting the PTIS application. The additional local professional headcount need not be the same person as the philanthropy professional mentioned above.

Points of view

The introduction of the PTIS represents a significant policy development with regard to incentives to encourage philanthropy in Singapore. While tax deduction of up to 250% is currently available for donations to Institutes of Public Character in Singapore, no deduction is allowed for donations made overseas.

With the PTIS, donors who also make donations outside Singapore now have more incentive to manage such philanthropic efforts out of Singapore if they are also operating a family office in Singapore. The deduction will be helpful if the qualifying donor has sources of income in Singapore that could benefit from the deduction. This also presents opportunities for greater economies of scale if the SFO co-locates its philanthropy work in Singapore.

The MAS has been more targeted in rolling out the PTIS, limiting the deduction only to donors related to SFOs, not allowing for unutilised deduction to be carried forward, and also subjecting the deduction to a cap of 40% of statutory income. This may call for more detailed planning, such as deciding which qualifying donor to put forth for the application and whether the deduction will be meaningful in relation to the sum donated.

The requirement to employ a philanthropy professional will also provide a boost toward professionalising philanthropy management in Singapore. By allowing the services of an external service provider to count toward meeting this requirement, it would also allow SFOs to build up such relevant capabilities by working with the external service provider.

Overall, the introduction of the PTIS comes at a timely juncture where the SFO industry in Singapore has reached a new level of maturity. The scheme will be helpful for families that are looking for a trusted and efficient platform in Asia to support their philanthropy and legacy-building needs.

If you would like to know more about the issues discussed or EY services, please contact one of the following or your usual EY contact:

EY tax leaders in Singapore

Head of Tax
Soh Pui Ming
Ernst & Young Solutions LLP
Email: pui.ming.soh@sg.ey.com

Business Tax Services

Private Client Services
Desmond Teo
Ernst & Young Solutions LLP
Email: desmond.teo@sg.ey.com

Tax Policy and Controversy
Angela Tan
Ernst & Young Solutions LLP
Email: angela.tan@sg.ey.com

Global Compliance and Reporting
Chai Wai Fook
Ernst & Young Solutions LLP
Email: wai-fook.chai@sg.ey.com

Financial Services Organisation
Stephen Bruce
Ernst & Young Solutions LLP
Email: stephen.bruce@sg.ey.com

Indirect Tax Services
Yeo Kai Eng
Ernst & Young Solutions LLP
Email: kai.eng.yeo@sg.ey.com

People Advisory Services
Panneer Selvam
Ernst & Young Solutions LLP
Email: panneer.selvam@sg.ey.com

International Tax and Transaction Services

International Corporate Tax Advisory
Chester Wee
Ernst & Young Solutions LLP
Email: chester.wee@sg.ey.com

Transfer Pricing
Luis Coronado
Ernst & Young Solutions LLP
Email: luis.coronado@sg.ey.com

Transaction Tax Advisory
Darryl Kinneally
Ernst & Young Solutions LLP
Email: darryl.kinneally@sg.ey.com

Legal Services
(provided by Atlas Asia Law Corporation,
an independent member firm of the global EY network)
Kenneth Cheow
Atlas Asia Law Corporation
Email: kenneth.cheow@atlasiasialaw.com.sg

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2023 EY Corporate Advisors Pte. Ltd.
All Rights Reserved.

APAC no. 12003341
UEN 201911025K

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com