

Tax Efficient Structuring for Private Wealth

Our approach

After meeting with you to assess your specific goals and intentions, we evaluate the potential mix of legal vehicles (trust, foundation, company, partnership, etc.) and locations to be included into the investment structure. Every individual has a different plan on how the wealth should be put to use but as a general rule, overall taxation of the investments should be as low as possible. We then design an initial investment structure taking into account non-tax objectives (family succession, wealth protection, flexibility, monitoring, philanthropic purposes, etc.), which we will discuss with your lawyers and financial advisors to ultimately provide you with a fine-tuned structure.

From a tax point of view, we usually differentiate between three different investment levels: your residence country, an intermediate investment location and the source country of investment. In this context, an ideal investment structure should achieve:

Country	Objectives
Residence Country	<ul style="list-style-type: none"> • Current low taxation or tax deferral • Inheritance / succession tax efficiency
HNWI	<ul style="list-style-type: none"> • No CFC rules attraction • No Entry / Exit taxation
Intermediary Investment holding location	<ul style="list-style-type: none"> • Treaty network • No withholding taxes • No capital gains taxes • Foreign tax credit (pooling) • Exemption of offshore income • Special exemption regimes for fund / financial services
Source Country	<ul style="list-style-type: none"> • Treaty with investment holding location • No Anti-Avoidance regulations

Residence country of HNWI

There are many issues affecting the total tax burden of an HNWI from his / her global investments. Within the area of ongoing taxation the HNWI's home jurisdiction might favor a transparent investment vehicle to offer reduced rates for certain investment income. Such is the case for US investors. For investors residing in other jurisdictions (e.g. most European and Asian countries) a foundation or entity-type vehicle could lead to an optimal tax result in the home jurisdiction of the investor as it would defer taxation until distribution to the investor / beneficiaries as long as the legal vehicle's features and the nature of the investment activities do not trigger a CFC (or look-through taxation) treatment in the HNWI home country. Additionally, entry and exit taxation arising from a transfer of the investment assets into and – possibly – out of the investment vehicle have to be considered at home country level. Another important structuring issue at home country level is the adequacy of the investment vehicle for home country inheritance tax or succession tax optimisation.

Investment holding location

An investment holding location is a location, where a legal investment vehicle is set-up and / or being managed, which holds either directly or via other investment holding locations the ultimate investment assets. Singapore is a typical investment holding location. Singapore complies with most of the required features of an investment holding locations as it:

- Has an extensive number of double tax treaties to reduce withholding tax and capital gains taxation in the investment assets' jurisdictions;
- Offers foreign tax credit pooling between various foreign income types;
- Exempts specific foreign-sourced investment income based either on source-rules or special incentives for the fund / financial service industry;
- Exempts income of philanthropic and charitable trusts from tax;
- In principle regards capital gains realised by investment vehicles as capital in nature or non-trading income and thus non-taxable and has additionally introduced a safe-harbour rule for capital gains from investments held over 24 months;
- Imposes no withholding tax on outgoing dividends;
- Offers transparency regimes for certain trusts (e.g. real estate investment trusts) to allow taxation at beneficiaries' level instead of trustee level.

Source country of investment assets

The selection of source countries of ultimate investment is a business decision and almost entirely does not follow tax planning considerations. A reduction of resulting taxes is to a great part based on the existence of double tax treaties with those countries. Increasingly, beneficiary ownership requirements and anti-avoidance regulations in the source countries lead to the requirement of securing sufficient substance of activities in the intermediary holding location.

Choosing the appropriate legal entity in Singapore

Legal vehicles are important for structuring private wealth for various purposes. They might either be the platform for the family office itself or hosting key family persons (as well as external management resources) to decide on investments or they are necessary to ensure continuity/succession planning (such as trusts and foundations), whereas companies might be interposed as intermediary holding companies or special purpose vehicles to separate investment types/projects.

The investment vehicle should not become subject to an additional level of taxation. Therefore selecting the right mix of entities within a structure serves to obtain applicability of double taxation treaties thus reducing withholding taxes at source and mitigating capital gains tax. The choice of vehicle(s) should also not lead to look-through taxation (CFC) at the level of the original investor/settlor/beneficiary, and the activities within the interposed vehicles should not raise 'substance' concerns at the level of the source investment countries.

A further and most notable consideration in selecting the investment vehicle(s) is that the mix should accommodate commercial purposes. For example, the legal form of the family office may focus on joining the common objectives and decision making of its stakeholders, especially if the family is large. Whereas for long-term vehicles such as trusts and foundations, the exercise of control on the trust management is important, including possibilities to replace the management. A natural wish for privacy puts focus on mandatory reporting obligations associated with certain legal types as well as jurisdictions. Also the legal requirements limiting distribution of funds to beneficiaries/shareholders favour trusts over companies as companies require accounting profits to enable distribution of profits.

Singapore offers a wide variety of legal vehicles and most of those in existence are actually widely used for private wealth structuring.

- **Limited liability partnerships (LLP)** can be structured quite flexibly to determine the distribution of income to partners and the mechanics of decision making.

- A **private limited company** is widely used as an intermediate investment holding for underlying investments in light of its entitlement to use double tax treaties and be recognised as a Singapore resident if certain requirements are fulfilled.
- A **family investment holding company** is a new concept to attract family offices to be set-up in the form of a Private Limited Company but enjoy the same tax exemption treatment as a Singapore individual with regard to investment income.
- A **registered business trust** is a trust which is treated as a company for tax and residency purposes, but offers the possibility to distribute cash proceeds to the beneficiaries/unit holders based on the discretion of the trust managers without the requirement of an accounting profit.
- A **real estate investment trust** enjoys tax transparency treatment for certain income provided that the proceeds from the investments are regularly cleared out to the unit holders.
- Other special **trust types for charitable and philanthropic purposes** as well as **foreign trusts**, which are in principle not taxed in Singapore.

Description	Limited liability partnership	Company	Business trust			
Owner of the business	Limited liability partnership	Company	Trustee			
Legal status	Separate legal entity	Separate legal entity	Not a separate legal entity (except for 'Registered Business Trust')			
Party that is liable for the debts of the business	Limited liability partnership	Company	Trustee / beneficiary (may draw from assets under the trust)			
Responsibility for management of business	Partners	Board of directors	Trustee or manager appointed by trustee			
Comparative regulatory / administrative compliance requirements	Low	Low to high depending on size and whether it is listed	Low to medium depending on requirements in trust deed			
Access to finance	Only from partners' personal investments and borrowings	Can access capital market	Limited to amount placed in the trust. No access to retail investors in capital market unless for certain types, which require registration			
Returns	Partners entitled to share of profits from the business	Shareholders entitled to share of dividends when declared. Dividends can only be paid out of available accounting profits.	Beneficiaries entitled to share of distributions. Distributions may be paid out of operating cash flows			
Type of income	All income	All income	Trade income	Non-trade income, resident beneficiary	Non-trade income, non-resident beneficiary	Non-trade income, not entitled
Tax treatment	Tax transparency treatment will be accorded, i.e. income will be taxed in the hands of the partners based on the progressive tax rate	Tax will be levied at the company level and no dividend withholding tax	Income taxed at trustee level	Tax transparency treatment will be accorded, i.e. income taxed at beneficiary level	Income taxed at trustee level	Income taxed at trustee level

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