

SECURITIES COMMISSION OUTLINES CONDITIONS FOR SINGLE FAMILY OFFICE INCENTIVE SCHEME

24 September 2024



Three days after Malaysia's Finance Minister II announced the tax incentives for the Forest City Special Financial Zone ("FCSFZ") on 20 September 2024¹, the Securities Commission Malaysia ("SC") issued a media release outlining the conditions for the Single Family Office incentive scheme ("**SFO Scheme**"), which is one of the incentives for the FCSFZ.²

As announced by the Finance Minister II on 20 September 2024, the SFO Scheme which provides a 0% concessionary tax rate on income generated by eligible investments from the Single Family Office Vehicle ("**SFOV**") is to be coordinated by the SC.

Overview

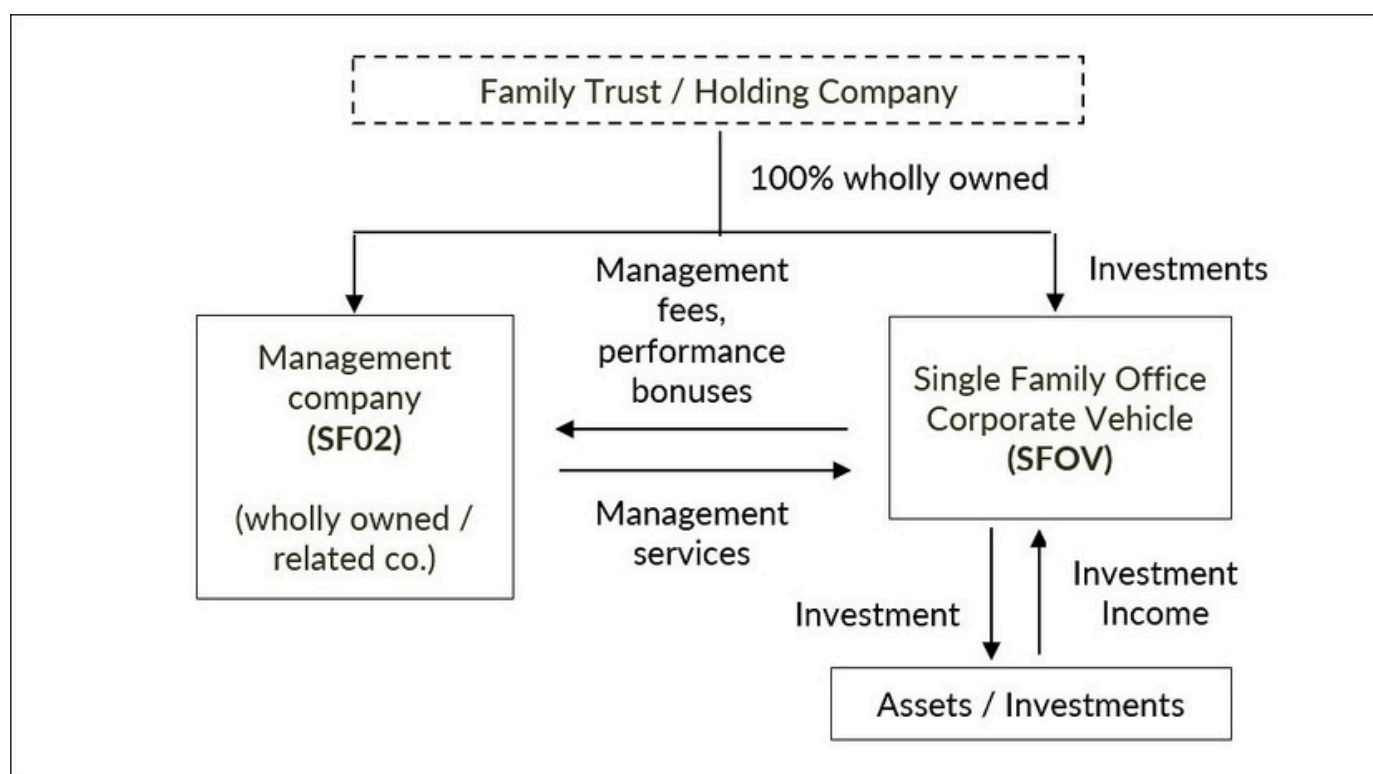
An SFOV is a corporate vehicle, wholly owned or controlled by members of a single wealthy family, created to exclusively manage the assets, investments and long-term interests of that family. The SFO may also represent multiple generations and branches of the family.

To be eligible for the tax incentive under the SFO Scheme, the assets and investments of the SFOV must be managed by a management company ("**SFO2**") which is a related company of SFOV.

¹ Our alert on the tax incentives for the FCSFZ can be read [here](#).

² The SC's media release on the SFO Scheme can be accessed [here](#). Simultaneously with the issue of the media release, the SC also issued a set of Frequently Asked Questions on the SFO Scheme which can be accessed [here](#).

The relationship of the parties mentioned above is depicted in the diagram³ below:



Conditions for tax incentive

The following conditions must be fulfilled in order to qualify for the 0% tax incentive:

1. Location: Establish and operate a registered office in Pulau 1 of the FCSFZ.
2. Duration: 20 years, covering the initial period of 10 years and additional/subsequent 10 years.
3. To qualify for the Initial Period (10 years):
 - a) The SFOV must be a new investment holding company incorporated in Malaysia and seek pre-registration with the SC on its eligibility for the tax incentives;
 - b) The SF02 must be a related company of SFOV and is to be set up and operate out of Pulau 1 of the FCSFZ with at least one investment professional with a minimum monthly salary of RM10,000;
 - c) The SFOV must hold assets under management ("**AUM**") of at least RM30 million and meet the minimum local investment in eligible and promoted investments of at least 10% of the AUM or RM10 million, whichever is lower;
 - d) The SFOV must incur a minimum operating expenditure ("**OPEX**") of RM500,000 per annum locally; and
 - e) Employ at least two full-time employees of whom at least one is an investment professional, with a minimum monthly salary of RM10,000.

³ Diagram adapted from SC's Frequently Asked Questions on the SFO Scheme.

4. To qualify for the Additional Period (additional 10 years):

- a) The SFO must hold AUM of at least RM50 million and meet the minimum local investment in eligible and promoted investments of at least 10% of the AUM or RM10 million, whichever is higher;
- b) The SFOV must incur a minimum OPEX of RM650,000 per annum locally; and
- c) Employ a minimum of four full-time employees.

Licensing requirement

As a general rule, a company that manages assets which include capital market products for other persons or entities would require a fund management licence under section 58 of the Capital Markets and Services Act 2007 (“**CMSA**”). However, the SFO2 may be exempted from this requirement under paragraph 7 of Schedule 3 of the CMSA if the SFO2 can demonstrate that its fund management services are provided solely for the benefit of the SFOV, which is its related corporation.⁴

Role of the SC

An SFOV may apply to the SC for certification of compliance with the relevant requirements for the purposes of the tax incentives under the SFO Scheme.

The SC is currently working with the relevant stakeholders to operationalise the SFO Scheme by the first quarter of 2025.

According to the SC’s media release, interested SFOVs may seek pre-registration with the SC to confirm their respective eligibility for the tax incentives under the SFO Scheme.

Comments

The economic benefit that may accrue to Malaysia from the SFO Scheme could be significant. According to the SC Chairman, Dato’ Mohammad Faiz Azmi, *“The projected economic multiplier of this initiative from the local substance requirements is estimated to range from RM3.9 billion to RM10.7 billion, which also includes the positive effects on creation of skilled employment and the demand for other ancillary services.”*

Two important points in the SC’s media release require clarification in respect of the SFO Scheme. First, what are the “*eligible investments*” whose income will qualify for the tax incentive; and second, what are the “*eligible and promoted investments*” that qualify as local investment. It is likely that these issues will be clarified in the relevant tax exemption order to be issued in due course.

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⁴ Notwithstanding the exemption, the SC may still impose terms and conditions on the SFO pursuant to section 58 of the CMSA.



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