

FREQUENTLY ASKED QUESTIONS
SINGLE FAMILY OFFICE (SFO) INCENTIVE SCHEME

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Contents

GENERAL	2
(A) Administration of the SFO Incentive Scheme	2
(B) Establishing a Single Family Office	2
TAX INCENTIVE	7
ASSETS UNDER MANAGEMENT (AUM)	10
(A) Investments	10
(B) Calculation of AUM under the SFO Incentive Scheme	17
OFFICER REQUIREMENT	18
LOCAL EXPENDITURE.....	20

GENERAL

(A) Administration of the SFO Incentive Scheme

1. How will the SFO Incentive Scheme be administered?

Pursuant to s.127(3A) of the Income Tax Act 1967 (ITA), the Minister has the power to exempt any person from any provision of the ITA. In this regard, the Minister has delegated power to the SC to facilitate the application process while the approval under the SFO Incentive Scheme remains with the Minister.

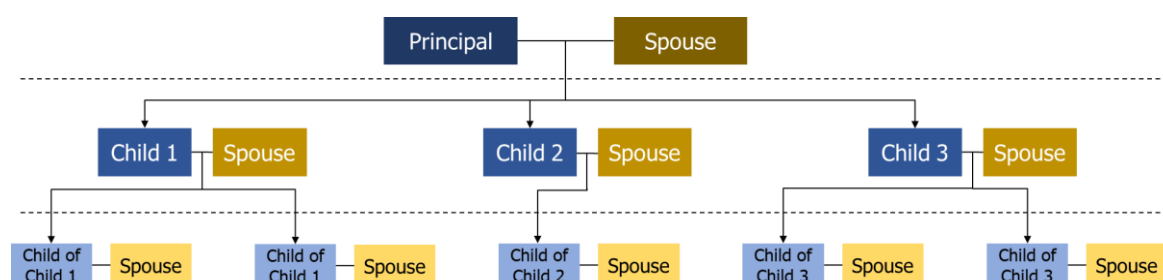
(B) Establishing a Single Family Office

2. What constitutes a single family?

A single family means a family whose members are lineal descendants of a single ancestor and include the spouses and children of these individuals.

In this regard, 'children' means the biological children, stepchildren of a member of the single-family or a child adopted by a member of the single-family in accordance with the relevant law.

Illustration of a single family:



Based on the illustration above, the single family would comprise the Principal and Spouse (principal family) and the principal family's descendants including their spouses and child.

3. Would a single family consisting of foreign nationals fall within the definition of single family under the SFO Incentive Scheme?

Yes, under the SFO Incentive Scheme, a single family can consist of either Malaysian or foreign individuals, as long as the relationship between these individuals meet the definition of single family as set out above.

4. What is a single family office vehicle (SFOV)?

A SFOV is a corporate vehicle incorporated under the *Companies Act 2016*, which is wholly owned directly or indirectly, by one or more individuals, all of whom are members of a single family. The SFOV is established solely for the purpose of holding the assets and investments for the interest of members of the single family.

For purposes of the SFO Incentive Scheme, the SFOV must be incorporated on or after 1 September 2024.

5. What is a single family office management company (SFO MC)?

A SFO MC is a corporate vehicle incorporated under the *Companies Act 2016*, which is wholly owned, directly or indirectly by one or more individuals, all of whom are members of a single family. The SFO MC is established for the purpose of managing the assets and investments of the single family for the interest of its members. Under the SFO Incentive Scheme, the SFO MC must also be a related corporation to the SFOV.

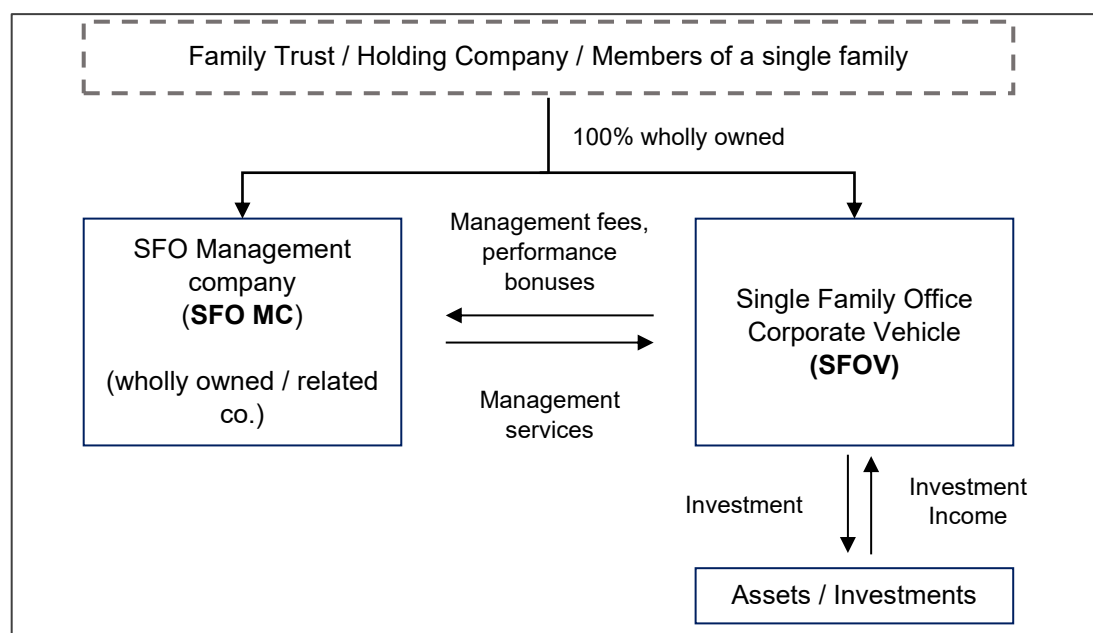
6. Is a SFO MC required to be licensed by the SC?

In the case where the SFO MC manages capital market products on behalf of the SFOV, the SFO MC triggers the requirement to obtain a fund management license under the *Capital Markets and Services Act 2007* (CMSA).

However, as mentioned above, under the SFO Incentive Scheme, the SFO MC must also be a related corporation to the SFOV.

Given that the SFO MC, is carrying out fund management services solely for the SFOV, which is its related corporation, it is deemed to be a specified person as set out under paragraph 7 of Schedule 3 of the CMSA. A specified person is exempted from requirement to obtain a license under the CMSA.

Please refer to the diagram below, for an illustration of the relationship between a SFO MC and a SFOV.



For further clarity, 'a related corporation' means a corporation:

- (a) that is related to the first-mentioned corporation by virtue of section 7 of the *Companies Act 2016*; or
- (b) deemed to be a related corporation of another corporation where both corporations have the same individual or a group of individuals who—
 - i. controls the composition of the board of directors of the corporations;
 - ii. controls more than half of the voting power of the corporations; or
 - iii. holds more than half of the total number of issued shares of the corporation, excluding any part of the share capital which consists of non-voting shares.

The SFOV is advised to seek legal opinion to verify the relationship between the SFO MC and SFOV, particularly in cases involving complex ownership structures with multiple layers of holdings, to demonstrate that the SFO MC and SFOV are related companies

and the ultimate beneficial owner (UBO) of both entities are members of the single family.

In this regard, to ensure professional standards and familiarity with Malaysian law, the SC would only accept legal opinions furnished by Malaysian law firms who are registered with the Malaysian Bar Council.

Notwithstanding the exemption, subsection 58(3) of the CMSA empowers the SC to impose such terms and conditions as it may deem appropriate on a specified person.

7. What are the requirements imposed on the SFO MC in managing the assets of the SFOV?

The SFO MC are required to comply with, among others, the following requirements:

- (a) The SFO MC must execute a Service Level Agreement (SLA) or Investment Management Agreement (IMA) with the SFOV;
- (b) In the event the SFO MC intends to outsource any part of the assets under management, the SFO MC shall only outsource to a licensed holder of a Capital Markets Services Licence for fund management undertaking portfolio management; and
- (c) In the event the SFO MC intends to enter into an arrangement to jointly manage the SFOV's assets, the SFO MC may do so with the investment professional employed by the SFOV or in collaboration with other Single Family Offices Management Company managing the wealth of the same single family.

Further details will be provided on the Single Family Office dedicated webpage on the SC's website at: <https://www.sc.com.my/development/single-family-office>. The SFO MCs are encouraged to check the website regularly for updates.

8. Does the SFO MC and the SFOV have to be operating in Pulau 1, Forest City Special Financial Zone (FC SFZ)?

The SFO MC is not required to be operating in Pulau 1, FC SFZ.

However, in the case of the SFOV, it must be operating in Pulau 1, FC SFZ from a dedicated office that must be at least 450 sq. ft and is not shared with any other person except the SFO MC.

9. For a newly established SFOV, must it be operating in Pulau 1, FC SFZ for the entire year to qualify for the SFO tax incentive?

To qualify for the SFO Incentive Scheme, the SFOV must have its registered address in Pulau 1, FC SFZ, for at least six months in its first year of establishment before the end of the year of assessment.

10. How much paid-up capital is required to incorporate the SFOV and SFO MC?

No minimum paid-up capital requirements are prescribed for the incorporation of the SFOV or the SFO MC. Applicants are advised to determine the appropriate capitalisation based on their business needs and operational requirements.

11. Does the SFO Incentive Scheme apply to a Multi-Family Office (MFO)?

No, the SFO Incentive Scheme is specifically designed for Single Family Offices (SFOs). Multi-Family Offices (MFOs), which provide investment management services to multiple families, would be subject to licensing requirements under the CMSA as the MFOs are considered to be carrying on a regulated activity of fund management since the provision of its services are not limited to its related corporation.

For further details on the licensing requirements for fund managers seeking to provide services to multiple family offices, please refer to the SC's Licensing Handbook or contact the SC's Licensing Department.

The MFOs are also not eligible for any tax incentives under the SFO Incentive Scheme.

TAX INCENTIVE

12. What type of tax incentive is available for the SFOVs?

Beneficiary	Incentive	Key requirements
Single Family Office Vehicle (SFOV)	Income tax exemption on all sources of statutory income including capital gains and foreign-sourced income at the rate of 0%	- Exempt period of 10 + 10 years* from the date the SFOV first obtained a certification from the SC - First application for certification must be received by SC no later than 31 December 2034.
Single Family Office Vehicle (SFOV)	One-off Stamp Duty Exemption	Exemption of stamp duty in respect of all instruments of transfer of any qualifying assets for the establishment of the SFOV - Instrument of transfer must be executed within one year from date of the verification letter obtained from the SC. - Applicants are required to provide details of transacting parties, description of assets involved, and estimated consideration as part of the required documentation for this exemption.
A company, limited liability partnership, trust body or co-operative society	One-off Capital Gains Tax Exemption	Exemption from income tax in respect of chargeable income from gains or profits received from the disposal of shares of a company incorporated in Malaysia which is not listed on the stock exchange. - Disposal of shares must be made to the SFOV within one year from date of the verification letter obtained from the SC. - Applicants are required to provide details of transacting parties, description of assets involved, and estimated consideration as part of the required documentation for this exemption.

* The first 10 years refers to the first ten years from the date the SFOV first obtained a certification from the SC which must not be later than 31 December 2034 (initial assessment period). The additional 10 years refers to the subsequent years upon expiry of the initial assessment period (subsequent assessment period).

Applicants may apply for the Stamp Duty Exemption and Capital Gains Tax Exemption concurrently with the Conditional Approval.

For further details on the Conditional Approval process, applicants may refer to the Application Kit.

13. Are there any tax incentives available for the SFO MC?

No, the SFO MC is not eligible for any tax incentives under the SFO Incentive Scheme. It will be subject to the prevailing corporate tax rates in Malaysia.

14. What happens if the SFOV does not qualify for the income tax exemption in a particular year?

If the SFOV does not meet the eligibility requirements for the income tax exemption in a given year, the SFOV will be subject to prevailing corporate tax rates for that financial year. This will not prevent the SFOV from applying for tax certification with the SC in the following year once it meets all required conditions.

However, the 10-year assessment period will continue to apply from the date of the SFOV's first certification and will not be extended due to any non-qualifying years.

For example, if an SFOV receives its first tax certification in 2030, the 10-year tax incentive period will apply from year 2030 to year 2039. If in year 2032, the SFOV fails to meet the eligibility conditions under the SFO Incentive Scheme, the SFOV will have to pay prevailing corporate tax rate for year 2032.

Notwithstanding the above, year 2032 will still be counted as part of the 10-year assessment period for the SFOV under the SFO Incentive Scheme. The SFOV may continue to enjoy the SFO Incentive Scheme for the remaining years within the period i.e. year 2034 onwards until year 2039, provided it complies with the eligibility conditions. After year 2039, the SFOV may apply for a subsequent 10-year extension, subject to meeting the relevant requirements.

15. What is SC's role in relation to the SFOV's application for the income tax exemption?

As mentioned at Question 1, the SC will administer the SFO Incentive Scheme on behalf of the government by providing certification to the eligible SFOVs for purposes of the SFOV's application for the income tax exemption. This includes assessing applications to ensure compliance with the eligibility criteria.

Interested SFOVs are welcome to seek a consultation with the SC to confirm eligibility for the tax incentive. For more information on the tax incentive or any queries regarding the SFO Incentive Scheme, please email SFOScheme@seccom.com.my.

ASSETS UNDER MANAGEMENT (AUM)

16. Is there a minimum AUM requirement under the SFO Incentive Scheme?

Yes, there is a minimum AUM requirement under the SFO Incentive Scheme as set out below:

During the initial assessment period

The SFOV must hold AUM of at least RM30 million and meet minimum local investment in eligible and promoted investments of at least 10% of AUM or RM10 million whichever is lower. The remaining 90% of AUM can be invested in any of the permitted investments.

During the subsequent assessment period

The SFOV must hold AUM of at least RM50 million and meet minimum local investment in eligible and promoted investments of at least 10% of AUM or RM10 million whichever is higher. The remaining 90% of AUM can be invested in any of the permitted investments.

(A) Investments

17. What are the permitted assets and investments and local eligible and promoted investments?

A. List of Permitted Assets and Investments

- I. Shares or securities equivalent to shares that are traded on any exchange
- II. Shares of any company incorporated under the *Companies Act 2016*
- III. Debenture, stocks or bonds issued by any government
- IV. Shares in or debenture of, a body corporate or an unincorporated body
- V. Notes, commercial papers and treasury bills
- VI. Derivatives that are traded on a derivatives exchange, or dealt in the OTC market, where the underlying instrument of a derivative is a commodity, such derivative must be settled in cash at all times
- VII. Placement of domestic and foreign deposits with a licensed bank
- VIII. Interest rate or currency contracts on a forward basis, interest rate or currency options, interest rate or currency swaps, and any financial derivatives

- IX. Units or shares in collective investment schemes that are managed by an entity which is approved, authorised or licensed by any securities regulator to conduct fund management activities
- X. Assets that are managed by CMSL holder for fund management undertaking portfolio management
- XI. Foreign venture capital & private equity fund
- XII. Units in a unit trust fund established in Malaysia and approved or authorised by the SC
- XIII. Islamic capital market products including Shariah-compliant equities, Islamic Collective Investment Schemes (ICIS) and Sukuk
- XIV. Real estate limited to Forest City – residential and commercial properties
- XV. Any other assets as may be permitted by the SC on a case-by-case basis

B. List of Local Eligible Investments

- I. Securities listed on Bursa Malaysia Securities Berhad
- II. Islamic capital market products including Shariah-compliant equities, Islamic Collective Investment Schemes (ICIS) and Sukuk issued by an entity incorporated in Malaysia
- III. Ringgit-denominated debentures and Malaysia Government Securities
- IV. Exchange traded derivatives listed on Bursa Malaysia Derivatives Berhad
- V. Private Equity (PE) funds managed by SC registered PE managers
- VI. Venture Capital (VC) funds managed by SC registered VC manager
- VII. Assets under a portfolio management mandate, where at least 70% of the underlying assets is in Malaysia and the mandate is carried out by a holder of a Capital Market Services Licence for fund management undertaking portfolio management
- VIII. Shares of companies incorporated in Malaysia that is under technology-based sectors or relating to Sustainable and Responsible Investments (SRI), as set out in the table below
- IX. Any other assets as may be permitted by the SC on a case-by-case basis

Categories	Sectors
Technology-based	• Advanced electronics and information, components, systems and architecture, software, applications, communications, supporting product and services • Telecommunication • Equipment/instrumentation, automation and flexible manufacturing systems • Biotechnology, bioconversion and genetic engineering • Healthcare • Electro-optics, non-linear optics and optoelectronics

Categories	Sectors
	• Advanced materials • Energy • Aerospace • Transportation • Value-add services • Emerging technologies • Artificial intelligence and machine learning • Cybersecurity • Green technology • Virtual reality and augmented reality • Internet of Things (IoT) • Automation and autonomous systems • Blockchain and distributed ledger technology • Financial technology
SRI	• Guided by the <u>SRI Taxonomy</u>

C. List of Promoted Investments

- I. Sustainability funds, bonds and sukuk that align with Malaysian or ASEAN standards for underlying Malaysian projects
- II. Islamic Capital Market funds under the *Waqf Featured Fund Framework*
- III. Equity Crowd Funding (ECF) campaigns on SC-registered ECF platforms
- IV. Peer-to-Peer (P2P) campaigns on P2P platforms regulated by the SC
- V. Shares of companies approved by the Malaysian Investment Development Authority (MIDA) to carry out approved projects under the Johor-Singapore Special Economic Zone (JS-SEZ) Tax Incentive Package
- VI. Shares of companies operating within the *New Industrial Master Plan 2030* (NIMP) prioritised sectors
- VII. Any other assets as may be permitted by the SC on a case-by-case basis

Categories	Sector
NIMP Prioritised sectors	• Aerospace • Chemical • Electrical and Electronics • Pharmaceutical • Medical devices

18. What is referred to by 'any exchange' for shares that are listed and traded to qualify as permitted investments?

'Any exchange' refers to a stock exchange which is:

- (a) in a jurisdiction which regulator is a signatory to Appendix A of the International Organisation of Securities Commissions Multilateral Memorandum of Understanding;
- (b) a member or an affiliate of the World Federation of Exchanges; and
- (c) trading on the exchange does not contravene any of the Malaysian legal, regulatory or governmental policies and requirements.

19. Are there any specific types of assets which are excluded from the above lists?

The following type of assets are excluded and do not form part of the permitted assets:

- (a) tokenised capital market products, i.e. using distributed ledger technology (DLT) to create a digital representation of the assets;
- (b) digital assets, as defined in the *Guidelines on Digital Assets* issued by the SC; and
- (c) shares of private companies whose sole business is holding Malaysian immovable properties without any operational business activities are not eligible local investment.

20. Are there any restrictions on the type of local eligible and promoted investments in the first year?

Yes, for the first year of assessment, investments into local eligible and promoted investments must be new investments excluding investments already transferred into the SFOV during its establishment.

For clarity, the assets and investments transferred during the SFOV's establishment means the assets and investments which were identified and submitted to the SC for verification.

21. Can the SFOV hold assets that are not listed as permitted investments?

The SFOV may hold assets which are not listed as permitted investments for the benefit of the single family. However, those assets will not form part of the eligible AUM and therefore, will not be included in the calculation of the minimum AUM requirement. Notwithstanding, the SC may permit other type of assets on a case-to-case basis.

22. Are there any limitations in regard to the types of funds or assets which can be held by the SFOV?

The SFOV must comply with the Financial Action Task Force (FATF) recommendations by ensuring that the SFOV's assets and investments do not originate from or be owned by nationals or residents of countries listed under FATF's high-risk jurisdictions or jurisdictions subject to increased monitoring (black list and grey list respectively), as set out on FATF's official website as follows:

<https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>

Any assets or investments owned by a single family comprising nationals of countries which do not have diplomatic relations with Malaysia would also be restricted from being held by the SFOV.

23. Can business operations be included as permitted investments?

No, business operations cannot be counted as eligible investments or included as part of the SFOV's AUM. Existing business interests related to the family, including operating companies owned by family members, are not permitted to be transferred into the SFOV.

The SFOV must be established solely for investment purposes, with its AUM comprising of only permitted assets as provided in the list above.

24. Are investments in real estate located outside of Forest City included as part of permitted investments?

No, real estate investments are strictly limited to residential and commercial properties in Forest City, covering both the real estate on the mainland and Pulau 1.

Additionally, standalone private companies whose sole business is holding Malaysian immovable properties without any operational business activities are also not permitted investments and will not form part of the SFOV's asset composition.

25. Can private company shares be transferred into the SFOV?

Subject to the limitation on standalone private companies set out above, equity stake in private companies incorporated in Malaysia can be transferred into the SFOV.

Equity stakes in companies engaged in active business operations are eligible for transfer into the SFOV.

For example:

- The family holds ordinary shares in a manufacturing company engaged in active business operations (e.g. production of electronics). These shares may be transferred into the SFOV as part of the family's asset base.
- The family owns equity interest in a real estate development company that undertakes residential and commercial projects, including land acquisition and construction. These shares can also be transferred to the SFOV, provided the company is actively operating.

However, equity stakes in property-holding companies that primarily own and trade Malaysian immovable properties are not eligible for transfer into the SFOV. This includes situations where:

- the family holds shares in a company that primarily owns and rents out residential or commercial properties in Malaysia for long-term capital gains or rental income, without undertaking active development. Such passive property-holding entities are not permitted.
- the family owns equity in a company that holds undeveloped landbanks in Malaysia without any immediate or approved development plans. These shares would not qualify for inclusion in the SFO Incentive Scheme.

26. Can the SFOV hold foreign currency deposits with a local licensed banks?

Yes, the SFOV is permitted to place foreign currency in a deposit or multicurrency account with a licensed bank under the *Financial Services Act 2013*.

27. Can bank deposits in a financial institution regulated under Bank Negara Malaysia (BNM) be considered a local investment?

No, bank deposits - even those held in financial institutions regulated under BNM - do not qualify as local investments.

However, bank deposits can be counted towards the 90% portion of AUM under the permitted assets category.

28. How can the SFOV ensure smooth capital flows for my AUM under the SFO Incentive Scheme?

SFOVs set up by and for both local and foreign nationals may apply for Foreign Exchange Policy (FEP) flexibilities to facilitate unrestricted capital flows for their offshore borrowings and foreign currency (FCY) investments.

These flexibilities allow:

- **No limit on offshore borrowing**

Free to obtain FCY borrowing in any amount from non-resident financial institutions (NRFIs) and other non-related non-residents, including through issuance of securities or Islamic securities denominated in FCY. Proceeds obtained from the borrowing shall be utilised abroad or for business operations carried out within the FC-SFZ only. On-lending to resident entities outside of the zone is not permitted.

- **No limit on investment in FCY assets**

Free to invest any amount in FCY assets onshore and abroad, provided that funds for investments are sourced from non-residents or abroad. Examples of eligible sources of funds include but not limited to:

- (a) Offshore borrowing obtained from non-residents
- (b) Funds managed on behalf of non-residents originating from abroad

- (c) Funds repatriated from abroad by residents
- (d) Capital injection received from non-residents

SFOVs must register for FEP flexibilities with BNM through the SC if their expected offshore borrowings and investments exceed the current permissible limits.

Upon approval, BNM will issue a confirmation letter before these flexibilities can be exercised. Approval is granted for five years, with renewal at BNM's discretion, subject to annual compliance requirements.

For further details, please refer to the Single Family Office dedicated webpage on the SC's website at: <https://www.sc.com.my/development/single-family-office>.

(B) Calculation of AUM under the SFO Incentive Scheme

29. How is AUM calculated under the SFO Incentive Scheme?

The AUM is calculated using fair value per share which is consistently applied and leads to objective and independently verifiable valuation.

Fair value is the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions transacted on an arm's length basis and determined with due care and in good faith.

Any changes in valuation methodology should be disclosed and justified, especially where there is a material impact on reported AUM.

30. How is the AUM for promoted local investments calculated?

Promoted local investments qualify for a 1.5x multiplier in local AUM calculations.

For example, an investment of RM1 million into an ECF campaign on a SC-registered ECF platform would be counted as RM1.5 million towards the local AUM requirement due to the multiplier effect.

OFFICER REQUIREMENT

31. Are there any requirements with regard to employees of the SFOV under the SFO Incentive Scheme?

Yes, the SFO Incentive Scheme imposes requirements relating to officer of the SFOV as set out below:

During the initial assessment period

The SFOV must employ at least two full time employees (FTE):

- who are paid a gross monthly salary of at least RM10,000;
- who is a Malaysian tax resident throughout the year of assessment; and
- where one of whom must be an investment professional.

During the subsequent assessment period

The SFOV must employ a minimum of four FTEs who also must fulfil the same requirement as set out above.

32. What qualifications are required for the investment professional under the SFO Incentive Scheme?

The investment professional must:

- have a minimum of two years of relevant working experience, and
- hold at least a degree or a globally recognised professional finance-related certification, such as:
 - Master's in Business Administration (MBA);
 - Chartered Financial Analyst (CFA);
 - Chartered Accountant;
 - Chartered Banker;
 - Certified Financial Planner (CFP),or other equivalent certifications.

33. Do the full time employees (FTEs) need to be based in Pulau 1, FC SFZ?

Yes, both FTEs are required to be based in Pulau 1, FC SFZ for at least 182 days in a year.

34. Can the investment professional be a family member?

There is no restriction against employing a family member as an investment professional. The SFOV may hire a family member provided they meet the qualification and experience criteria set out under the SFO Incentive Scheme.

35. Can the SFOV hire foreign professionals as FTEs?

Yes, the SFOV may hire foreign professionals as part of its FTE requirement, including for the investment professional position. However, all FTEs must be Malaysian tax residents and be based in Pulau 1, FC SFZ.

For foreign professionals, visa facilitation will be provided, and further details on the application process will be communicated once finalised. Interested SFOVs may contact the SC for further assistance at SFOScheme@seccom.com.my.

36. Are there any flexibilities for vacancies in meeting the full-time employee requirement?

Yes, the following flexibilities will be accorded:

- First year of assessment: The requirement to employ two FTEs is met if they are employed for at least six months continuously.
- Subsequent vacancies: If a position becomes vacant, the SFOV must fill the vacancy within three months of the position becoming vacant to maintain compliance with the tax incentive requirements.

LOCAL EXPENDITURE

37. What qualifies as local operating expenditure (OPEX) under the SFO Incentive Scheme?

Local OPEX refers to expenses incurred as a result of payment to Malaysian-incorporated companies or local tax residents. Examples of qualifying expenditures include:

- Employee remuneration (wages, salaries, bonuses, pension contributions, etc.)
- Professional services (legal, audit, tax, advisory, management fees)
- Rental and utilities
- Fees paid to the SFO MC for management services

38. Is there a minimum OPEX requirement?

During the initial assessment period

The SFOV must incur an annual OPEX of a minimum of RM500,000 locally.

During the subsequent assessment period

The SFOV must incur an annual OPEX (30% higher than during the initial assessment period) of a minimum of RM650,000 locally.

39. Is the local operating expenditure limited to expenses incurred in Malaysia?

Yes, all local operating expenditures must be incurred within Malaysia and paid to Malaysian-registered entities or local tax residents to qualify under the SFO Incentive Scheme.

40. Can the SFOV engage foreign service providers?

Yes, the SFOV may engage foreign service providers where necessary. However, payments made to foreign entities will not be counted towards meeting the local operating expenditure requirement of the SFOV.