

Introduction

Malaysia has unveiled several tax incentives representing a pivotal development in its economic landscape, enhancing its position as a desirable hub for wealth management, particularly for affluent families across the region. On 20 September 2024, Malaysia's Minister of Finance II announced a suite of incentive packages aimed at boosting economic growth in the Forest City Special Financial Zone (SFZ) in a bid to augment Forest City's position as a preferred investment destination.¹ The suite of tax incentives consists of a new single family office scheme (SFO Scheme), concessionary corporate tax rates, special income tax rates for skilled workers, incentives for financial companies and multiple entry visas.² These incentives are expected to attract businesses, financial institutions and high net worth individuals.³

The Single Family Office (SFO) Scheme

It is natural for affluent families with significant wealth to seek to manage their financial affairs in a way that aligns with the family's interests, goals and values. As such, it has become increasingly more common for these families to establish SFO.⁴ To be specific, an SFO 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.⁵

Malaysia is now seeking a slice of the market of SFOs in a likely attempt to follow the SFO boom in Singapore, which managed US\$1.3 trillion in offshore assets in 2023. To put things into perspective, the estimated number of SFOs globally is projected to grow to more than 10,720 by 2030, giving rise to an estimated total of US\$5.4 trillion in managed assets.⁶ The SFO Scheme is designed to attract SFOs to the Forest City SFZ, positioning the area as a significant financial and economic hub. It is anticipated that the introduction of the SFO Scheme will have a spillover effect on Malaysia's economy, and will enhance its investor base by attracting regional and Malaysian families to manage their wealth from Forest City.⁷

Attracting these high-net-worth families into the country will trigger an increase in capital inflows, which can be channelled into domestic investments across various sectors.⁸ According to Malaysia's Securities Commission Chairman, Dato' Mohammad Faiz Azmi, the projected economic multiplier from these capital inflows 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.⁹

The incentive provides for a 0% concessionary tax rate on income generated by eligible investments from the Single Family Office Vehicle (SFOV). An SFOV is typically a corporate vehicle which is wholly-owned, directly or indirectly, by one or more individuals from a single family and established solely for the purpose of holding the investments of the family members.¹⁰

This scheme will offer benefits for an initial period of 10 years (Initial Period), with the option for a 10-year extension (Additional Period), contingent upon specific conditions. In this regard, to qualify for the incentive for the Initial Period:

- The SFOV must be a new investment holding company incorporated in Malaysia and seek pre-registration with the Securities Commission on the eligibility of the tax incentives
- The management company or SFO which is a related company of the SFOV must be established and operating in Pulau 1, Forest City Special Financial Zone with at least one investment professional with a minimum monthly salary of RM10,000
- The SFOV must hold assets under management (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 SFOV must incur an annual operating expenditure (OPEX) of a minimum of RM500,000 locally
- The SFOV must employ a minimum of two full-time employees with each employee receiving a minimum monthly salary of RM10,000, and of whom at least one is an investment professional

1 Datuk Seri Amir Hamzah Azizan, "Keynote Address at Forest City Special Financial Zone Tax Incentive Announcement Ceremony" (Speech, Securities Commission Malaysia, 20 September 2024).

2 Ibid; see also Bin Hau Lee, "Malaysia: Launch of the Forest City Special Financial Zone and Securities Commission FAQs on Family Office" (DFDL, 26 September 2024).

3 Datuk Seri Amir Hamzah Azizan, "Keynote Address at Forest City Special Financial Zone Tax Incentive Announcement Ceremony" (Speech, Securities Commission Malaysia, 20 September 2024).

4 Khailing Yau Chambers, "Malaysia's New Single Family Office Incentive Scheme" (14 October 2024).

5 Securities Commission Malaysia, "Frequently Asked Questions – Single Family Office Scheme" (issued 23 September 2024).

6 Datuk Seri Amir Hamzah Azizan, "Keynote Address at Forest City Special Financial Zone Tax Incentive Announcement Ceremony" (Speech, Securities Commission Malaysia, 20 September 2024).

7 Securities Commission Malaysia, "SC Outlines Family Office Incentive Scheme" (Media Release, 23 September 2024).

8 Datuk Seri Amir Hamzah Azizan, "Keynote Address at Forest City Special Financial Zone Tax Incentive Announcement Ceremony" (Speech, Securities Commission Malaysia, 20 September 2024).

9 Securities Commission Malaysia, "SC Outlines Family Office Incentive Scheme" (Media Release, 23 September 2024).

10 Ibid.

On the other hand, to qualify for the Additional Period, the SFOV must fulfill higher substance and financial requirements as follows:

- 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 SFOV must incur an annual OPEX (30% higher than during the Initial Period) of a minimum of RM650,000 locally
- The SFOV must employ a minimum of four full-time employees

The nature of a SFO generally involves the carrying out of certain regulated activities, such as fund management or financial planning, which are typically subject to licensing requirements under the Capital Markets and Services Act 2007. Notwithstanding, the Securities Commission Malaysia (Securities Commission) have clarified that a SFO may be exempt from such licensing requirements if they exclusively provide services to a related SFOV.¹¹

The SFO Scheme will be coordinated by the Securities Commission and aims to be operational by the first quarter of 2025. In this regard, the Securities Commission is currently in discussion with relevant stakeholders and will provide detailed conditions for the scheme in the coming months.

Additional Tax Breaks and Incentives

As noted above, Malaysia is offering additional tax breaks as part of the incentive packages aimed at positioning Forest City as a magnet for international capital. Beyond the SFO Scheme, the Malaysian government have announced corporate tax rates ranging from 0% to 5% for businesses, particularly those in sectors such as global business services and financial technology.¹² A reduced income tax rate of 15% for skilled professionals is also on offer, which will encourage talent attraction and retention within the region.¹³ Furthermore, financial firms operating within the Forest City SFZ will benefit from various incentives, including deductions for relocation costs and enhanced industrial building allowances.¹⁴

Will Malaysia's Competitive Incentives Be Enough?

While the tax incentives are considered positive developments to attract family offices, financial technology, shared services and digitalisation to Malaysia, commentators are concerned they may not be enough for business to thrive within the SFZ.¹⁵

Economists acknowledge that the tax breaks and incentives for Forest City's SFZ are competitive, but remain sceptical about whether they will be enough to entice family offices to relocate, particularly those situated in Singapore.¹⁶ In this regard, Mr Chee Hong Tat, Singapore's Minister for Transport and Second Minister for Finance, noted that wealth owners tend to choose Singapore for many reasons, including its strong rule of law, robust and predictable regulatory regime, as well as its vast range of wealth managers and professional service providers, the safe and family-friendly environment and its world class education and healthcare systems.¹⁷

It appears that Forest City's competitive advantage may hinge on the Securities Commission issuing detailed conditions of the SFO Scheme, which are expected to clarify its scope and investment eligibility. These clarifications will be crucial in shaping Malaysia's competitiveness in the family office landscape.¹⁸

As we track closer toward the commencement of the SFO Scheme, it will be interesting to observe whether the incentive will entice high-net-worth families to consider Malaysia as a viable alternative for their family office needs. We will continue to watch this space.

Sarawak Emerging as an Economic Powerhouse

While the Forest City SFZ presents a hub for economic development in the southern region of Malaysia, Sarawak has been garnering investors' attention as one of Malaysia's future economic catalysts.

According to Malaysian Prime Minister Datuk Seri Anwar Ibrahim, Sarawak has the potential to become an economic powerhouse through its green energy projects that are capable of strong growth and attracting foreign investment.¹⁹

11 Ibid; see also KhaiLing Yau Chambers, "Malaysia's New Single Family Office Incentive Scheme" (14 October 2024); Bin Hau Lee, "'': Launch of the Forest City Special Financial Zone and Securities Commission FAQs on Family Office" (DFDL, 26 September 2024).

12 Datuk Seri Amir Hamzah Azizan, "Keynote Address at Forest City Special Financial Zone Tax Incentive Announcement Ceremony" (Speech, Securities Commission Malaysia, 20 September 2024).

13 Ibid.

14 Ibid.

15 Zunaira Saieed, "Malaysia unveils zero tax for family offices in Forest City, in bid to revive Johor project" [The Straits Times](#) (online, 20 September 2024) <Malaysia unveils zero tax for family offices in Forest City, in bid to revive Johor project | The Straits Times>.

16 KhaiLing Yau Chambers, "Malaysia's New Single Family Office Incentive Scheme" (14 October 2024)

17 Chee Hong Tat, "Chee Hong Tat: Building a stronger tomorrow- family offices in our flourishing wealth management landscape" (Speech, Global-Asia Family Office Summit, 16 September 2024).

18 KhaiLing Yau Chambers, "Malaysia's New Single Family Office Incentive Scheme" (14 October 2024); see also Wong & Partners, "Malaysia: Forest City Special Financial Zone- New family office incentive scheme" (Media Release, 30 September 2024).

19 Malaysian Investment Development Authority, "Sarawak positioned as future economic catalyst with green energy focus, says PM Anwar" (Media Release, 28 September 2024).

The driving force behind Sarawak's transition into a leading economy is the Post Covid-19 Development Strategy (PCDS 2030), which the Premier of Sarawak considers to be the foundation for establishing a resilient and sustainable economy.²⁰ The core objectives of the PCDS 2030 include changing Sarawak's economic structure, modernising and increasing efficiency, increasing household income to gross domestic product (GDP) share and to place environmental sustainability in the state's recovery effort and long-term economic growth.²¹ In light of these objectives, the PCDS 2030 aims to achieve a GDP of RM 282 billion by 2030 via several "strategic thrusts" and economic enablers, such as Sarawak's focus on renewable energy and attracting foreign investment.

Sarawak's renewable energy has long been recognised as a major asset and a key enabler responsible for the state's economic growth.²² The abundance of inexpensive, clean renewable hydroelectric power constitutes a key competitive advantage, especially for energy-intensive industries like aluminium, steel, fertilisers and cement. In light of this, the federal government of Malaysia had created the Sarawak Corridor of Renewable Energy (SCORE) as part of its plan to stimulate investment-led growth in traditionally rural areas.²³ SCORE leverages on abundant clean renewable energy (hydro-electric power) and natural resources to drive energy-intensive industries and attract other investments into the area.²⁴

Sarawak's ability to attract foreign investors through its abundant renewable energy sources have been complemented by their business-friendly policies and investment incentives, both at the federal and state level. For example, Sarawak offers the most competitive electricity tariffs in the Association of Southeast Asian Nations (ASEAN),²⁵ meaning that foreign energy intensive industries may operate with cheaper power costs.

As mentioned above, Sarawak itself offers several special investment incentives, further positioning the state as a preferred investment destination. In this regard, Sarawak offers companies that are eligible for Pioneer Status a tax exemption of 100% of their statutory income, rather than the 70% exemption offered by the federal government.²⁶ Additionally, companies that are eligible for Investment Tax Allowance may enjoy a rate of allowance equal to 100% of their statutory income, rather than 75%.²⁷

These incentives are not limited to renewable energy and manufacturing projects. Sarawak offers a vast range of tax incentives, both direct and indirect, which cover new investments in the manufacturing, agriculture, tourism and approved services sectors, as well as Research and Development (R&D), training and environmental protection activities.²⁸

As Sarawak continues to progress under the framework of the PCDS 2030, the state has emerged as a new economic powerhouse fostering attention as a prime and sustainable investment destination. Malaysia's efforts to attract foreign investment and boost economic growth have cemented its position in becoming a leading economy in the Southeast Asian region. It will be interesting to see the extent to which Malaysia's regional economies, such as Sarawak and the Forrester City SFZ, will position Malaysia as a global hub for financial services, foreign investment and high-value business activities. We will continue to watch this space.

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²⁰ Department of the Premier of Sarawak, "PCDS 2030 Propels Sarawak As Green Economic Powerhouse" (Media Release, 30 August 2024).

²¹ Economic Planning Unit Sarawak, "Post Covid-19 Development Strategy 2030", 13.

²² Regional Corridor Development Authority, [Sarawak Corridor of Renewable Energy](#) (Webpage, accessed 16 October 2024).

²³ Ibid.

²⁴ Ibid.

²⁵ InvestSarawak, "Incentives & Schemes", [InvestSarawak](#) (Webpage, accessed 16 October 2024).

²⁶ Ibid; see also Sarawak Government, "Investment Incentives", [The Official Portal of Sarawak Government](#) (Webpage, accessed 16 October 2024).

²⁷ Ibid.

²⁸ InvestSarawak, "Incentives & Schemes", [InvestSarawak](#) (Webpage, accessed 16 October 2024).