

Incentives for Forest City Special Financial Zone ("FCSFZ")

26 September 2024



Introduction

Forest City is a mixed development project being built on a series of man-made islands in the Straits of Johor, between Malaysia and Singapore. The creation of FCSFZ was first announced by the Malaysian Government on 25 August 2023.

FCSFZ is the first such special financial zone in Malaysia. Subsequently, five amendment bills were tabled and passed by both Houses of Parliament in July 2024 to make Pulau Satu in Forest City a duty-free zone. The amendment acts in relation to the bills have been gazetted on 25 September and will come into operation on a date to be appointed by the Minister of Finance.



In the latest development to attract international capital, the Finance Minister II had announced the following incentives for FCSFZ on 20 September 2024:



0% tax rate for Family Offices established under the Single-Family Office (“SFO”) Scheme coordinated by Securities Commission Malaysia (“SC”) (the subsequent media release by the SC in relation to this incentive is covered in the next article)



Corporate tax rate of between 0% and 5%



Individual income tax rate of 15% for knowledge workers and Malaysians working in Forest City



5% tax rate for financial global business services, financial technology and foreign payment system operators



Banking institutions, insurance, capital market intermediaries and other eligible financial sector entities will enjoy incentives that include special deductions on relocation costs, enhanced industrial building allowances and withholding tax exemptions



Support from Bank Negara Malaysia to locally incorporated foreign banks:

- ▶ Regulatory flexibilities to open additional branches in FCSFZ
- ▶ Foreign exchange flexibilities to borrow offshore in foreign currency and to invest in foreign currency assets

To date, further details and guidelines on the terms and conditions for the above incentives are not yet formalised. It is understood that discussions on this matter are ongoing between the Malaysian Government and the developer of Forest City.

SFO Scheme for FCSFZ



SFO Scheme for FCSFZ

On 20 September 2024, the Finance Minister II had announced an outline of various incentive packages for FCSFZ. Among the incentives announced, the SFO Scheme, coordinated by Securities Commission Malaysia (“SC”), has garnered significant interest.

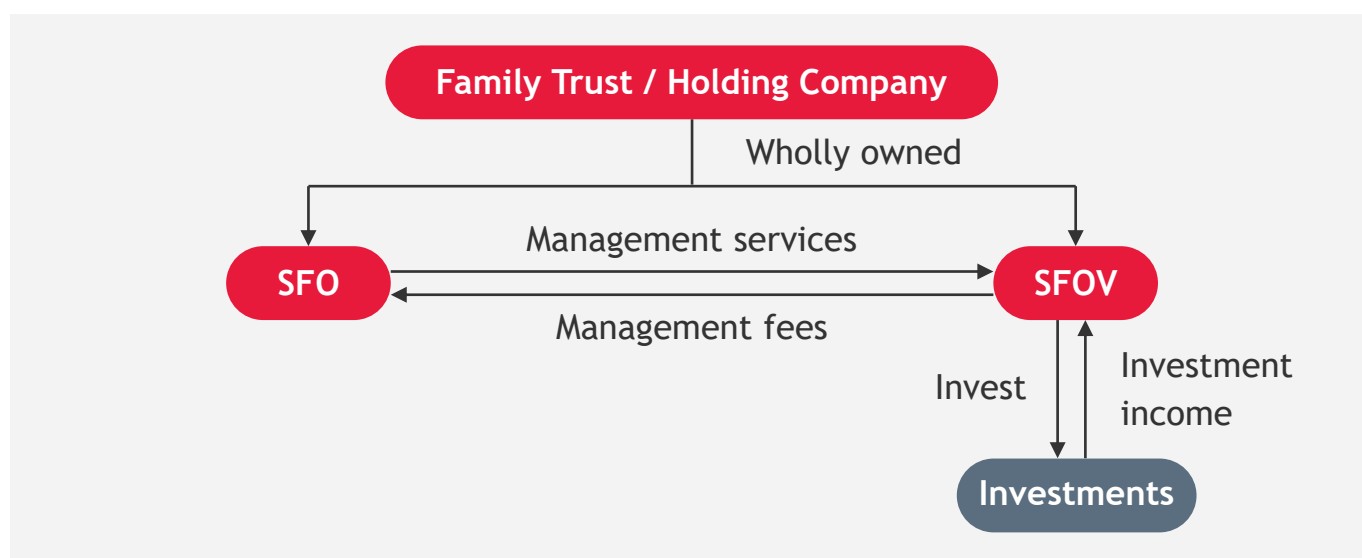
Following the announcement, the SC has released an outline to the media with some details about the qualifying requirements and conditions for the SFO Scheme on 23 September 2024 and is working with the relevant stakeholders to operationalise it by the first quarter of 2025.

Under the scheme, two wholly owned companies, namely a SFO and a Single-Family Office Vehicle (“SFOV”) are required to be formed with physical operations carried out in Pulau Satu, FCSFZ.

A SFO is a corporate vehicle that is wholly owned, directly or indirectly, by one or more individuals from a single wealthy family and established exclusively to manage the investments of that family that is held by a SFOV, as well as provide administrative services and other related activities for the benefit of the family members.

A SFOV is a corporate vehicle that is wholly owned, directly or indirectly, by one or more individuals from a single family and established solely for the purposes of holding the investments of the family members.

An illustration of the relationship between the SFO and the SFOV is as below:



Single-family Office (“SFO”) Scheme for Forest City Special Financial Zone (“FCSFZ”)

The 0% tax rate under the SFO Scheme incentive applies to the income from the eligible investments of the SFOV for a period of 10 years, which can be extended for another 10 years. To qualify for the incentive the following conditions must be met:

1. SFOV must establish and operate a registered office in Pulau Satu, FCSFZ.
2. SFOV must be a new investment holding company incorporated in Malaysia and seek pre-registration with the SC on their eligibility for the tax incentive.
3. SFO must set up and operate out of Pulau Satu, FCSFZ with at least one investment professional having a minimum monthly salary of RM10,000.

Other conditions to be met by the SFOV during the incentive period are as follows:

Incentive Period	Initial 10 Years	Additional 10 Years
Minimum Asset under management (“AUM”)	RM30 million.	RM50 million.
Minimum local investment in eligible and promoted investments	<ul style="list-style-type: none"> • 10% of AUM; or • RM10 million, whichever is lower. 	<ul style="list-style-type: none"> • 10% of AUM; or • RM10 million, whichever is higher.
Minimum annual local operating expenditure	RM500,000.	RM650,000.
Minimum number of full-time employees	Two (at least one investment professional) with minimum monthly salary of RM10,000 each.	Four.

The detailed conditions will be made available by the SC by the first quarter of 2025.

The SFO may be exempted from licensing requirements under the Capital Markets and Services Act 2007 (“CMSA”) if it only provides services to the SFOV that is its related company. However, the SC may still impose terms and conditions on the SFO under section 58 of the CMSA.

Eligible SFOVs may apply to the SC for certification purposes of the tax incentive subject to the SFOVs demonstrating it has complied with the relevant conditions.

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