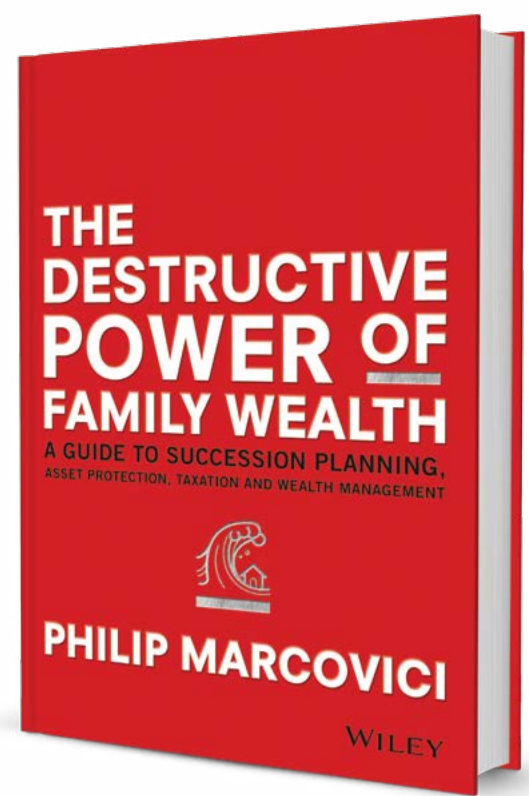


A few extracts from The Destructive Power of Family Wealth



• On the Needs of Wealth Owners

"Wealth owners have latent needs – they have needs, but don't know what they are. Knowing the right questions to ask is the key – no one has all the answers, but if a wealth owner does not understand their own succession plan, whether this involves the use of wills, trusts or otherwise, it can be very dangerous. Who has the power to make decisions if we are disabled or die? Who can replace the trustee? Who will monitor conflicts of interest, including how asset managers and others charge for their services? What can be done to manage the risks of divorce and other risks to wealth?"

• On Succession Planning and Asset Protection

"The first step in succession planning is to understand that having no succession plan in place is a succession plan. If I die, something will happen to my assets, and this notwithstanding that I may not have actually thought about my succession and planned it."

"I have run into a number of cases over the years where trusts and foundations established by wealth owners were not disclosed to family members, something quite common in times when wealth owners in Europe and elsewhere were led to believe that good planning involved hiding their assets from tax authorities and others. In too many situations, advisors ranging from lawyers to trustees to protectors and others ended up helping themselves to all or part of the assets involved. When families finally discovered the structures their deceased parent had created, it was often too late to recover the full value involved."

• On Changing Demographics and Aging

"Do failing memories put assets at risk? It is wonderful that we are all living longer, but is it not the case that dementia and even simple forgetfulness that comes with aging put assets at risk if no one knows where they are? Early succession and asset protection planning is the key, and families increasingly need to consider the aging process and its effect on the safety of family assets and the maintenance of harmony within the family for the long term."

• On "Gold-Diggers"

"I am often asked by families I work with about the risk of in-laws or others being gold-diggers, more interested in the wealth of the family than they should be. This is not a difficult evaluation to make, and my answer is always "Of course your son-in-law or daughter-in-law is a gold-digger!" This is not because everyone is evil – but because money comes into every relationship – if not at the start of the relationship, at some point in future. I always advise families to hope for the best, but plan for the worst."

• On Mistresses and Toy-Boys

"Mistresses are not an Asian concept. They are a global concept. Mistresses, toy-boys and other relationships all too often move into situations of blackmail, and there are approaches that wealth owners falling into common traps can employ to manage things effectively. One golden rule is to never give a mistress a lump sum of money – before long, she is back for more – why not use a trust or annuity that is designed to make payments over her lifetime, but conditioned on her keeping things quiet?"

• On Divorce

"In the case of divorce, community property, co-habitation and otherwise, it is easy to say that the rights of the spouse or other party are there because they need to be protected. And this is often the case, and why laws are in place to provide this protection. But for a wealth owning family, and particularly where wealth is at the higher level, it is critical to understand how laws designed to protect a spouse can be abused to provide a spouse with rights to family businesses and wealth that by no stretch of the imagination should they have access to. And with lawyers charging on contingency, getting paid on the success of their efforts, is it fair that family wealth falls into the hands of those who fuel the flames of marital disputes?"

• On Second (and Subsequent) Marriages

"Second and further marriages often cause more issues within families than the wealth owner establishing the new relationship thinks. The wealth owner often ends up in a difficult situation that jeopardizes not only the well-being of his children, but the chances of success in his new relationship. As a believer that money comes into the picture in every relationship (because everyone is a gold-digger, at least to some extent), recognizing this is a first step towards finding approaches to help the process not be a destructive one."

• On the Need for Women to Understand their Rights and Financial Position

"There is one very important reality about women and wealth. Chances are that they will end up with the money, one way or another – so they better know where it is and how to deal with it. Women live longer than men, and in a marriage, it is likely that they will outlive their husband. And if the marriage fails, which many do, the wife will and should end up with something – so everyone needs to be prepared, and all too often, women are not."

• On Who You can Trust

"Trust no one. This is not because no one can be trusted, but because the safest approach is to ensure that the right checks and balances are in place to deal with the reality that everybody has conflicts of interests. And for trustees, bankers and others, there is no client better than a dead client – dead clients do not complain about fees and do not fire you. Key is to ensure that those who succeed to your assets are able to properly keep an eye on trustees and others and remove and replace them when necessary."

• On Family Business Succession

"Families that manage to keep their businesses intact over the generations tend to be families that are flexible in their understanding that it is inevitable that not everyone in the younger generation will see things the same way. Allowing for the likelihood that there will be family members who will not want to participate in and support the family business, and having clear procedures for how to buy out their interests and at what price has been a key way successful families have managed to keep businesses in family hands over the generations. Having the ability to "prune" the family tree can be critical to the long term success of a family business."

• On Tax Advantaged Investing

"There are many facets to tax advantaged investing, but in the simplest terms, to invest on a tax advantaged basis means focusing on the after tax and not the pre-tax return on an investment. It is very easy to get into an investment, but often not enough attention is paid to the question of how one will exit from the investment, and what the tax consequences of this might be."

• On Taxation

"In a world where disparities of wealth are increasingly at the forefront of the political and social agenda, is "hiding the money" either an option or the right thing to do? Advisors and wealth owning families have to change their ways, and in many cases, the ways of the past were not something to be proud of."

"The only certainty in the tax world is that the laws will change, and constantly do. The wealth owning family does not need to become expert in the tax laws of every country that affects them and their investments. Rather, the wealth owning family needs to be able to understand the advice they receive and be able to challenge that advice, and ask the right questions. Being aware of how tax systems work can help families stay in control of the succession and asset protection planning put in place for their families."

• On the Move to Tax Transparency and Automatic Information Exchange

"Is transparency in the tax world a rocky road that will create a new kind of refugee problem and a drain of capital and entrepreneurship from countries most in need? I worry that many developing countries are simply not ready for automatic information exchange. Politically motivated use of tax information, corruption, leakage of tax information to kidnappers and more will lead to entrepreneurs desperately needed by their economies realizing that they only have two choices – play by the rules or get out. And to play by the rules does not work if the tax system does not adequately protect taxpayer interests – so getting out will be the only choice. Who will replace the lost jobs and revenues of the developing countries involved?"

• On Mobility

"Play by the rules or get out. These are the only choices wealth owners have – the third choice of staying connected to a country by residence, domicile, citizenship or otherwise and hoping that no one will find out is simply not an option in a world of growing transparency and where tax laws are increasingly and more aggressively enforced. Tax laws are laws, and there is no choice but for compliance with them."

"One simple guideline on mobility planning is that the best time to consider leaving a country is before that country begins to impose an exit tax. As the world moves to greater tax transparency and tax laws are enforced more vigorously, it is likely that more wealth owners will be using mobility as part of their planning, attracting more high tax countries to consider barriers to mobility, including exit taxes and tougher rules in relation to the question of who is and who is not a tax resident, particularly among those who were previously taxable residents of the country."

• On Tax Planning, Tax Avoidance and Tax Evasion

"As a tax lawyer, my job has been to work with wealth owners and to help them legally plan their affairs such as to minimize tax exposures. But how far should one go to pay the least amount of tax possible? Is it an ethical obligation of wealth owners to pay headline rates of tax to help address wealth and income inequality and to not take steps to reduce tax exposures? Where is the line between legal tax planning and illegal tax evasion...and what of tax avoidance, something that used to be considered legal and appropriate, but which is increasingly condemned by tax authorities and others?"

• On Political Risk

"There are many risks that a wealth owner is subject to that can fall under the heading of "political" risk, including changes in the tax landscape, perhaps in part as a result of a new focus on income and wealth inequality. Addressing political risk will be an increasing need of wealth owning families worldwide. The current focus on income and wealth inequality, increasing populism in the political sphere and the difficult financial position of many countries is increasing risk, and not only in parts of the world one normally thinks of as unstable."

• On the Wealth Management Industry

"Wealth management is a knowledge business, but sadly run by many who are more focused on their own interests than on the need to invest in and manage knowledge for the benefit of their clients. A wealth owner has little choice but to get a handle on what is relevant to their own situation, and be in a position to ask the right questions that will lead them to the right advisors. And for the wealth manager who gets it right, the opportunity to excel and attract clients is significant."

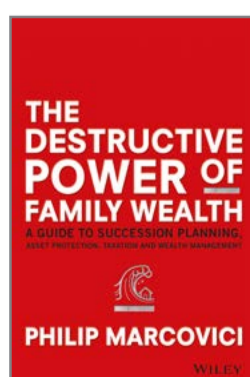
"Today, around the world, there are increasing regulations that require asset managers to provide transparency on charges to their clients, but there continue to be many circumstances of hidden charges that asset managers, such as private banks, impose on their clients. Is the client aware that the bank may have made arrangements to receive "retrocessions" or kick-backs from investment funds in which they may invest the client money they have under discretionary management? Relatively recent court decisions in Switzerland require banks to refund retrocessions they historically received in a number of circumstances, but unsurprisingly the industry is pretty quiet about the rights their clients may have to obtain refunds of amounts their advisors secretly received."

• On Independent Asset Managers and Family Offices

"Interesting to observe is that the independent asset manager and single and multi-family offices usually come into the picture when the wealth owning family gets fed up with the poor service they get from their traditional private bank. And while the private bank ends up being nothing more than a custodian, the independent asset manager or family office begin to focus on negotiating even these fees on behalf of the wealth owner, putting more pressure on the private banks."

• On Compliance as a Client Need

"Compliance is a client need. Tax and related reporting requirements are only part of the picture, and too few banks realize that families need help to understand the choices they have on how to structure their affairs and ensure that they know who has what information on their family and assets and where that information is going to go. Delegating these things to the compliance department is not enough - helping clients deal with increasing compliance is part of the service an effective bank or trust company needs to provide."



The Destructive Power of Family Wealth:

A Guide to Succession Planning, Asset Protection, Taxation and Wealth Management

By Philip Marcovici

October 2016 • £29.99 / €37.50 / \$45.00

For more information, visit www.tinyurl.com/wileywealth

WILEY