PATRIKIOS PAVLOU & ASSOCIATES LLC

ADVOCATES - LEGAL CONSULTANTS

Family offices: Current Challenges and Trends

Introduction

The outbreak of the COVID-19 pandemic has affected not only public health and the well being of humanity, but also a number of economies, businesses and industries worldwide. Family offices have not remained unaffected; not only by Coronavirus but also by the ever-shifting global economic environment. New trends that have arisen during the COVID era, including remote working and the demand for greater connectivity, as well as novel strategic and operational risks, are forcing family offices to rethink the way they have been traditionally doing business.

New Trends and Challenges

The majority of family offices were until recently relying on a more traditional model for their operation; having a few loyal employees and depending on the decision-making power of the head of the family. Currently, however, family offices are faced with a number of new matters that need to be addressed. Namely, have priorities shifted? Is the existing structure and location of the family office fit for purpose? Can the IT infrastructure in place support the electronic requirements of this new era? What about the younger generation – is it willing to step up and adapt to the new conditions?

The Next Step Forward

All such new challenges need to be addressed for family offices to be able to make the next step forward:

- It is a fact that priorities have shifted and the focus has moved from asset protection to **succession and planning**. This is because the outbreak of the COVID pandemic has highlighted the fragile status of human health. Therefore, family offices should review the arrangements they have put in place in relation to the family succession and ensure that such arrangements can effectively operate when needed.

- A greater demand for **transparency** and **reporting** has been a tendency for a number of years now. The registers of ultimate beneficial owners constitute a part of the new reality, while many tax authorities are actually putting in place review procedures for high-net-worth individuals. To tackle the appearance of material tax risks and for the purposes of reducing the various reporting requirements around the world an important factor for family offices to consider would be to simplify the relevant structures by reducing the number of jurisdictions involved. Therefore, proper advice for re-domiciliation, local or cross-border mergers, liquidations and re-organizations should be obtained.

- Travel bans and other COVID driven restrictions have highlighted the fact that the **location** of the family office, and also the place where the family resides, is an important factor to be taken into consideration. A jurisdiction with a robust employment law regime and advantageous tax laws should be chosen. Namely Cyprus offers a number of incentives for managers and higher officers wishing to re-locate and work in Cyprus. Expatriate relief is available, whereby 50% of the gross emoluments are allowed to be deducted from taxable income for individuals that were not tax residents of Cyprus prior to the commencement of their employment in Cyprus. People wishing to become Cyprus tax residents can also obtain the tax resident non-domiciled status (which confers certain tax exemptions).

  A separate issue to be addressed is whether the tax residency status of physical and legal persons, was affected by Coronavirus restrictions. It is important to note that the Cyprus Commissioner of Taxation issued in October 2020 clarifications on the application of the statutory provisions related to tax residency during the Covid-19 crisis. This guidance stipulates that the determination of the tax residency of individuals, the place of effective management in relation to corporate residency and the existence of permanent establishments will not be affected by the temporary nature of the extraordinary circumstances related to the Covid-19 pandemic and, thus, whereabouts and actions caused by the pandemic should be ignored by tax authorities and must not trigger a corporate tax residency scrutiny or change.

- As already mentioned the majority of family offices are structured in a more traditional, sometimes over complicated and sophisticated way. However, a smaller and hence more flexible family office can operate more effectively, while a shift should also occur in a more professional mode of operation. **Modernisation** should be the next aim along with **improving connectivity.** Family offices should leave behind the complexities and the legacies of the older generation and focus on introducing robust internal controls, reducing size, and at the same time increasing remote working.

- Focus on **sustainability**, **diversity**, as well as **societal and environmental impact** of corporate practices constitutes a strong recent trend. Environmental, social and corporate governance is very relevant today in the business landscape. Although, family offices, were not often involved with such initiatives, the next generation is expected to be more actively involved with causes to be supported by the family.

Is there a Future for Family Offices?

To answer simply, yes. However, family offices should modify their structure and adapt to the new conditions to remain relevant and achieve all needs of the family they serve. Receipt of proper advice, offering tailor made solutions should be obtained to enable the family office to take the next step forwards.

Stella Strati | Partner – Corporate Finance, Tax, Private Client