PRIVATE CLIENT SERVICES

RELOCATION

JANUARY 2021

BDO

RELOCATION

COMPETING CONCERNS

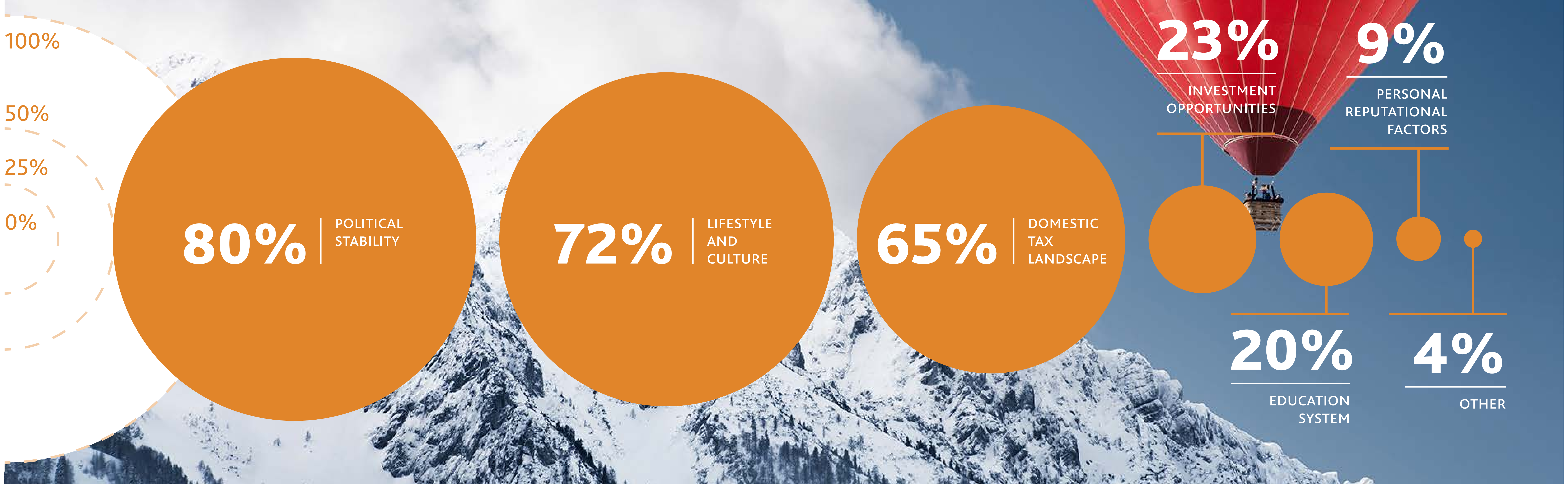
The mix of decision-making drivers for physical and capital relocation has always been complex and contingent upon personal preference, cultural factors, risk appetite, and lifestyle priorities.

Acknowledging what is going on in the wider world is relevant now more than ever, and in the new wealth paradigm, our research identifies that stability remains the most influential of the many factors driving behaviour.

Local ties and national identity can dictate a lack of movement for some; lifestyle priorities may lie behind a single relocation; while those that choose to move for business opportunities or tax advantages which are less predictable and can change year-on-year, may be in a constant state of relocation.

GRAPHIC 6:

HOW IMPORTANT ARE THE FOLLOWING TO HNWIS IF AND WHEN SELECTING A NEW JURISDICTION TO RELOCATE TO? RESPONDENTS CHOSE A MAXIMUM OF THREE ANSWERS.



The consensus view is that taxation is always one consideration, with 64.8% of survey respondents identifying the domestic tax landscape as an influencing factor (Graphic 6). But rarely, if ever, is it the main consideration.

"Stability trumps low rates," explains one legal adviser, while another asset manager warns that "if you move purely for tax, you might well find yourself moving back again before long".

Beyond broad agreement on stability (identified in Graphic 6 by 79.6% of respondents as a key factor to consider if selecting a new jurisdiction), context is king. Those with children will typically value strong education, with a stable socio-political environment.

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Those with business interests will value stability along with a reputation as a financial, technology or investment centre with a strong labour market.

The events of 2020 have potentially thrown new players into the mix of popular relocation destinations, as global crisis has shone a light on truly stable jurisdictions with strong leadership figures and well-coordinated crisis responses. One Singapore-based wealth management expert notes, for example, that "New Zealand or, Australia may grow in attraction as places to invest and locate".

In many ways the travel restrictions imposed in 2020 have caused focus to shift back to family ties and local connections. Comfort, confidence, and security have joined 'stability' as watchwords.

Capital location may be less of an issue in a globalised world, while for human relocation, a Channel Islands-based relocation expert observes "more exotic destinations may be less attractive as the focus is on quality across infrastructure, healthcare, social, political and legal systems where people feel comfortable and confident".

THE VIEW FROM SINGAPORE

KYLIE LUO | Head of Private Client Services, BDO Singapore

In the midst of every crisis lies great opportunity and by demonstrating resilience in the face of the pandemic, Singapore has shown itself to be an attractive jurisdiction for both individuals and corporates. Our teams here in Singapore have assisted more than 300 families from all around the world with the set-up of family offices and tax compliant structures, with a major increase in 2020 despite the circumstances.

As the idea of wealth management is fast gaining traction in Asia, Singapore has also been developing rapidly as a pro-business, progressive and well-regulated international financial hub for a number of years. With the Singapore fund tax incentives offered by the Monetary Authority of Singapore making structures such as family offices efficient from a tax and succession planning perspective, Singapore is an increasingly attractive location for families looking to hold and manage their wealth.

In a recent parliamentary session, it was stated that there are at least 200 single family offices in Singapore, a number that has grown significantly in recent years. Alongside a significant increase in the number of families from North Asia setting up family offices, we are also seeing more families from Europe and the Americas, including billionaire Ray Dalio (Founder of Bridgewater Associates).

We expect this demand to continue to grow in the coming years, especially as 2020 has given families an opportune time to take a step back, rethink, plan and put in place their succession arrangements. Further, families have been making the most of this down time to reposition their investment strategies as well as business strategies (where family businesses are concerned) to prepare for the next phase of growth.

Singapore also has the new Variable Capital Company ("VCC") that was launched in January 2020, offering a more flexible vehicle for structuring investments, which has been a huge success in 2020. We are expecting the VCC to extend to single family offices in the future, which would increase the demand in these structures further, especially as it provides an attractive alternative to other overseas jurisdictions.

RELOCATION

NAVIGATING PUBLIC POLICY AND POLITICAL UNREST

From a wealth preservation perspective, how is tax policy changing wealth owner priorities when it comes to protecting capital and assets? Our research reveals expectations – but also scepticism around the effective functioning – of wealth taxes and shows how taxation can serve as both a push and a pull factor.

Public policy is a behaviour-influencing tool. Sometimes the influences are specific, direct and targeted; other times the influence and impact may be unintended or unforeseen. Regardless of the policy motivation, wealthy individuals are able to 'vote with their feet' and relocate in response to tax and public policy reforms. This can be relocation away from a given jurisdiction because of unfavourable policy changes, or relocation to a jurisdiction because of favourable incentives.

The imposition of various forms of wealth tax and high levels of income taxation have seen French wealth owners seek residency elsewhere over the years despite their homeland's lifestyle attractions.

Governments understandably need to recoup revenues in the face of recession, but "nobody has made a wealth tax work," observes one private office financial planning specialist.

With tax hikes expected in many jurisdictions as they seek to recoup funds invested in COVID-related support schemes, questions around relocation may once again rise to the fore. A Swiss adviser points out that in Europe, "Portugal, and to a lesser extent Italy, have grown in popularity". New tax systems for HNWIs in both jurisdictions, in tandem with the lifestyle choices offered in terms of climate, cuisine and leisure activity, could prove attractive as the global recession deepens. With lifestyle and culture identified by 72% as a dominant relocation determinant, and tax by 64.8% (Graphic 6), jurisdictions that marry both will likely entice.

RELOCATION

LONGER-TERM TRAJECTORY, SHORT-TERM DISRUPTION

Alongside tax policy-driven decisions, it is clear that recent socio-political events have had the potential to throw relocation priorities into the air, particularly given the premium placed on safety and stability by private clients. As one investment manager points out, “2008 was about money and financial security” whereas the COVID-19 pandemic “has been more profound, prompting questions like ‘are my family and I safe?’”. As some semblance of normality returns, the impact of health and social justice crises is becoming clearer.

While the ubiquitous nature of the coronavirus means that relocation destinations have not yet been too drastically influenced – “no country is immune to it,” says a European lawyer – the different approaches of leadership figures in both navigating the pandemic and subsequently bolstering the treasury may provide wealth owners food for thought.

In many ways, the core decision remains the same: what do you want and need from your physical base, versus those other things you are happy to travel for? Do you fly in and out – rather than relocate – for healthcare, golf courses and beaches, for example?

THE VIEW FROM NORTH AMERICA

JEFF KANE | Chair of Global Private Client Strategy Group, BDO USA

The world was a very different place when we started this study. However, the situation we have been thrust into on a global level has sharpened the thoughts of many respondents and perhaps even accelerated their plans.

While at this time there are still many restrictions on travel between countries, that does not necessarily impact the potential for future opportunity and growth.

Despite the unfortunate number of COVID-19 cases in the U.S., the country has historically been very resilient in the long term from a business perspective and we expect it to be able to remain on this trajectory.

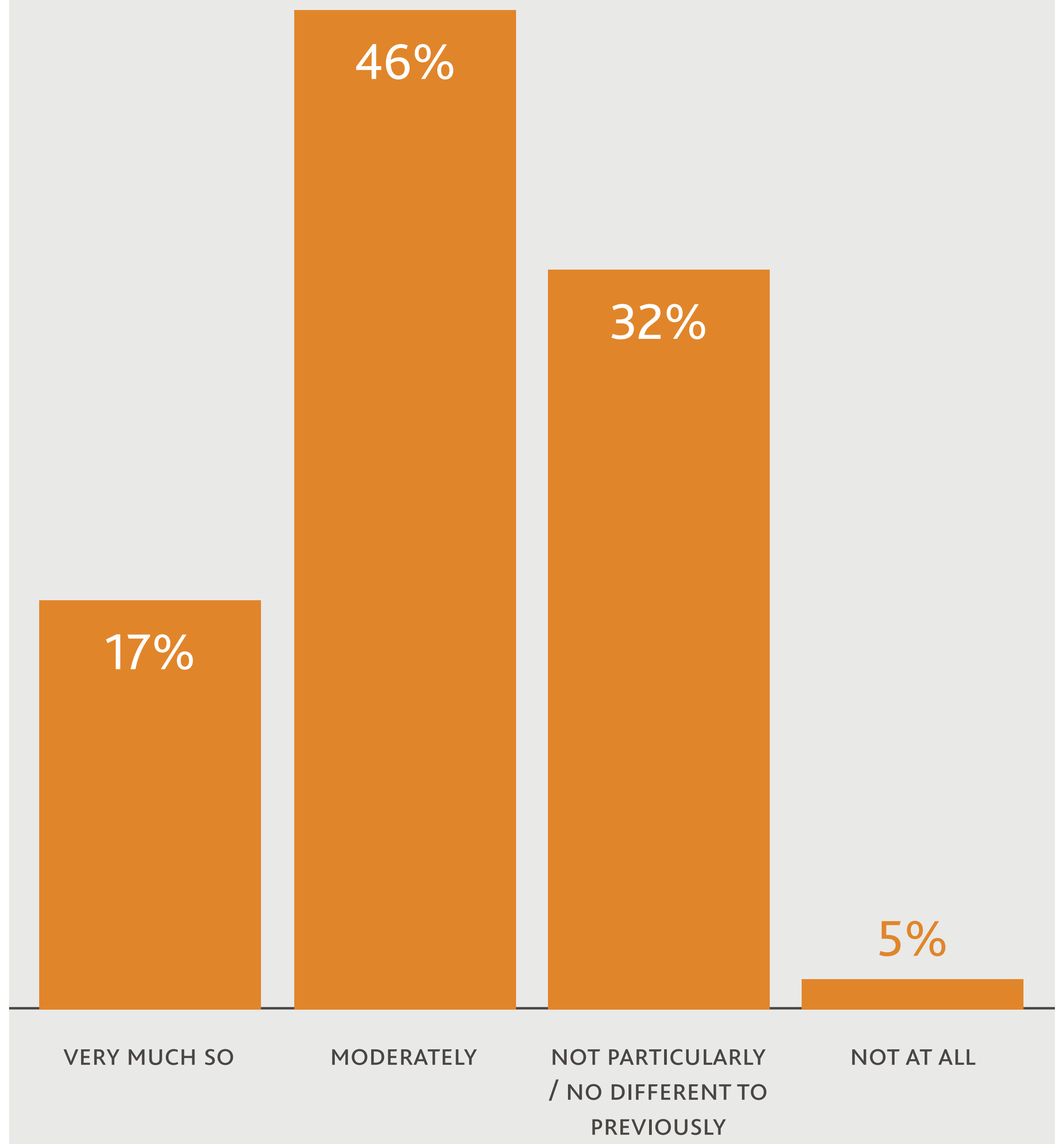
There is certainly potential for taxes to increase in order to pay for some of the stimulus enacted and the changing political landscape will have its impact. However, our clients have continued to preserve and are, against a backdrop of change and uncertainty, very engaged in planning the future of their family wealth enterprise.

Social unrest is a more divisive issue and this varies significantly from country-to-country. Our data shows that on top of political stability being the dominant relocation driver, only 4.8% of respondents said that economic, political and social instability is ‘not at all’ prompting a trend towards relocation (Graphic 7).

GRAPHIC 7:

WILL ECONOMIC, POLITICAL AND SOCIAL INSTABILITY IN KEY JURISDICTIONS PROMPT A TREND TOWARDS INDIVIDUALS RELOCATION (OF ASSETS AND / OR RESIDENCE) OVER THE NEXT 12 MONTHS?

RESPONDENTS CHOSE ONE ANSWER.



RELOCATION

LONGER-TERM TRAJECTORY, SHORT-TERM DISRUPTION

The result in some cases is a temporary flight of investment while investors wait to see how events unfold, before potentially returning to markets they know well. The Asia-Pacific region provides examples of this in action. “If you look at the flight of Chinese money, international investment left but is steadily returning; it has moved past ‘wait-and-see’,” says one APAC lawyer, while an asset manager points out that “Hong Kong may have lost some of its lustre, but the financial system remains strong”.

Capital aside, physical relocation from Hong Kong to the UK, in particular, may increase under a new visa option that will allow holders of British national overseas (BNO) status and their immediate families to apply for entry visas from January 2021.

The figures in Graphic 7 suggest that, as initial responses turn into more concrete action plans, further relocation activity should be expected. One UK firm, specialising in residency and citizenship planning, said it saw an almost 50% increase in the number of applications for new nationality during the six months to June 2020.

THE VIEW FROM SWITZERLAND

STEFAN PILLER | Partner & Head of Tax, BDO Zurich

Switzerland demonstrates once again that even in difficult circumstances like COVID-19, the country remains stable and the economy remains strong.

With a very competitive tax system and special arrangements (lump-sum taxation) for High Net Worth Individuals, Switzerland remains an appealing relocation option for private individuals. The recently implemented Swiss corporate tax reform provides new tax planning opportunities for businesses, especially for innovative firms, with our new patent box and R&D super deduction.

The firm’s chairman was quoted as saying that “investment migration has shifted from being about living the life you want in terms of holidays and business travel to a more holistic vision that includes healthcare and safety”.

Meanwhile, passport application backlogs have piled up in many countries during the pandemic, indicating that individuals are at the very least assessing their options with a view to possible relocation.

“Investment migration has shifted to a more holistic vision that includes healthcare and safety.”

The US State Department suffered “months of near-paralysis and a long climb from a deep backlog” according to the Los Angeles Times, to the extent that it could prioritise only “life or death” requests.

A similar story unfolded in the UK, which has seen a 172% increase in passport applications from last year, while Baroness Williams revealed in response to a parliamentary written question in July that the applications backlog had reached more than 400,000.

Conversely, the Australian Passport Office saw a 67% reduction in passports issued compared with 2018-2019. August 2020 saw 14,300 citizens depart Australia, while the number of departing travellers in August 2019 was 828,000. In the face of travel restrictions, many Australians are not seeking to renew their expired or expiring passports, indicating that future relocation activity involving Australia is more likely to be inbound, rather than outbound.

2021 OUTLOOK:

FROM CAREFUL ADJUSTMENTS TO DECISIVE ACTION

While our research reveals the scale and extent of the change that 2020 has thrust upon the world of private clients, it also shows that the fundamental principles wealth owners live by are being adapted, rather than replaced.

Our findings indicate that the appropriate initial response to radical reset is careful adjustment, not knee-jerk reaction. This culture of adaptability and measured response is not new, but its application is. Diversification and opportunity-spotting in reaction to outside events and forces has always been part of sensible wealth management. It is now applied to all aspects of wealth owners' lives.

At the same time, the events of 2020 were unprecedented, so wealth owners remain alive to the need for further change. We have discussed how continued success will rely on thoughtful decision-making that is responsive to change while staying true to the principles that underpin a longer-term outlook.

2021 OUTLOOK:

FROM CAREFUL ADJUSTMENTS TO DECISIVE ACTION

We expect the demand for family offices to continue to grow, as 2020 has given families an opportune moment to take a step back, rethink, plan and start to put in place their succession arrangements. The family office completes the puzzle by providing the basic fundamentals required for this planning phase and set succession planning on a sustainable footing.

But as the themes we have tackled continue to flex throughout the coming year, re-evaluation of priorities will continue to occur. More radical alterations may be warranted as certain trends become permanently embedded while others are shown to be temporary and are duly swept aside.

So, how will our four pillars stack up in 2021?

Transparency will continue quickly. The resolve of national authorities will surely increase, and the tolerance of non-compliance will fall, as recession deepens and governments seek funds to pay for COVID-related policies that have supported the economy in the short-term. Policymakers will keep a watchful eye on the wealthy as they seek to strike a balance between the goal of stimulating the economy and the risk of driving investment away if the taxation 'stick' is wielded too forcefully.

COVID-related restrictions are already impacting **relocation** strategies, and will continue to do so, but at some point cross-border activity and movement will return more fully. We are seeing individuals wanting to return to their "home" country where that country has COVID-19 largely under control. This is in turn leading to a surge in demand for property rentals and purchases in some jurisdictions. Wealth owners should assess (and are already assessing) their priorities and options now in order to act swiftly when the time comes.

We should not ignore the potential for a global pandemic to accelerate **inter-generational change**, both due to modified mind-sets and the mortality implications of COVID-19. Right now, it is impossible to imagine a world without COVID-19 but, even in its absence, new social norms and a focus on ESG serve as accelerating forces. The role of the current wealth holders will increase as they actively plan to pass on their wealth and educate the next generation. The only constant is change – but what positive forces can we expect to see within wealthy families, as the 'react' phase ends and the 'resilience' and 'realise' phase begins?

So, too, for the **adviser of the future**. As wealth owners (and wealth itself) change, they bring with them new expectations. However, while everything else around us changes, client satisfaction must not. One thing that is certain is that business as usual no longer exists. Private client advisers must remain alive to shifting needs as the private client landscape and the wider world evolve.

For now, the pursuit of stability remains the order of the day. As the fallout from 2020 continues to crystallise, and with the aid of additional clarity, wealth owners will be able to turn measured responses into more meaningful, longer-term action plans.

This report is the first instalment of a multi-year initiative designed to track and monitor sentiment within, and directed towards, the private wealth community, as well as analysing wealth-holder attitudes and strategies year-on-year. If you would like to discuss this year's findings, or take part in next year's research, get in touch with us – just search '**BDO World of Private Clients**', or contact your local adviser opposite.

Read our full report to see the wider analysis of our four themes.

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