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TAX PLANNING
NON-DOMS

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The decision by George Osborne, the UK chancellor, to scrap the permanent non-domicile status has created issues for London's family offices and their clients. The move, announced as part of this year's summer Budget, means those who have lived in the UK for more than 15 of the past 20 years will be deemed UK domiciled as of April 6 2017, subjecting their foreign income and gains to taxation.

With the wealthy in the Treasury's sights, some suggest the changes could have a significant impact on the structure of the family office industry itself.

"It is very much a destabilising move. We are at risk of throwing the baby out with the bathwater," says Ashley King-Christopher, a partner at Charles Russell Speechlys, the private wealth law firm.

The single family office, which provides a range of services to wealthy families, may be under threat, according to King-Christopher.

"When I get an instruction, saying, 'We want to relocate our family office team, our key money guys, from Brazil to London', my next question is whether the family is coming as well. Often the answer is, 'No'."

Paul Kearney, a family office specialist at Kleinwort Benson, the private bank, agrees: "Family offices that act as asset managers can be here even if the families are not. [But] if the family office really deals with private needs, those would move with them."

How likely are departures? Recent tax reforms, of a scale less severe than the latest proposals, have seen the number of UK resident non-domiciled taxpayers fall from a high of 140,000 in 2007-08 to 114,300 by 2013-14. But the figure has remained relatively constant since 2010-11, and numbers rose 3 per cent last year.

Pinsent Masons, the law firm, says this increase masks significant churn. The suggestion is that those arriving in recent years have done so with a lower degree of commitment than in the past.

Clampdown: UK chancellor George Osborne's reforms could lead to the return of 'day counting' among the wealthy to avoid a change in status

With many non-doms able to move around the globe with relative ease, the chancellor's latest reforms could lead to the return of "day counting" among the wealthy, according to Kearney. Those who spend an average of fewer than 90 days a year in the UK do not qualify as resident non-doms.

The larger multi-family offices say their relationships are strong enough to survive this kind of scaling back. Many already necessitate "travelling to see clients, conference calls and video calls", says Michael Parsons, client relationship manager at Sandaire, the wealth manager.

This ability to serve international clients does have natural limits. Wealthy clients moving to far-flung time zones are less likely to retain UK connections, as Parsons acknowledges.

But many non-doms are deeply embedded in the UK, making mass departures "doubtful", according to one adviser. For these clients, the question is how to adapt to the new rules.

The government's consultation on its proposals, released on September 30, revealed that personal income and gains from non-doms' offshore trusts will not be taxed in the event that individuals become UK domiciled.

But changes governing these vehicles' inheritance tax liability will go ahead as initially outlined. It is this legislation that has caused the most concern among family offices, given the importance they place on succession planning.

As of April 2017, non-doms will no longer be able to avoid UK inheritance tax by holding UK residential property through an offshore company, ending a common method of tax planning.

John Rhodes, director of Stonehage Fleming Law, a subsidiary of Stonehage Fleming, the multi-family office, says tax is just one factor in succession planning. But he acknowledges the inheritance tax changes could have significant repercussions. "Families are going to have to think most critically about estate planning. This is really the angle we want to cover."

In a sign of the sensitivity of these proposals, the government will dedicate a separate consultation to the subject later this year.

Kearney adds: "The idea that a significant house in Chelsea falls into UK inheritance tax is a sufficiently material risk for a family to consider leaving. I think we will see a lot of that."

The Kleinwort Benson director says offices should hold little hope of being able to plan around the change. Nor are family offices clinging to the belief that the crackdown represents an epilogue to the non-dom taxation story. But their overall outlook is far from downbeat.

Family offices retain faith in London's relative merits, not least because other mainstream jurisdictions, such as Switzerland, are less of a haven than they once were.

"We can simply do what we have always done, which is to look at co-ordinating the affairs of these wealthy cross-border families," says Rhodes.

"There have been quite dramatic changes everywhere over the past five years for people who occupy this space. Huge amounts of information are going to be swapped, on a scale never seen before, which is going to make it very difficult for people to hide money."

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