Link to Event

How to capitalise on the internationalisation of PRC wealth

The last five years have seen explosive growth in understanding among Chinese HNW individuals of wealth structuring and transition. But advisers and professional services firms need to know how to navigate a tricky compliance and cultural landscape.

Broadly, helping Chinese HNW clients to diversify, protect and pass on their wealth is no different in concept than it is for their peers in other countries.

For example, they face similar succession issues as individuals from many other countries. So standard asset protection structures such as companies, trusts and private trust companies are equally relevant.

More specific to China, there is a drive by wealthy individuals and families for globalisation of their wealth as well as their families.

The challenge, however, is the time it takes to get Chinese clients comfortable with the concept of a trust and the responsibilities involved, as well as what it means to cede control of their assets.

As a result, the starting point is to understand their needs and then help them get familiar with the risks of doing nothing.

However, there are two key peculiarities with China. First, many HNW individuals in the mainland are younger than in other countries, so might not have the same urgency to plan for a generational shift.

Secondly, they can't invest easily in their own country due to lack of products, so a challenge exists in getting the funds out of the PRC.

As a result, any structuring is therefore offshore, where these clients can use common structures such as trusts and offshore companies.

However, as with all HNW clients, they have to be made to understand that wealth preservation isn't just about investing assets – but also can be a part of developing a succession plan and getting the next generation involved.

Ultimately, advisers need to think long term when helping wealthy Chinese address the various challenges they face.

Panel speakers

- ***Lennard Yong**, Regional Chief Executive Officer, Asia, FTLife Insurance*
- ***Michael Olesnicky**, Partner, Senior Advisor, KPMG*
- ***Kevin Lee**, Partner, Zhong Lun Law Firm*
- ***Nigel Rivers**, Founder and Chief Executive Officer, Capital Solutions*
- ***William Probert**, Senior Consultant, Sovereign Trust*

Lennard Yong, FTLife Insurance

hubbis

STAYING OUT OF THE SPOTLIGHT

With a country that has become increasingly 'clean', advisers need to be aware of the risks involved with trying to be aggressive in building up their client book without going to jail.

A relatively recent clampdown by PRC authorities has also made it more of a struggle for clients to get money out of the mainland.

Although this might be short term and potentially just a reaction to concerns about the huge capital outflows, there is clearly more of a spotlight on individuals who have not done things properly in the past.

And the view that China is generally a non-compliant jurisdiction is increasingly the wrong one to listen to, given the changing situation.

What stance the authorities will take going forward is anybody's guess. Practitioners are in the dark about whether changes will be made to any rules on the structures allowed to date.

Either way, some key guidelines that experienced market practitioners say they follow include:

- Avoid helping clients smuggle money out of China
- Assume even the most confidential structures are available for inspection by tax authorities
- If clients aren't tax compliant, watch out. Tax authorities in other countries have required disclosure of offshore advisers, and have prosecuted them
- Tax should not drive structuring decisions
- Don't make the client's problem your problem
- Focus on wealth that is either already outside of China or is about to be deployed outside of China
- Deal with clients from licenced offices outside of China

Michael Olesnicky, KPMG

WORKABLE SOLUTIONS

What is considered to be the right advice in China is, therefore, a changing concept.

While tax planning is relatively straightforward at the moment, this is likely to change. The Common Reporting Standard (CRS) and other reporting, as well as increased restrictions on capital flows, and reforms to immigration programmes and property ownership taxation rules (such as in the UK and Australia), result in a need to adapt.

Kevin Lee, Zhong Lun Law Firm

Some practitioners say they are also seeing a certain push-back in some jurisdictions against the influx and influence of wealthy Chinese people and businesses. This might even be based on unwritten policies rather than any public statement

Nigel Rivers, Capital Solutions

More specifically, in trying to find structures which can meet the needs of wealthy Chinese, care must be taken that the offshore entities are nor controlled by the client from within China; otherwise they will be subject to PRC tax.

Further, advisers and clients must be mindful of tax changes coming to Individual Income Tax laws, and possible estate duty in the PRC. The initial impact of this is simply that it will require existing structures to be reviewed.

In addition, the PRC tax authorities are sophisticated, so nobody should assume that non-compliance will be tolerated.

At the same time, CRS will give the PRC tax authorities information about the offshore structures. This will likely mean that offshore structures could be investigated, and those that don't comply may give rise to penalties.

Some practitioners expect that the State Administration of Taxation of the PRC will pass information about offshore assets to the State Administration of Foreign Exchange (SAFE), which will investigate to see if foreign exchange rules have been breached.

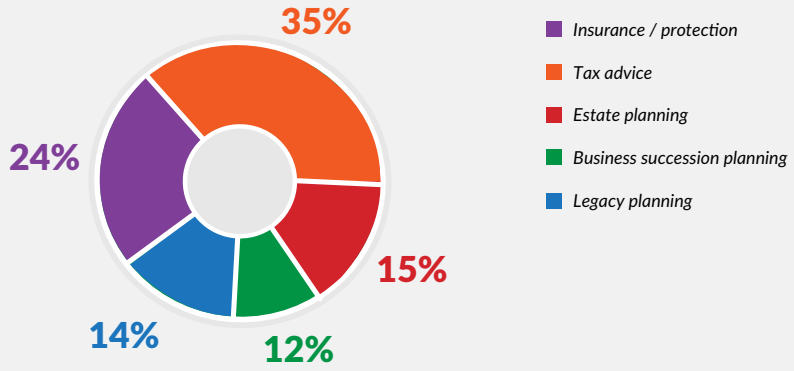
This suggests, say some industry insiders, that a voluntary disclosure programme beforehand could be tactical.

Whether China offers a tax amnesty is unknown, but some lobbying is underway.

Fundamentally, advisers need to do things properly. They must follow good practices in terms of reviewing the situation from time to time – and especially when there are any regulatory reforms.

Other ways to help Chinese HNW and UHNW clients diversify, protect and pass on their wealth include immigration as hedge against country risk and protection, in terms of segregation of wealth to put out of harm's way – notably, the '4Ds" of death, divorce, disaster and debt.

WHICH OF THE FOLLOWING IS MOST CRITICAL FOR CHINESE HNW CLIENTS TODAY?



Source: Hubbis Asian Wealth Management Forum 2017 - Hong Kong

LOOKING TO THE FUTURE

To find and access PRC clients, some practitioners suggest that advisers should aim for the next generation.

This is based on them tending to be more open and understanding of the need to do things, mainly because they have more of a Western influence due to their education.

In line with this, playing a role of an 'introducer' and providing independent professional advice or trustee services counts with this type of client. Indeed, network referrals are effective access points.

Further, family offices are maturing and in the process of evolving to suit PRC families

Ultimately, wealth managers need to build a certain amount of client dependency in China while they have the chance, say practitioners. ■

Advisers need to do things properly. They must follow good practices in terms of reviewing the situation from time to time – and especially when there are any regulatory reforms.

William Probert, Sovereign Trust