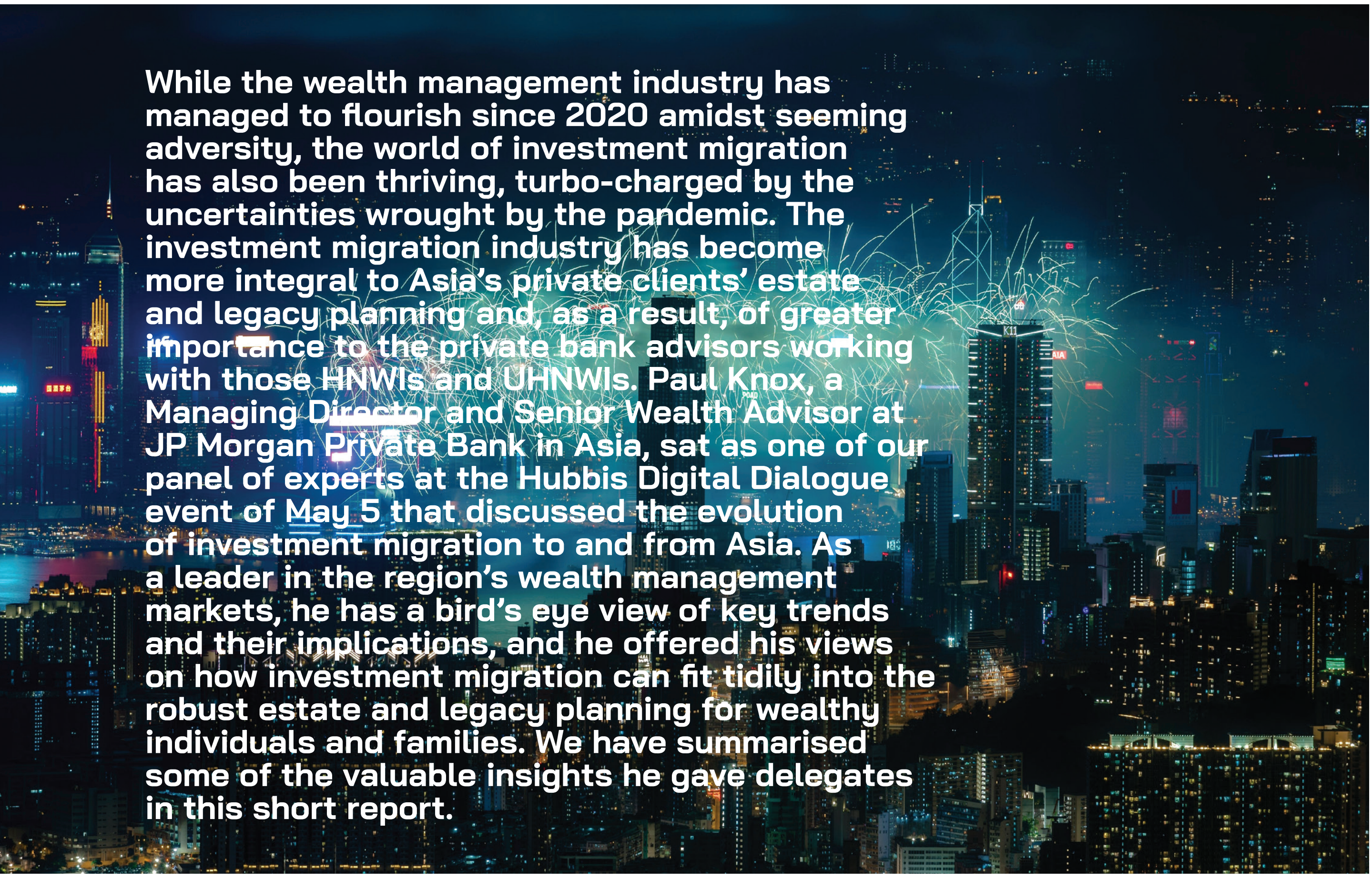
JP Morgan Private Banker Paul Knox on the Need to Fully Understand the Ramifications of Changing Residence



While the wealth management industry has managed to flourish since 2020 amidst seeming adversity, the world of investment migration has also been thriving, turbo-charged by the uncertainties wrought by the pandemic. The investment migration industry has become more integral to Asia's private clients' estate and legacy planning and, as a result, of greater importance to the private bank advisors working with those HNWIs and UHNWIs. Paul Knox, a Managing Director and Senior Wealth Advisor at JP Morgan Private Bank in Asia, sat as one of our panel of experts at the Hubbis Digital Dialogue event of May 5 that discussed the evolution of investment migration to and from Asia. As a leader in the region's wealth management markets, he has a bird's eye view of key trends and their implications, and he offered his views on how investment migration can fit tidily into the robust estate and legacy planning for wealthy individuals and families. We have summarised some of the valuable insights he gave delegates in this short report.

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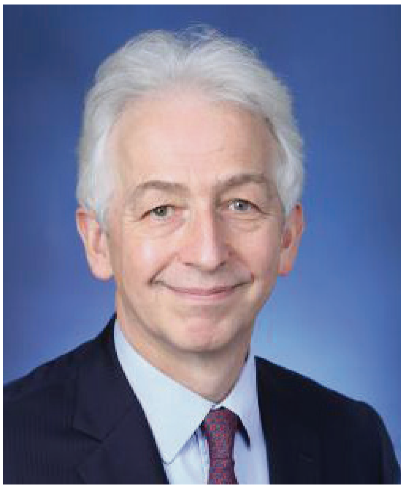

Paul Knox
JP Morgan

"Unless a person is moving to a low tax jurisdiction, any affluent individual planning to relocate should ideally start to plan at least nine months in advance and take full advice on all aspects of their wealth," Knox told delegates. "In particular, it is important to have all their trusts, corporate and other structures reviewed so that the tax consequences of those entities are fully understood in the destination location. The entities are often overlooked until the individuals have relocated, and there can be unforeseen tax consequences."

He explained that since the pandemic hit, he had seen different nationalities repatriating early, leaving Asia to return to their original homes, whether in the US or Europe or Australia, or elsewhere. And they had seen some who had been long-term residents in Hong Kong become somewhat nomadic since the pandemic when compared on a historical basis.

Seek good advice, plot and plan

"Although they might have been observing how long they've been spending in each country, and just making sure that they don't become tax residents anywhere, we always advise them to seek professional advice, and once they do so, they tend to change their thinking and avoid the potentially unexpected tax consequences," Knox reports.

He observed that residence and citizenship alternatives need to fit in with robust estate planning. "Many wealthy people thinking of moving country might have BVI or Cayman Islands entities of which they are the sole director and shareholder, or sometimes trusts over which they retain extensive powers," he noted. "Accordingly, my advice to clients is to plan well in advance, to give it nine months to plan and 9 to 12 months to expedite things properly. You need to review all your structures and all your investments, to work out what assets to dispose of, or perhaps also to rebase their values before you move. As a result, they might need to extensively reconfigure their investment portfolio to make it more tax-efficient for the country ahead. In short, it involves a lot of work."

He added that many assets such as hedge funds and alternatives might either be tough to reconfigure or illiquid, so whenever possible plan well ahead and give yourself time. "This is not always possible, for example, for working expatriates moving jobs and countries at short notice, but it is always advisable," he said.

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Many cautionary tales

Knox has over thirty-five years of experience in advising wealthy individuals and families on both domestic and international tax and estate planning as well as family governance and succession issues. He also has wide experience in advising philanthropists on both tax and structuring issues in relation to charitable giving, and himself had moved to Asia in November 2019, after a career spent dealing with global clients out of London. Armed with such a wealth of experience, Knox also offered delegates some anecdotes from his long career in wealth management.

"I have seen many cases over the years since I first started practising," he reported. "I remember a client in the 1980s who had just been through a difficult divorce and wanted to leave the UK to manage his UK inheritance tax exposure. He moved to Spain but lasted only about six months there; then the same happened when he went to Italy, then he ended up on one of the offshore islands of the British Isles. And he was still miserable, because he had not planned properly or thought it all through."

Another story he recounted was of an individual who in the 1990s had wanted to move to Belgium for a year to avail himself of a facility to mitigate UK capital gains on asset sales. "That was all fine, except they realised they were not allowed to take the family dog with them, and at the eleventh hour, his wife and children could not bring themselves to leave their pet for a year in kennels, and it all fell apart."

And he also told the story of a successful banker who decided to move from London to his holiday home in Cayman Islands. "It did not take him long to realise that it was not so perfect there all year round, especially when the hurricane season hit, and he soon ended up moving to Italy."

Thinking it all through...

These and many other stories only reinforce his view that all such decisions need to be considered very carefully and the requisite time and money spent to make sure it is a good move and then it is properly structured from all aspects. "So, when clients come to me for advice, I try to help guide them properly and then plan ahead," he told delegates.

"It often works best when there is a sound rationale, for example if their children have been educated in the US or the UK or Australia and have ended up settling in those places. Countries where there are robust expat communities – Portugal is a good example nowadays – are often more welcoming and easier to adapt to."

A return to equilibrium?

Knox closed his observations by remarking that the pandemic had created some new and special circumstances but that the mists should disperse as the world moves on from the pandemic. "We might see some of the old favourites returning to favour, such as Hong Kong," he said. "Time will tell." ■