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The Opportunity of Growing Private Wealth in China

A panel of experts gathered to discuss the growing private wealth in China, and the exciting opportunities this presents to wealth management professionals both within and outside of China, despite ever-tightening tax regulations keeping a strangle-hold on offshore investments.

These were the topics discussed:

- *What's the role that Hong Kong based IAM could play in the future access to China wealth?*
- *How can domestic and offshore firms collaborate?*
- *What do clients want from their off-shore wealth management partners?*
- *Is there an opportunity to help with investments as these clients look to diversify?*
- *The globalising of Chinese wealth and trends to watch*
- *How are the different business models evolving in regional onshore wealth management markets?*
- *Do Chinese clients have unique expectations around technology, products and service?*
- *Are there any real family offices in China? What do they do? What are their needs?*
- *What are the Tax and Wealth Planning considerations today?*
- *In a new transparent world - how are the Chinese dealing with legacy and the next generation?*

PANEL SPEAKERS

- **Nigel Rivers, Founder and Chief Executive Officer, Capital Solutions**
- **James Russell, Director, First Names Group**
- **Michael Olesnicky , Partner, Special Advisor, KPMG**
- **Jacqueline Shek , Executive Director, Trust Services, ZEDRA**
- **Peter Golovsky , Managing Director, Global Head of Fiduciary Services and Head of Asia, Cone Marshall**

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"**EVEN FIFTEEN YEARS AGO**, frankly we as wealth managers did not care whether our clients were tax compliant or not," admitted an attendee as the discussion began. "If we had a Chinese client for whom we were managing assets in Singapore, we did not tend to concern ourselves with how they paid their tax in China," he added.

Two big changes have occurred since that time. One is that under new money-laundering laws, if wealth management professionals manage funds or assets for clients and suspect they are not paying sufficient tax, it is imperative to file a suspicious transaction report with the Hong Kong authorities.

Secondly, under the Common Reporting Standard (CRS) all information regarding transactions in other jurisdictions must be reported to the local Inland Revenue Department, which in turn reports to the state administration of tax in China. Nowadays, there is quite simply nowhere to hide when it comes to tax.

Protect yourself with constant vigilance

As the wealth management industry now operates in a much more transparent environment, advisers must be vigilant that their clients are tax compliant or face repercussions. "For your own sakes, ensure your clients are behaving legitimately and paying their tax, or their problems will become your problems," advised an expert.

Indeed, the tax authorities of China now receive information on where their residents invest from over

JACQUELINE SHEK
ZEDRA

JAMES RUSSELL
First Names Group,

100 countries. Currently, only information on financial accounts, securities and insurance products is shared, but it is inevitable that ownership of real estate and assets such as gold and antiques will be added to the list of sharable information as time goes on.

The Chinese government recently drafted a change to the new income tax law, so the whole playing field has changed for how Chinese people must structure their wealth to manage their tax affairs. The individual income tax law that will be coming into effect on the 1st of January 2019 empowers the tax authorities to start looking at offshore structures more aggressively.

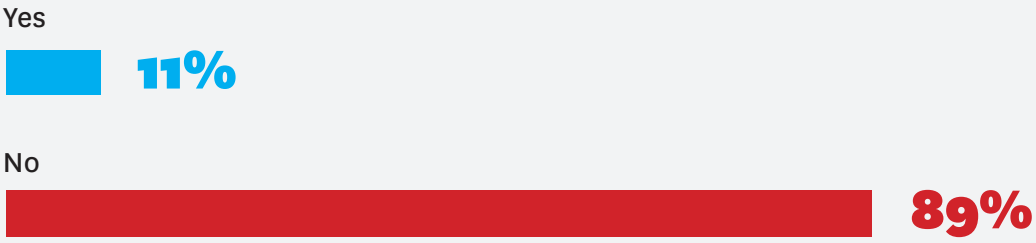
"Because of this crackdown," an attendee elucidated, "offshore structures must no longer be set up for the purpose of tax avoidance but for family succession planning, governance planning and asset management purposes, with all plans and transactions carefully documented and approved."

Some good news at last

Panellists then moved to discuss the more positive aspects of how the growth of wealth in China represents opportunity to wealth advisers outside of China. "This slew of rules and regulations coming into force might in fact make the job of a wealth management adviser easier in two ways," argued a panellist. "Firstly," he explained, "we will begin to see clients self-censor, and understand that they cannot simply bring a pile of undeclared money to Singapore or Hong Kong. Secondly, it

PETER GOLOVSKY
Cone Marshall

DO YOU THINK CHINESE CLIENTS UNDERSTAND THE TAX CHALLENGES THEY FACE?



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will drive quality into the market. Clients will be looking for advisers who can deliver the best, most compliant work and stand by it, rather than acting in a merely nominal capacity," he added.

"Indeed, compliance may seem scary, but it is no different to rules in place in Australia, the UK, US or Japan," a delegate explained. "China is now in the 21st century. Investing purely for tax reasons is going to incur penalties, but if advisers work with clients to properly document investments and their motivation, tax disputes can be mitigated."

"CRS is nothing new, and the level playing field it creates itself brings opportunity," agreed an expert. "There are indeed myriad opportunities presented by the increasing number of clients wishing to become compliant international investors," he added.

MICHAEL OLESNICKY
KPMG

Overseas opportunities for wealthy Chinese families

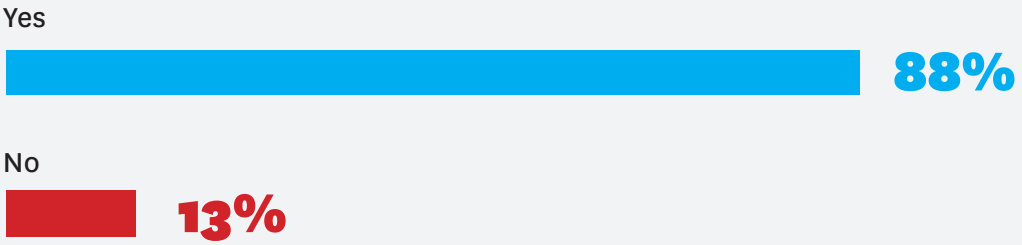
"There are still migration trends for education and business interests in China," elucidated an attendee, "however, capital controls mean that private wealth is more contained within China. If compliance rules are followed to the letter, those investors wishing to deploy their wealth abroad can still find value in overseas investment."

But where should clients be looking to make those investments? "When looking for opportunity outside China, remember that the US is not part of CRS, and for non-US individuals there are a number of opportunities there to settle assets," an expert advised. "Many Chinese families have business interests in the US that represent tax compliant options" he added.

"THERE ARE STILL MIGRATION TRENDS FOR EDUCATION AND BUSINESS INTERESTS IN CHINA,"

"A lot of Chinese banks have been setting up in Singapore recently, but there is also opportunity for people in Hong Kong," explained an attendee. "There is a cultural familiarity for the wealthy Chinese dealing with people in Hong Kong, but I think also that the Hong Kong market is more aggressive in going out into

WILL CHINESE WEALTH MOSTLY COME TO HONG KONG OR SINGAPORE?



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China and exploring the Chinese opportunities. In Singapore however, there is more emphasis on setting up Singapore-based structures, trusts and companies," he continued.

Documentation, amnesty and paradigm shifts

The discussion then progressed to ponder how advisers can help their wealthy Chinese clients fully understand the tax challenges they are facing and stay afloat amongst increasingly crowded legislature.

Controlled foreign corporation (CFC) provisions in the new laws mean that if a Chinese resident has a company in Hong Kong or the Cayman Islands which is accumulating profits, the authorities now expect there to be a good reason to leave those funds in the company as opposed to remitting them into China and taxing them accordingly. "We need to start thinking about our investment strategies and documenting the reasons for keeping those funds abroad," advised an expert.

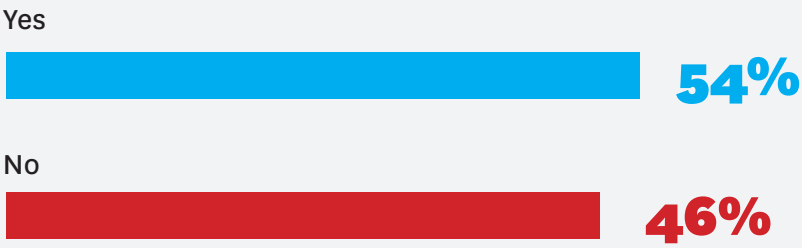
One way that other jurisdictions have had success with compliance is by offering amnesties. Clients who have not been compliant in the past, operating in the shadows, risk enormous fines if they allow their affairs to be scrutinised in order to become compliant. If they are offered amnesty however, they can join the ranks of honest tax-payers without risk. "China has not yet offered amnesty, which may be discouraging people to become compliant," explained a panellist.

To end the discussion, a panellist predicted that there will be a paradigm shift from expanding and growing wealth to protecting and organising wealth for Chinese clients. "They will stop chasing the next million and begin instead to ensure the money will be there to pass to the next generation, paying handsomely for the best, compliant advice," he concluded. ■

NIGEL RIVERS
Capital Solutions

"CHINA HAS NOT YET OFFERED AMNESTY, WHICH MAY BE DISCOURAGING PEOPLE TO BECOME COMPLIANT,"

DO YOU REGULARLY HAVE CONVERSATIONS WITH YOUR CLIENTS FROM CHINA ABOUT THEIR LEGACY AND WEALTH TRANSITION?



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