# Time to do things properly

*With nowhere to hide from the glare of regulators and tax authorities around the world, Howard Bilton of Sovereign Group is adamant about the need for a pragmatic approach.*

Never a day goes by without another story about tax. Tax reporting, transparency, avoidance, evasion and, most recently, aggressive avoidance.

Tax is, in fact, a very simple subject according to C. Northcote Parkinson, then Raffles Professor of History at the new University of Malaya in Singapore, and a writer for The Economist.

His famous Parkinson's Law was followed in 1960 by a study of taxation in all its forms – trade, property, capital, inheritance – and the frequent words are 'blackmail', 'complex' and 'excessive'.

The only way not to pay tax, he concluded, is to go where there is no tax.

But modern taxation is more complicated. The arrival of the US Foreign Account Tax Compliance Act (FATCA) and the OECD-sponsored Common Reporting Standard (CRS) means there is nowhere to go.

This has important implications for the wealth management industry; some players may be rushing to catch up but for others there are great opportunities.

The impact of FATCA on financial institutions is already well underway.

It has proven to be such a headache for that many firms have decided they will no longer accept US persons – although the definition is very widely drawn – as clients; some banks have even told existing clients to take their business elsewhere.

Going beyond this, the new CRS sets out rules and procedures for the automatic exchange of information on financial accounts beneficially owned by residents of foreign countries.

While it took effect from January 2016, the reporting itself will begin in 2017 or 2018, depending on which country one is referring to.

**HOWARD BILTON**
Sovereign Group

"CRS will only be a problem for those who have not correctly reported on their tax forms by including income in an offshore structure which is attributable to them," says Howard Bilton, chairman of Sovereign Group.

In fact, the challenge for most people as a result of CRS, is that it will – like FATCA – be just another layer of complexity and, inevitably, cost in terms of time and money.

"It's going to be lot of filling out forms which many people won't really understand," says Bilton.

Given that the business model at Sovereign has been built on transparency, he can look to the current and future international regulatory regime with some confidence.

> **"The main difference now, is only if you haven't really been doing things properly and being fully compliant. There is now a certainty of getting caught with the arrival of CRS."**

The firm's core business is setting up and managing companies, trusts, pensions, insurance and other structures to meet specific personal and business needs.

These include foreign market entry, tax planning, wealth protection, property ownership and cross-border business.

Since opening its first office in Gibraltar in 1987, Sovereign is now one of the largest independent trust firms in the world. It manages more than 12,000 structures for a wide variety of clients – companies, entrepreneurs, private investors and HNW individuals. Its assets under administration amount to more than USD5 billion.

## HEEDING THE WAKE-UP CALL

Yet there is another ramification of the new regime which follows the law of unintended consequences.

Just as with FATCA, the arrival of CRS has put a focus on the role of banks as gatekeepers between customers and governments, primarily in terms of tax.

As a result, reluctance has turned into rejection in many cases.

In Hong Kong, for instance, Bilton says that banks are noticeably hesitant to deal with anything which has a hint of being 'offshore'.

This applies to big, medium and small businesses alike, he explains, and even to long-standing customers who want to invest outside their home jurisdictions.

"A mainstay of the Hong Kong economy has been its position as the service centre for the Far East, and Hong Kong is now losing business to Singapore primarily because the banks in Singapore are much more receptive to international business.

"Indeed," says Bilton, "banking in Hong Kong has become more difficult than in every other international finance centre in the world, and this is bound to have a serious impact on the Hong Kong economy down the road."

He adds: "The businesses that are being turned away and refused banking facilities may not be large, but there are lots of them and the cumulative effect is bound to be felt at some stage."

## COMPETING AS A HUB OF THE FUTURE

He praises the work being done by InvestHK – the department of the Hong Kong SAR Government responsible for foreign direct investment, to support overseas, mainland and Taiwan businesses to set up and expand in Hong Kong.

"They have got 13 offices around the world whose sole job is to round up business from people who want to do business through Hong Kong," explains Bilton.

The problem remains, though, that they too are being frustrated and thwarted by the fact that businesses which want to come to Hong Kong are unable to bank there.

This should therefore be a time for enthusiastic and intelligent lobbying, believes Bilton.

"We need to get this debate going at the front of mind," he adds. "More talking, more writing and the more the merrier." ■