



RIDING THE STORM: NEW REALITIES, PARADIGMS AND PRIORITIES

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Over the last two years, the world has tapped into the uncharted waters of unprecedented changes on all fronts that primarily came along with the pandemic, but also, among others, the political instability that prevails in many parts of the world. Contractions in advanced economies, changes to global wealth and turbulence in financial markets, a rise in unemployment and an increase in wealth inequality have been observed. Now, during the second wave of the pandemic, we are observing the slow re-opening of economies and, according to the October 2020 report by the IMF, the uncertainty for projections is unusually large.

The reshaped global landscape has brought new priorities to High Net Worth Individuals (HNWIs), not to say new mindsets. From our conversations with these individuals, possibly now more than ever, we see a burning desire to safeguard and preserve wealth but also an elevated focus on how to effectively plan the passing on of wealth to the next generation. The pandemic seems to have increased the sensitivity of these individuals to have a positive social impact and hence philanthropy is high on their agenda. Other priorities include the need for effective governance to tackle increased complexity and for transparency and focus on the enhanced use of technology.

A RENEWED FOCUS ON GOVERNANCE

In many parts of the world, we see wealthy families with 2nd and even 3rd generations, often physically spread around the globe, holding increasingly more complex assets. Additional changes that we see are new family members and non-family executives taking part of the control from the 'patriarch' to manage the family business/wealth. We see a need to operate with more professional protocols along with a need for enhanced transparency, both from the family and from governments. All these create an emerging need to implement effective governance mechanisms that help align family interests, enhance transparency, handle increased regulatory requirements and strengthen family bonds. At PwC Cyprus, we are seeing a growing number of our HNWI clients transition their various existing structures into

TODAY, MORE THAN EVER, WEALTHY INDIVIDUALS NEED TO RIDE THE STORM THROUGH PROACTIVE, COMPREHENSIVE AND THOROUGH PLANNING, ASSESSMENT AND ACTIONING

THE PRESERVATION OF WEALTH IN A SOCIALLY RESPONSIBLE MANNER AND THE PASSING ON OF WEALTH TO THE NEXT GENERATION AND SOCIETY HAVE LATELY BECOME A PRIMARY FOCUS OF ENTREPRENEURS AND WEALTHY FAMILIES

a more organized and focused Family Office. Long established and large Family Offices (FO), especially in the US and the West, work on very sophisticated governance structures (almost like public companies). Newly set up and smaller FOs rely on other 'traditional' governance mechanisms such as shareholder agreements, Family Constitution, Shared Purpose of the Family (setting financial and non-financial objectives), diversified Boards with family and non-family members. Family Councils that act as an executive committee at a family level are gaining popularity, along with regular – now often digital – family meetings, along with formalised conflict resolution and family employment policies. These mechanisms are, of course, also applicable in cases where the family wealth is managed under other structures (i.e. without a Family Office).

Increased Ultimate Beneficial Owner regulations, along with tax authorities around the global formalising review programmes on HNWIs, call for solid structures, robust governance and regular independent oversight of the functions of the FOs.

FAMILY PLANNING AND PASSING ON WEALTH

As noted above, the preservation of wealth in a socially responsible manner and the passing on of wealth to the next generation and society have lately become a primary focus of entrepreneurs and wealthy families. In acting proactively, especially in times of uncertainty, sociopolitical turbulence and financial instability, families are keen to consider setting up a sustainable and solid framework both for succession planning and asset protection purposes.

Families in Cyprus (local and international) but also those who use Cyprus as a corporate or personal base, in consultation with their professional advisers, are considering their succession and estate planning early on, often taking decisions on the cornerstone of the family values and vision. In this process, tax is always on the agenda but it is not the only consideration.

In Cyprus there are no wealth, death or gift taxes and capital gains tax has a limited scope with full exceptions for transfers between close family members, which makes Cyprus an attractive jurisdiction for passing on wealth. The interests, concerns, objectives, wishes and ideas of families who consider their succession and estate planning (both at family business level and for private assets) evolve around other considerations as well beyond tax optimisation.

During the pandemic, we have witnessed elevated concerns about 'the day after', considering death or incapacity or some other extraordinary set of circumstances. These may give rise to legal and other complications, including, among others, ascertaining the mode of ownership and management of underlying assets pending completion the administration process, what happens with any such underlying assets (e.g. the business) and under which circumstances these may be passed on, whether the underlying assets are protected from heirs' and/or third party claims, who will exercise the voting or management powers in relation to the underlying assets and how, and what the rights and/or powers of minors are. Cyprus follows global trends and developments and is continuously amending or introducing legislation (as required) to align with international best standards and practices, in particular as regards transparency, AML and abusive tax practices but also to attract and service international families. In recent years we have seen our clients considering a wider range of issues. These include:

- Best investment practices and policies with an emphasis on the environment, technology, startups, and socially responsible firms.
- How to educate, involve and make the next generation accountable in the management of the family wealth.
- What mechanisms may be put in place to know where the assets are situated and who has access and information to or in relation to them.
- How to cater for the risks involved in potential divorce proceedings.
- How to safeguard against substance or other abuses.
- How to exit a jurisdiction if required.
- How to finance litigation or major needs in case of freezing orders.
- How to bring together or keep apart (if this is in the best interest of all) children from second or third marriage.
- How to cater for old age in the light of the demographic changes.
- How to cater for extraordinary events such as going missing in adventure travelling. e.g. on diving or climbing expeditions or in case of kidnapping.
- How to keep family affairs private and confidential in a world of almost full transparency.
- What to provide in a family constitution, which has become very popular in recent times and how to deal with soft or

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hot issues like family governance, the use of family assets – in particular luxury assets such as art, classic cars, yachts, planes, holiday homes – employment in the family business and compensating family members who exit.

Having regard to the above, Cyprus Trusts and other set-ups such as Cyprus companies limited by guarantee (CLG) may provide very attractive solutions in relation to succession and estate planning, which may be used not only to plan for undesirable events such as death and incapacity but also in relation to other circumstances that may accommodate the special and different needs and requirements of every family. Cyprus International Trusts are useful in terms of smooth succession (avoiding the hassle of the administration of estate and the forced heirship rules of other legal process which would normally kick in on the occurrence of death), as well as from the perspective of succession planning and asset protection (creditors being in a position to challenge only within two years and only if they can prove fraud). At the same time, Trusts can and are widely used in commercial transactions (e.g. as an alternative to an escrow arrangement).

Companies limited by guarantee (CLG) represent a very attractive alternative to that of Cyprus International Trusts and are, indeed, widely used both for succession planning and asset protection purposes. This type of company may be used as any normal private company, enjoying, among others, benefits afforded by virtue of double tax treaties. The articles of association of the company can be tailored to reflect the succession needs of the family, while at the same time its founder can retain control by becoming a member and/or director of the company. Perhaps most importantly, such a company offers a strong asset protection tool, as membership thereof is not transferable and therefore a creditor cannot easily make a claim.

NEXT GENERATION – NEW PARADIGMS

In the heat of the pandemic, wealthy individuals are becoming more active in social giving, Environmental, Social and Governance (ESG)/impact investing and corporate sustainability. Philanthropy is, for a growing number of HNWIs, a coherent part of how their wealth is distributed and also a big part of creating/sustaining the family's legacy. As per the 2020 report of the Milken Institute of Strategic

Philanthropy, more than \$11 billion in charitable funding has been released to mitigate the many hardships created by the COVID-19 pandemic. With the next generation getting involved in managing the family affairs (business and assets), we see philanthropy and impact investing elevated to a different dimension, changing paradigms on legacy as well. A main concern of millennials includes using their wealth to make a difference and transforming the lives of others. This is possibly one of the reasons why Family Charitable Purpose Trusts and other similar vehicles are gaining in popularity. They provide a great opportunity even to younger NextGens to 'onboard' and become more involved in decision-making and be introduced to the responsibilities that come with wealth. Jurisdictions that can support strategies on Philanthropy with an enhanced, friendly legal system and appropriate vehicles (e.g. Charitable Purpose Trusts) are definitely gaining ground. Cyprus is one of these jurisdictions.

This is a very interesting time for NextGen – the sweeping pace of change in technology, regulation and the effects of the COVID-19 mean high risks for business continuity but, at the same time, an opportunity to create and manage family wealth in different ways. With the use of emerging technologies, economies will digitize, refresh and revolutionize and this has the potential to help bridge financial, social and environmental deficits. Undoubtedly NextGen HNWIs will have a key role to play in this within this decade. This is leading to an even greater need for starting the process of preparing the next generation to take on future roles and engaging them in the family affairs very early – possibly from high school. Considering succession planning from a leadership perspective is equally important as from an ownership perspective. *When will the 'patriarch' step down? Who will succeed him/her? What positions will need to come into play? What skills are needed? What structure?* These are only a few of the key questions in this space.

Through this storm there will be numerous businesses trapped in struggling industries. There will be winners and losers – new HNWIs and dropouts. Today, more than ever, wealthy individuals need to ride the storm through proactive, comprehensive and thorough planning, assessment and actioning. With more than 4 decades' experience supporting HNWIs from Cyprus and around the world with their corporate and personal affairs, we are well placed to support them in all facets of their family wealth planning and management.
