Family Office Outlook 2018

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Handler Thayer, LLP 2018 Family Office Outlook

Spurred by continued wealth creation, globalization of businesses and investments and continued concentration of wealth, family offices have continued to proliferate worldwide. In 2017, Handler Thayer attorneys attended and conducted presentations at thirty tax, estate, family office and wealth management conferences in addition to conferences and lectures sponsored by professional associations, private companies and television and radio programs. Handler Thayer also hosted its own Third Annual Family Office Private Capital Forum on June 21, 2017 that examined how family offices approach the world of private capital investing. Based on these educational conferences, industry research, direct client experience and other observations, here are the firm's predictions of top trends for family offices in 2018:

1. This year should see the largest increase in the implementation of United States-based family offices in decades, driven by income tax limitations in the new Tax Cuts and Jobs Act (TCJA), continuing compliance efforts under The Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the increasing disfavor of embedded family offices that occur when business owners employ trusted personnel within their companies to handle their personal affairs.

2. More time, effort and business costs will be expended by family offices on compliance initiatives as heavy handed global regulation of securities, currency and finance continues to proliferate. The impact of the Foreign Account Tax Compliance Act, Dodd-Frank, the Common Reporting Standard initiative and various global or jurisdictional laws will continue to increase costs and slow down global banking and business. The ongoing trends toward overregulation and increasing government intervention are expected to slow a bit in the U.S. under President Trump and the Republican-controlled Congress, while gross overcompensation of U.S. federal, state and local government employees, relative to their private-sector counterparts, continues unabated.

3. Increasing levels of global risk are expected to continue driven largely by conflicts, austerity measures, regime changes, rising levels of nationality sentiment and criminality. Cyber hacking, privacy and reputation assaults, phishing, viruses, spoofing, catfishing, identity theft, cyber scams and wire fraud are expected to increase. Accordingly, family offices are expected to sharpen and expand their focus and expenditures on cybersecurity.

4. As a result of increasing risk levels, family offices are expected to direct more personnel and resources toward risk management, security, privacy, insurance, pre-marital planning and asset preservation. In addition, risk management, asset protection and understanding liability will move up the hierarchy ladder of family/personnel education initiatives.

5. The strong trend toward increasing globalization of families, family offices, businesses, finance, trusts, investments and family holding companies will continue. Global securities, banking and compliance initiatives should ultimately serve to better protect families and their assets.

6. Increasing inflation, higher interest rates and increasing stock, bond and currency volatility will continue to drive investment allocations in the face of long-term economic forecasts of a relatively flat, low-yield equity environment. However, continuous overweighting of stock allocations and underweighting of bonds will likely persist in view of the material outperformance of stocks in this decade.

7. Escalating levels of taxpayer flight within countries and between countries is expected to continue as disgruntled taxpayers continue to “vote with their feet.” Global family offices, businesses, family holding companies and trusts are increasingly being formed in offshore jurisdictions while migrations and inversions of existing businesses continue. Taxpayers globally are seeking geographic diversification of their holdings in search of safety, lower taxes and investment alpha. However, the TCJA should encourage more businesses to operate in the U.S. and discourage corporate inversions.

8. U.S. family offices and many international family offices are expected to expend more resources for income tax planning as the tax burden continues to shift inordinately to the Top 1% of U.S. taxpayers. In 2017, the Top 20% of U.S. taxpayers paid 75% of all taxes. The Top 1% paid 50% of all taxes and more than the bottom 90% combined. By contrast, the Top 1% of U.S. taxpayers paid only 18% of all taxes in 1979. This represents a staggering increase of 32% of all income taxes in less than 40 years. Concurrently, tax audit examinations of the Top 1% have escalated globally.

9. Considered the global safe-haven, foreign families are likely to continue pouring assets into the United States because it is viewed as the least likely country to improperly expropriate private assets. With enactment of the Trump tax decreases effected by the TCJA, this influx of capital is expected to increase materially.

10. Global proliferation of Single Family Offices (SFOs), Virtual Family Offices (VFOs) and Multi-Family Offices (MFOs) is expected to continue as the global creation and concentration of wealth continues. Strong growth of family offices is expected in the U.S. and throughout Asia, particularly in China. In addition, the number of Uber Family Offices (UFOs defined as SFOs with over $1B in assets under management) will continue to grow.

11. In response to costs increasing faster than revenues and the relative lack of experienced family office executives, outsourcing by VFOs, SFOs and MFOs is expected to continue. In addition, the continued growth of MFOs in the U.S. and emergence of MFOs globally is expected, while increasing consolidation of the family office industry continues.

12. Families that are U.S. taxpayers are expected to increasingly engage in estate planning and advanced planning over the next few years in order to take advantage of the doubling of the lifetime exclusion amount under the TCJA. This exclusion allows each U.S. taxpayer to transfer $11.2M ($22.4M for married couples) before federal estate, gift and generation-skipping taxes apply.

13. The escalating trend in recent years toward direct investments and private equity is expected to continue, particularly in the U.S. and Europe. Similarly, the recent trend toward direct and fund investments in real estate by family offices is expected to continue.

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