



HANDLER THAYER, LLP FAMILY OFFICE OUTLOOK 2021



QUARTER ONE

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Family Offices continue to serve as the 21st century global best-in-class solution for affluent families striving to achieve long-term wealth management and preservation. According to the Securities and Exchange Commission, *Family Offices are entities established by wealthy families to manage their wealth and provide other services to family members, such as tax and estate planning services.* The continued global proliferation and increasing concentration of wealth, along with the globalization of businesses, investments and families were all sidetracked by the arrival of coronavirus and the reactions of national and local government officials to it. While some sectors were largely unaffected, others were decimated by often capricious and erratically applied government prohibitions, many of which fly directly in the face of constitutionally protected fundamental freedoms. The lawlessness, violence, reverse racism and extremism that defined 2020 will be missed by few.

1. With the House, Senate and White House all now effectively under the control of Democrats, income tax, social security tax and payroll tax hikes are almost a certainty. As a result, the highest priority for family offices this year will be tax and estate planning. This dominant trend will be fueled by the projected \$8 trillion federal deficit that is expected over the next few years attributable to the presence of coronavirus adding to the existing \$27 trillion deficit. Initial efforts will focus on

taking advantage of existing tax deductions, harvesting and smoothing capital gains and utilizing existing estate and gift tax exclusions before the rules are changed and even more confiscatory provisions are effected.

2. Despite the impact of coronavirus and related prohibitions, family offices are continuing to increase in number globally. In fact, it appears that trend will continue in 2021 which may result in another large increase in new family offices. Single Family Offices (SFOs), Virtual Family Offices (VFOs) and Multi-Family Offices (MFOs) are all increasing in number led by the escalating creation of new VFOs and SFOs in the U.S. and SFOs in Asia.



3. Outsourcing by family offices of all types will continue to increase as talent becomes increasingly harder to find and compensate. In particular, outside high-end technical experts with significant experience will be in high demand. The biggest beneficiaries of this trend will be investment advisors, MFOs and professional service firms.

4. The U.S. is waging war with itself over government regulation, individual freedoms, election fraud and fundamental policy questions. While the federal

government has downloaded an unprecedented amount of stimulus into the economy already, still further handouts are currently in the works – all of which will be piled on the backs of future generations. These stimulus handouts combined with a slow recovery of hard-hit sectors (e.g., travel, hospitality), the release of pent-up demand, continued influx of foreign capital and highly accommodating Federal Reserve policy should allow the stock market to continue to rise in 2021.

5. Family offices will continue to focus on restructuring and reorganization efforts. Most existing family office entities are out of date, not integrated, inefficient and attended by income tax and estate tax leakage compared with modern best-in-class standards. Embedded family offices are de facto created when entrepreneurial families use their operating business employees and resources to handle their personal tax, financial or legal affairs. Such offices will become increasingly disfavored by families and attorneys due to unnecessary tax, business and compliance risks and the inherent income tax leakage.

6. Following the Black Lives Matter race riots and lawlessness of 2020, affluent families are being threatened like never before by strong trends toward the vilification of wealth. Proposals expected from the Biden Administration will continue to focus on increasingly punitive and confiscatory taxes aimed at the top 1%. Federal escalation of the taxation of high-income taxpayers and new wealth taxes aimed at high-net worth citizens and high-income taxpayers will continue to be proffered as viable solutions by increasingly far left-leaning Democratic legislators. Accordingly, taxpayer flight, aggressive tax planning and tax shelter efforts will surely increase.

7. The global escalation of taxpayer flight will continue almost unabated as portfolios, trusts, businesses, family holding companies and individuals vote with their feet. Consequently, high tax, financially strapped states, territories and countries are being left behind for greener pastures in financially solvent, low-tax or no tax, more conservative jurisdictions. The expatriation and renunciation of citizenship by U.S. taxpayers is likely to explode during President Biden's

term, particularly as confiscatory income tax, social security and wealth taxes are considered. Following the experience of European countries that imposed a wealth tax, the record-breaking levels of expatriation and weak economy throughout former President Obama's terms of office may be even eclipsed.

8. Current unprecedented levels of improper censorship by the traditional media combined with even broader improper censorship by social media are making affluent families and family offices increasingly concerned and nervous. The security of family members, data and confidential information will continue to be an increasing area of focus for family offices. A primary tenant of this focus will be centered on technology, cyber-threats and preservation of privacy.

9. Allocations to hedge funds continue to decline, while overall allocations to alternative investments continue to grow. Direct investing by family offices is continuing to increase despite proliferation of better information regarding deal flow, due diligence, analytics, and recognition of complexity and limitations. Direct investments through bespoke syndications and side funds are likely to become more common while allocations to real estate and private equity will continue to grow. Moreover, family office pools and investment clubs will become more common.

10. As world financial systems become more sophisticated and intertwined, increased digitalization and expansion of the Common Reporting Standard (CRS) system adopted by the Organization for Economic Co-Operation and Development (OECD) is increasingly driving capital to the U.S. as global families attempt to protect assets and preserve confidentiality. The U.S. is widely viewed as a global safe haven and one of the least likely jurisdictions to improperly expropriate private assets and nationalize companies.

11. Appreciation of the importance of compliance efforts by U.S. family offices will continue to grow as families struggle to comply with the Patriot Act, Dodd-Frank Wall Street Reform and Consumer Protection Act, FATCA and a myriad of new tax, securities and other laws at both the federal and state levels. Both the U.S. and Canada have recently embarked on a project designed to

result in increased compliance and reporting requiring the use of LEI numbers for additional transactions. In response, larger MFOs are more commonly recruiting compliance officers, building compliance groups and outsourcing to attorneys and other compliance professionals.

12. Increasing levels of perceived global geopolitical risk are being driven by conflict, terrorism, coronavirus concerns, austerity measures, vilification of affluence, rising levels of nationality sentiment abroad and criminality. As a result, family offices will continue to allocate more resources to risk management, conduct protocols, security, privacy, insurance, pre-marital planning and asset preservation.

13. The events of 2020 highlighted the growing importance of equal opportunity, environmentalism and sustainability. As a result, investors will increasingly turn to their investments to drive change in these areas. Impact investing will continue to grow in importance as increasingly proactive forms of purpose driven investing develop to supplement traditional impact investing. The overall trend among families is concentrated on significantly aligning and increasing the integration of core values and investments.

Thomas J. Handler, J.D., P.C.

**Chairman, Advanced Planning & Family Office Practice Group
Handler Thayer, LLP, Attorneys and Counselors at Law**

Thomas J. Handler is an advanced planning attorney that *Private Wealth Magazine* called “one of the most respected tax and estate lawyers in the world.” He has been named one of the Top 15 Wealth Planners in the U.S. and one of the Top 100 Attorneys in the U.S. numerous times. He was honored with the 2017 Family Wealth Alliance Leadership Award for Lifetime Achievement and the 2015 Brink Lifetime Achievement Award for Leadership and Service.

Handler Thayer, LLP is a national law firm based in Chicago, Illinois serving affluent families, privately-held businesses and family offices throughout the United States and major international jurisdictions. It has been widely recognized as one of the premier private client law firms in the world. In addition to being named Best Family Office Law Firm in the U.S., the firm has been named Best Overall Law Firm in the U.S., Best Private Client Law Firm in the U.S., Best Private Client Law Firm in North America and Most Effective Private Client Legal Team in North America numerous times.

14. Long standing family offices primarily in Europe and North America will continue to struggle with sustainability and succession planning. The competitive market for experienced family office professionals, difficulty in replacing trusted advisors and generally escalating family office expenses will put additional pressures on families seeking to steward, preserve and enhance wealth through the generations.

15. Private equity will be an increasingly important asset class primarily used to derive alpha and achieve greater diversification. The current 35% allocation by family offices to this sector is expected to increase. Consequently, families are looking for direct investments, control position investments and co-investments with other families. As this trend evolves, families are more likely to seek pooling of family office capital as the risks of direct and control investments become more apparent. It is important, however, that these actions be reviewed with competent counsel to determine registration requirements pursuant to the RIA and broker-dealer rules. By doing so, family offices will be more effective in competing with venture capital and private equity firms for deal flow and access to the best target companies.