Crossing the pond

Both the US and the UK have seen major political change and reform in recent years. A STEP Journal roundtable, sponsored by Schroders Wealth Management US, asked what this upheaval means for globally mobile private clients

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PARTICIPANTS (L-R)

+ STANLEY A BARG TEP (CHAIR)
  Partner, Kozusko Harris Duncan

+ G WARREN WHITAKER TEP
  Partner, Day Pitney

+ CHRISTINA M BALTZ TEP
  Partner, Withersworldwide

+ MARTIN HEALE
  Portfolio Director, Schroders Wealth Management US

+ JANETTE SAXER
  Portfolio Director, Schroders Wealth Management US

+ CASPAR ROCK
  Chief Investment Officer, Schroders Wealth Management

+ BETH TRACTENBERG TEP
  Partner, Steptoe & Johnson

+ STEPHEN BRIDGES
  Managing Director, Business Development, Grant Thornton

+ MEGAN WORRELL TEP
  Partner, Duane Morris
In September 2018, nine wealth management practitioners gathered in New York for a STEP roundtable discussion, sponsored by Schroders Wealth Management US, to discuss how the international wealth-planning world is changing and evolving, and how such planning might look in years to come.

Stan Barg TEP, Partner at Kozusko Harris Duncan, and chair of the roundtable, opened the discussion: ‘We are seeing the new tax legislation playing out for our clients who are coming to the US. How is that developing with respect to the global political scene? Are we seeing more people coming to the US, or more international clients sending their funds to the US?’

With major US tax reform coming into play through the Tax Cuts and Jobs Act of 2017 (TCJA) at the beginning of 2018, private client practitioners on both sides of the Atlantic have found themselves faced with questions about the implications of moving funds to and from the US. Similarly, with Brexit creating uncertainty in the UK and Europe, there are question marks over where US clients might move money to.

Despite major changes to the US tax system that could give pause to investors, various factors arising from the TCJA mean that foreign funds continue to be drawn into the US. Christina M Baltz TEP, Partner at Withersworldwide, described the 21 per cent corporation tax rate as a ‘game changer’, and also pointed to the substantially increased US estate and gift tax exemption. This exemption is now USD11.2 million per individual, meaning that a couple can protect up to twice that amount from estate tax for future generations. G Warren Whitaker TEP, Partner at Day Pitney, described this as ‘a big motivation for planning a leap to the US’.

The question at the table, however, was whether this exemption would end, as planned, in 2026. Historically, the exemption has increased consistently since 1997, but Beth Tractenberg TEP, Partner at Steptoe & Johnson, noted that ‘this is a somewhat unique period in our history. I feel that, more so now than in the past, there’s a chance the exemption will go down: it was such an enormous increase. As it is slated to go down, absent any affirmative action, it will do so’.

Barg observed that, in his experience, many clients were still moving trusts to the US, a view supported by Whitaker, who added that, for many, the inapplicability of the Common Reporting Standard (CRS) in the US is an attraction when deciding where to house trusts.

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– Janette Saxer

Particularly for US trusts with foreign investors, red tape can cause issues. ‘Problems can arise when a fund is designed for US investors,’ said Barg. ‘Foreign clients have gotten into difficulties with this: they want to invest in the US but haven’t looked at the consequences and problems you can have from that, especially in the case of mechanisms such as a US trust that is revocable by a non-US person.’

Schroders Wealth Management US Portfolio Director Martin Heale suggested that the off-putting factor for potential foreign investment in US financial vehicles might, therefore, be ‘as much administration and complexity of mechanics as it is the changing tax environment’.

A GLOBAL OUTLOOK

Further, several of the experts at the table noted that the reasons for many clients’ choice of investment location (whether in the US or elsewhere) could not necessarily be reduced to tax or domicile.

Citing education and medical care as primary considerations, Megan Worrell TEP, Partner at Duane Morris, said that many of her expatriating clients are re-examining where they want to raise their families. Baltz agreed, and added that people are looking at the possibility of second passports, as they do not feel the US is the ‘safety net’ it used to be. Indeed, the consensus at the table was that, in the current political climate, some clients feel less welcome there.

While such US clients are not looking to move their money (or families) or repatriate on the basis of their tax status, they nonetheless need to consider the
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- Martin Heale

ramifications of non-residency when investing abroad; this can be more difficult than clients anticipate. Speaking about issues of residency, Janette Saxer, Portfolio Director at Schroders Wealth Management US, said: ‘It can be hard to find institutions that will be pragmatic and actually understand the residency situation and reach an agreement where they feel comfortable. Clients have to find an entity or financial house that can accommodate and understand their circumstances.’

In light of such political uncertainty and increased global compliance, Heale added, ‘families are becoming far more cross-border but, ironically, financial institutions are actually becoming much more regional. European institutions want to look after European residents; North American institutions want to look after North American residents, and so on. Not every institution is like that and cross-border clients need to find those that will take the time to judge them on their own merits rather than the issues of their residency.’

Saxer pointed out that clients are also becoming increasingly astute; they appreciate the importance of understanding the tax-reporting status of the jurisdiction in which they want to invest, and what that will mean in terms of due diligence, compliance and governance.

Caspar Rock, Schroders Wealth Management’s Chief Investment Officer, added that, in a world where international clients are concerned about diversifying their investments, practitioners should help them by considering structures that work for them in both their residences.

EUROPE DIVIDED

Although a number of EU countries have appealing residency systems for global families, and Baltz described a second passport as ‘a great commodity’ for them, there remains considerable doubt over the stability of Europe and the UK as Britain negotiates its exit from the European Union.

‘What is more attractive to investors – the EU without the UK, or the UK without the EU?’ asked Heale.

Rock responded: ‘From an investment point of view, it really depends on what currency the client thinks in: if it’s [US] dollars, sterling is very minor; however, if they think in sterling, it’s a seriously big issue, because its value could swing strongly in either direction.’ He continued: ‘It’s very hard to prepare if you don’t know what’s going to happen in March 2019.’

Stephen Bridges, Grant Thornton’s Managing Director of Business Development, suggested that over the next few months the world will see a ‘blind Brexit’: an agreement where Britain leaves the EU, but where the minutiae may take months – even years – to resolve, especially as concerns financial services. ‘It will be the end of 2020, or possibly January 2021, before anything like our trading relationships is confirmed, and for financial services it could stretch over
three years,’ he said. However, despite this uncertainty, Bridges also noted that ‘it is important to remember that the EU will want to find an operating rationale that fits with both it and the UK. Without that, there will be implications for both sides, so they will want to find a mutually beneficial solution’, a point with which Rock agreed.

With this in mind, Bridges said he remains confident about London’s status as a financial centre post-Brexit, citing the sheer scale at which banks and investment companies operate in the UK’s capital, as well as the flow of non-EU domiciled money coming in from Russia, North Africa, the Middle East and the Far East.

Further, he added, ‘the Prudential Regulation Authority and the Financial Conduct Authority are already looking at their future roles and outlining their

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very difficult. Clients have their own personal timelines to work on, and they are unlikely to fit with the timelines of the political situation.’

Aside from the deterrent posed by Brexit, participants also noted that the UK’s political situation poses a concern for investors in other respects: while the current administration has suggested that changes are unlikely to be made to taxation levels, the Labour Party has said that, if it wins the next election, it will immediately raise corporation tax to 26 per cent.

‘Labour has swung quite far left and, with its promises, if elected, to renationalise some industries and change the taxation structure, we need to be realistic about the potential impact of that on investors,’ said Bridges.

**WHAT LIES AHEAD**

Barg pointed to the conflict between elements of tax reform drawing investment into the US and the political issues ‘pushing people out, making them feel unwelcome, and making them look to invest elsewhere’.

‘The uncertainty everywhere makes it even harder for us in terms of planning for our clients,’ he concluded. ‘They want to be told what they should do, and it’s hard to get that from any perspective – a tax-planning perspective, an investment perspective – all that uncertainty makes it very hard to come to any decision.’

Despite this ambiguity, practitioners are still finding that their US clients are looking abroad. As Barg said: ‘The period of uncertainty in the US is going to continue for some time, and possibly increase in the coming months, so people are looking to other countries for investment. The question is where they are going to look, and how this will affect us as practitioners.’

Saxer agreed, but added that, ‘as clients become more international and look at more cross-border structuring, practitioners simply have to try to find a happy medium whereby clients can find a position with their lawyers and bankers that can accommodate all the global movement that is now occurring’.

As the political situation in both the US and UK continues to fluctuate, wealth management professionals can expect to hear further questions from actively mobile clients about the best strategy for the next few years.

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Despite expecting a stable outcome to be reached eventually, attendees suggested the current lack of answers about the future relationship of Britain and the EU was making US practitioners and clients wary of relocating to the UK.

Whitaker observed: ‘I know a lot of younger people in finance, thinking about their careers, who would have thought in the past about relocating to London but are now hesitant about doing it and looking at alternatives, because of the uncertainty.’

‘Future strategy is a huge challenge,’ Saxer agreed. ‘Helping international clients to plan, when actually you don’t yet know what you’re planning for, is