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Hong Kong, the unique location to operate family offices

"Since the 1960s, Hong Kong has been recognised as a global leader in international trade and finance. This success is founded on the city's well-established legal system, its laissez-faire pro-business environment, and its simple and equitable tax system."

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Rise of family offices in Asia

This article outlines the special features and types of family offices, and explains why Hong Kong is uniquely suitable for setting up and operating these offices. It also highlights the importance of using experienced, trusted service providers in ensuring the success of the family offices.

Simply put, a family office is a set up that provides a family or multiple families of ultra high-net-worth with a multitude of personalised and wealth management services. Every family office is unique in set up and structure, with each requiring a variety of distinctive services.

We can broadly categorise family offices as single-family offices (SFOs) and multi-family offices (MFOs). An SFO is a private set up that manages the financial and personal affairs of one ultra high-net-worth individual (UHNWI) or family, whereas an MFO is a private organisation providing a range of wealth management services to many unrelated UHNWIs and families. Some MFOs operate in the form of outsourced family offices (OFOs), which provide similar professional services to business organisations other than the UHNWIs and families.

These UHNWIs and families have, in recent years, been moving out from private banks and setting up offices where they can manage their wealth with more control and wider investment opportunities. Based on the limited information available, the number of global family offices has surged from around 1,000 in 2008 to 17,000 in mid-2022 and is continuing to grow.

To attract UHNWIs or families to set up family offices in Hong Kong, however, UHNWIs or families with the lower net-worth of US$30m in investible assets, excluding real estate, can enjoy the tax benefits recently proposed by the Government. They can do so if, inter alia, they set up their SFOs in Hong Kong with an annual expenditure over HK$2m.

Why Hong Kong is an ideal location

Hong Kong is the largest cross-border private wealth-management centre in Asia and the second largest globally, after Switzerland. The city retains the top spot in Asia with unrivalled links to mainland China, low taxation and status as a major global financial services hub. The city has a number of distinct advantages for those who wish to set up and operate family offices to expand their family wealth in a relatively risk-free environment and with exposure to many investment opportunities.

A Hong Kong legislative proposal offers tax concessions for qualified family offices, with the city's chief executive John Lee aiming to attract at least 200 family offices to expand their operations in Hong Kong by the end of 2025.

The wealth management, together with the more personal non-wealth related matters the family office is responsible for, vary according to the needs, circumstances and complexity of the UHNWI and family, especially where a number of generations are involved. The solutions often include the set up and alignment of family values with investment objectives that may include legacy and estate planning, tax arrangements, insurance planning, philanthropy, education and family governance, as well as ongoing business services such as handling receipts and payments, record keeping, accounting and tax filing. Communication, especially among cross-border family members and successive-generations, is pivotal in preventing family disputes. An experienced and trusted service provider like Asiaciti Trust will mitigate this risk by facilitating open, effective family discussions and structuring robust solutions.

Advantages of family offices

The main advantage of family offices is the wide spectrum of services they provide to address the specific needs of the UHNWIs and families that the traditional asset and wealth management institutions do not provide. Another advantage is the flexibility and speed with which the family offices can link up investment opportunities for the UHNWI and family. Family offices generally have greater freedom from the institutional mandates, intermediaries and standard due diligence procedures associated with financial institutions or licensed corporations in allocating capital; thus giving them greater control over their assets and decision-making.

Skills and expertise required for a family office

UHNWIs and families often have specific requirements that are unique in their circumstances. The family offices therefore need an organisational structure that can address these various needs with quick access to a pool of diverse talents and experts able to address legal considerations, assets and investments management, tax and trust arrangements, estate and succession planning, accounting and finance, real estate planning, and management of family member relationships.

Whilst the family office may not have all the necessary expertise in-house, it should have access to high-quality professionals who can collaborate to provide tailor-made services to the UHNWI or family in a cohesive manner.

Types of family offices

Family offices are typically categorised as a single-family office (SFO) and multi-family office (MFO).

An SFO is an entity established by the UHNWI or family to provide a range of personalised financial and non-financial services.

The staff in charge of the SFO typically include high-profile consultants, investment bankers, financial advisers, tax specialists, estate planners and accountants, etc. As all of them are directly employed, the UHNWI or family will have full control over the SFO. The overarching objective of the SFO is to manage both the financial needs and other interests of the UHNWI and family.

An MFO is typically an independent service provider already set up to manage the wealth and other matters of two or more unrelated UHNWIs or families in Hong Kong. MFOs offer the same types of services as SFOs. The experts and professionals at the MFO tailor solutions to meet the financial and other needs of the UHNWIs and families. The MFO will manage the assets and investments of the families and provide additional services such as handling receipts and payments, advising on the transfer of wealth, on philanthropic and education plans, family relationships and more. An MFO normally charges a fee for its services at a percentage of the portfolio of assets under management.

The cost of an MFO can be less than that of an SFO as it serves more than one family and can take advantage of economies of scale. In this case, however, the UHNWIs or families will have less control over the MFO.

Whilst most MFOs provide services to the UHNWIs and families only, some MFOs may operate more as OFOs.

An OFO is an independent firm already set up and has a close working relationship with a network of other reputable professional service providers. The UHNWI or family will appoint the OFO as the leader and contact point to coordinate with other professional parties in order to benefit from their collaborative services.

An OFO can provide the same spectrum of services as an MFO and usually at a lower fee. As with an MFO, the UHNWI or family will have less control over the OFO, however.

Structure for holding the investible assets for the family offices to manage

Before setting up an SFO or appointing an MFO or OFO, the UHNWI or family needs to decide on a structure for holding the investible assets to be managed.

A commonly used structure is one where the UHNWI or family set up one or more family-owned investment holding vehicle (FIHV or FIHVs), which are entities established in or outside Hong Kong. A FIHV is typically a legal arrangement made with a corporation, a partnership and a trust (can be a discretionary trust). The FIHV will be owned by one or more than one member of the family. If the FIHV is held by a trust, the beneficiaries will include the UHNWI and/or other family members.

Once the FIHV is set up, the UHNWI or family will instruct the SFO or appoint an MFO or OFO to act as its manager. When managing the investing activities of the FIHV, the family office (most likely an SFO) may establish one or more family-owned special purpose entities (FSPE or FSPEs) to hold and administer one or more of the FIHV's underlying investments. The FSPE can be a subsidiary of the FIHV or they can share common ownership.

Hong Kong, the unique location for family offices

Hong Kong is among the best-known international financial and wealth management centres worldwide. The numerous unique advantages the city offers make it the ideal location for UHNWIs and families to set up and operate their family offices, and to grow and expand their family wealth. Below are some of the advantages that demonstrate Hong Kong's superiority:

(a) Hong Kong's strength as one of the key international financial centres:

- It is ranked as the third largest global financial centre, after New York and London, according to the latest Global Financial Centres Index Report.
- The city has the freest economy in the world, with a laissez-faire pro-business environment without any control on the flow of capital.
- The city is among the top five locations worldwide in terms of global competitiveness, the ease of conducting business and the friendliness of the business tax system.

(b) Hong Kong provides an ideal environment for fostering centres of excellence for the financial services and related professional services industries. Hong Kong has no shortage of high-quality professionals and experts to serve the UHNWIs and families or the SFOs / MFOs / OFOs.

(c) Hong Kong's legal system is well-established and reliable, and the city has a strong regulatory framework for the protection of investors. Intermediaries and service providers servicing the family offices must comply with the relevant codes of conduct and ethics laid down by various regulating bodies.

(d) Hong Kong benefits from the geographical, cultural and linguistic links with mainland China, coupled with the advantage of 'one country, two systems'. As such, and as an investment hub into and out of mainland China, the city is the gateway connecting the East and West. This position enables family offices in Hong Kong to tap into the multitude of investment opportunities in the Guangdong-Hong Kong-Macau Greater Bay Area (collectively known as the Greater Bay Area) and other regions within mainland China.

(e) As a global financial centre, Hong Kong also offers a wide range of green and alternative investment projects in Environment, Social and Governance, philanthropy, welfare, innovation and technology startups, and culture, which are often popular with family offices and among the younger generation of the UHNW families in particular, who might be embarking on their impact investment journeys.

(f) Simple tax system with low rates:

- The tax system in Hong Kong is equitable and simple, with low rates of tax. Hong Kong has executed over 40 comprehensive double taxation agreements with many more under negotiation. This helps to protect the income derived from the family wealth from double taxation.
- Hong Kong charges no sales tax, value added tax, investment withholding tax, capital gains tax or estate tax.
- By putting appropriate measures in place, dividend income, interest from savings and investment gains derived from the family wealth managed by the family office can be exempted from taxation.
- The Government has recently introduced additional tax incentives to attract more UHNWIs and families to move their capital to, and set up their family offices in Hong Kong. A Bill has been proposed to provide profits tax concessions for (a) eligible FIHVs managed by eligible SFOs in Hong Kong; and (b) FSPEs. Under the Bill, the assessable profits of FIHVs and FSPEs arising from qualifying transactions and incidental transactions would be eligible for profits tax concessions at the tax rate of zero percent. Once the legislators have approved the Bill, the tax concessions would apply in respect of a year of assessment commencing on or after 1 April 2022.

Importance of a reliable family office partner

As can be seen from above, setting up a family office or a structure to hold and manage assets and businesses, while transitioning substantial wealth to the next generation, requires working with professionals in wealth management such as lawyers, tax advisers, and trust and estate planning experts. Asiaciti Trust has been delivering a full suite of trust, company secretarial and business services to high-net-worth clients in Asia and globally since 1978. Asiaciti Trust is therefore well-placed to assist UHNWIs and families in setting up family office structures in Hong Kong.

Over the years, Asiaciti has established close working relationships with an extensive network of top-quality professional firms including private and investment banks, assets investment firms, solicitors, accountants, tax consultants, estate planners and family business consultants. With these connections, Asiaciti is well equipped to act as an OFO and take the lead in delivering a full range of collaborative services to the UHNWIs and families in a seamless manner.

About the writer
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