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Protecting legacy
The value of a family office

Contents

This publication is a starting point. It is designed to help wealthy families build on their current understanding of what a family office is, consider factors that have contributed to the success of other family offices, and formulate a plan that leads to the creation or revitalization of their own family office.

Introduction

With the creation of significant wealth, new worlds often open for high net worth individuals and their families. Exciting opportunities, as well as new challenges, can arise as the family acclimates to the increased complexities of wealth. One important decision may be establishing a family office*—or modernizing an existing one—to oversee the financial affairs of the family rather than relying on financial institutions to provide those services.

That is a big step—one that involves many logistical, operational, and even emotional considerations. Yet it is a bold move that many others have made in recent decades. Wealthy families have been taking more hands-on control over investment policy decisions as a result of continued capital market uncertainty and their desire to commit resources to making an impact in the world now and in the future. Also, in this era of business failures, investment fraud, and cybercrime, more families have been adopting an institutional approach to family risk management. This process is aided by the advancement of and growing reliance on technology in family financial affairs.

In such an environment, establishing and operating a family office—or expanding and modernizing the services of an existing family office—requires careful analysis and planning to properly manage, protect, and grow a family's wealth. Deloitte can help each step of the way, so the legacy a family has built sustains its interests in the future.

This publication is a starting point. It is designed to help wealthy families build on their current understanding of what a family office is, consider factors that have contributed to the success of other family offices, and formulate a plan that leads to the creation or revitalization of their own family office. While not intended to address every question they might have, it should serve as food for thought and discussion. We invite readers to join us for that conversation soon.

A family office is:

- A popular concept in the United States, the roots of which extend back to the 1800s when they were established to manage the significant fortunes of successful tycoons
- A private organization established by a family to oversee, directly or indirectly, the financial affairs of the family
- Often the result, like wealth accumulation in general, of owning a successful family business
- In certain instances, formed by a principal of a hedge fund or private equity fund who decides to no longer advise on funds with third-party assets, instead evolving into a standalone family office to solely manage his or her family's wealth
- An organization that offers many of the same services as top-tier private banks and investment firms, but devoted to the needs of a single family
- A highly tailored organization, often reflecting the characteristics and aspirations of the family it serves

*This publication focuses on single family offices: private organizations established by families to oversee, directly and indirectly, their financial affairs. References to a "family office" throughout this publication infer a single family office unless otherwise noted. In contrast, a multifamily office is an organization that serves multiple nonrelated families. Sometimes, these are former single family offices that have broadened their client base to serve other nonrelated wealthy families. More often, multifamily offices are third-party wealth management firms that provide outsourced services to wealthy families.

Family office fundamentals

Modern history of family offices

Family offices are not a recent phenomenon; their modern history within the United States has paralleled the growth of our country. It is now estimated that there are approximately 6,000-7,300* family offices in the United States.

1800s: The Industrial Revolution created the first "titans of industry" in the United States.

In **1838**, the family of J.P. Morgan founded the House of Morgan to manage family assets.

In **1882**, J.D. Rockefeller was widely credited with establishing the first full-service single family office in the United States. His fortune stood at $1.4 billion at his death in 1937, which is equivalent to $255 billion today.

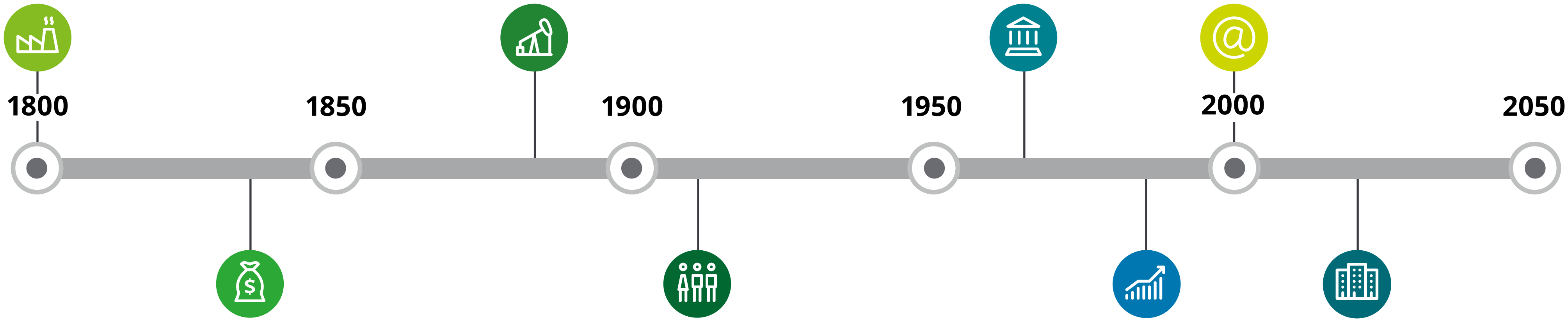
Other very successful families—such as the Carnegies and Vanderbilts—followed suit and formed family office arrangements.

1970s: Private banking with its customized services was already popular, and the concept of the multifamily office evolved.

1990s: Many businesses founded after World War II were monetized as their owners retired, significantly increasing the number of family offices established to manage family wealth.

2000s: The dot-com technology boom created many multimillionaires—and family offices.

Today: Family offices are widely recognized as a distinct industry with trade organizations, events, and a variety of financial services firms tailoring their offerings to serve them.



*Source: 2019 Family Office Exchange.

Family office fundamentals

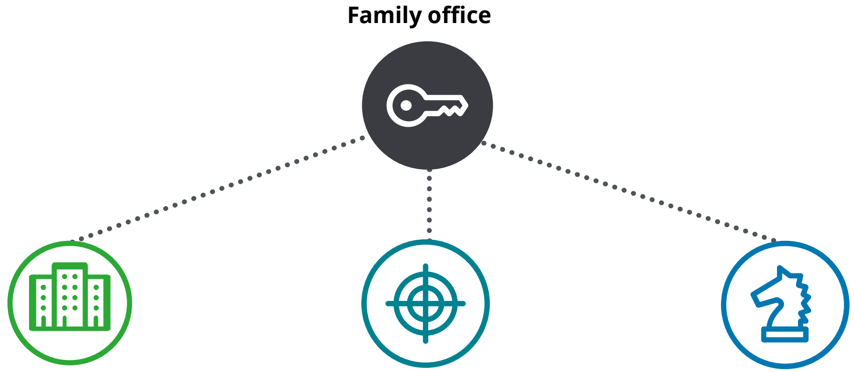
Characteristics of a family office

While each family office is as unique as the DNA of its individual founders, there are some common goals that most family offices strive to achieve.

- Provide formal structure for the management and governance of the family's wealth
- Promote the family's legacy, vision, and values
- Coordinate, integrate and consolidate customized services for the family
- Manage economic and personal risks for the family
- Capitalize on economies of scale gained from consolidated family wealth accumulation, such as preferential investment access and fee reductions
- Maintain confidentiality and privacy of family affairs

Figure 1. Traditional paths of the family office

One of several scenarios often results in the formation of a family office.



Scenario 1: Separation

A successful family business has grown significantly and profits from the business have been diversified into new active or passive investments. The management and administration of those investments has become highly demanding for family business personnel. To mitigate conflicts of interests and other risks, the family's nonbusiness operations embedded within the company are separated into a newly established family office.

Scenario 2: Liquidity event

A successful family business or entrepreneur-owned business is monetized through, for example, a minority-interest sale, majority-interest sale, or recapitalization. A family office is established following the liquidity event to provide a formal structure to promote family governance and decision making around the resulting wealth.

Scenario 3: Fund redemption

A hedge fund or private equity fund manager redeems out third-party investors of the fund. Subsequently, the fund manager evolves into a family office, now serving the principal and family members.

Family office fundamentals

When is it time?

While opinions vary widely, many people in the family office industry believe that a family needs at least $100 million of investable assets to form a family office. Why? In general, it is believed that this amount of wealth is necessary for dedicated resources to provide favorable economies of scale from both a time and money perspective.

But the amount of wealth involved is not the only important consideration. There are a number of key integrated, qualitative factors that also should be considered (see figure 2). As more of the factors become relevant, so does the value proposition for the formation of a family office.

This due diligence process is an important step in assessing when and how to initiate the formation of a family office. With the guidance of trusted advisers, the diligence process provides a structure for weighing these important factors, which will help a family determine whether and when a family office makes sense.

Figure 2. Integrated factors in the decision to form a family office

The amount of wealth involved is only one of many factors that drive the decision to form a family office.

Family office fundamentals

Services to be provided

Wealthy families have numerous options for obtaining personal and financial services. A key success factor in forming a family office is to engage the right people to do the right work. For long-term success it is important to establish and periodically reassess the optimal balance between services performed in house by competent family office employees and those outsourced to qualified service providers.

Figure 3. Scope of family office services

Strategic services	Technology	Tax and wealth planning	Investments	Risk management	Philanthropy	Legal	Family	Finance	Operations
Entrepreneur support	Social media	Tax compliance	Investment policy	Insurance	Philanthropic mission	Monitoring & oversight of outside counsel	Concierge services	Bookkeeping & reporting	Talent
Family education	Data analytics and management	Tax planning	Asset allocation	Reputational Risk	Family foundation operations	Document preparation	Household help	Cash Management	Family communication
Governance	Technology platform & controls	Wealth transfer planning	Manager selection	Fraud prevention & detection	Family foundation oversight	Contractual review	Property management	Budgeting & forecasting analysis	Office policies & procedures
Succession planning	Cloud computing	Investment structure design	Bench-marking	Physical security	Charitable bench-marking	Contract oversight	Collections management		
	Family & business information continuity		Performance reporting	Cyber risk	Due diligence	Litigation oversight	Travel		
			Due diligence	Financial controls	Miscellaneous philanthropic activities	Regulatory compliance			

■ Most often done in house ■ Sometimes done in house ■ Most often outsourced

Many in-house services (see figure 3, items shown in dark gray) address daily activities at a granular level. Keeping these services in house provides immediate access to and control over the information. It is also likely to be more cost-efficient and expedient compared to outsourcing.

Other services (see figure 3, items shown in blue) may be performed by family office staff and at other times by outside providers—or some combination of the two. This can offer the best of both worlds: cost savings on work that involves lower risk or is less complicated, and cutting-edge planning and quality assurance for more complicated work.

The most frequently outsourced services (see figure 3, items shown in green) typically require highly specialized skills or significant infrastructure. Few family offices have the appropriate structure or resources to provide these services in house from a risk–return perspective.

For those activities that the family office chooses to outsource, the family office executive must build the right advisory team and choose the right third-party providers to deliver those services. Developing a network of resources who are specialists in the respective service offerings is key to putting an effective team in place.

Operational considerations

Governance

Establishing and operating a family office, or expanding the services of an existing family office, requires careful consideration and planning to properly manage and protect a family's wealth so it can flourish over time. As with any organization, the relative success or failure of a family office relies on effective governance (see figure 4).

Important considerations include:

Balanced leadership and delegation
Although family offices often are established by the family's senior generation, effective governance hinges on both the experienced leadership of those senior family members and selective delegation to others. Vision and strategy should be set by the family, with tactical decisions and execution left to capable family office personnel and supported by outside advisers.

Effective communications
The family office often serves as the centerpiece for communications to and among family members. The family office often hosts family meetings and organizes retreats, and family office leadership is often tasked with communicating certain messages to younger generations.

Board oversight
A leading practice among family offices is to establish a board of directors to provide oversight and direction. Careful consideration of board composition is imperative. In most cases, the board should include both senior family members and objective outsiders who can offer contrasting perspectives.

Succession and contingency planning
Another leading practice is to safeguard the long-term prospects of the family and family office through succession and contingency planning. For example, developing a plan and educating family members on what will happen after the family patriarch or matriarch passes is an important factor in reducing confusion and averting disagreements over the direction of the family collective.

Continuous operational improvement
Faced with continually evolving operational challenges, successful family offices and the families they serve thrive on continuous process improvement and innovation. Whether it is an existing organization or newly formed—and whether executives have been in place for years or are newly appointed—stakeholders can benefit from a Family Office Lab. See page 22 for more information on Family Office Labs in the Deloitte Greenhouse® space.

Tip:

While death and taxes are inevitable, their consequences don't need to be a surprise. Family offices are in a unique position to prepare their organization and the families they serve to plan for the inevitable: the death of a principal. Preparedness exercises can put the family office, the family advisers, and most importantly, the family in a significantly better position to address the personal and business implications of the death of a principal.

Click the icon to learn more.

Figure 4. Attributes of effective family office governance
Family offices should create a governance infrastructure that encompasses all activities—from the operational to the strategic.

Operational considerations

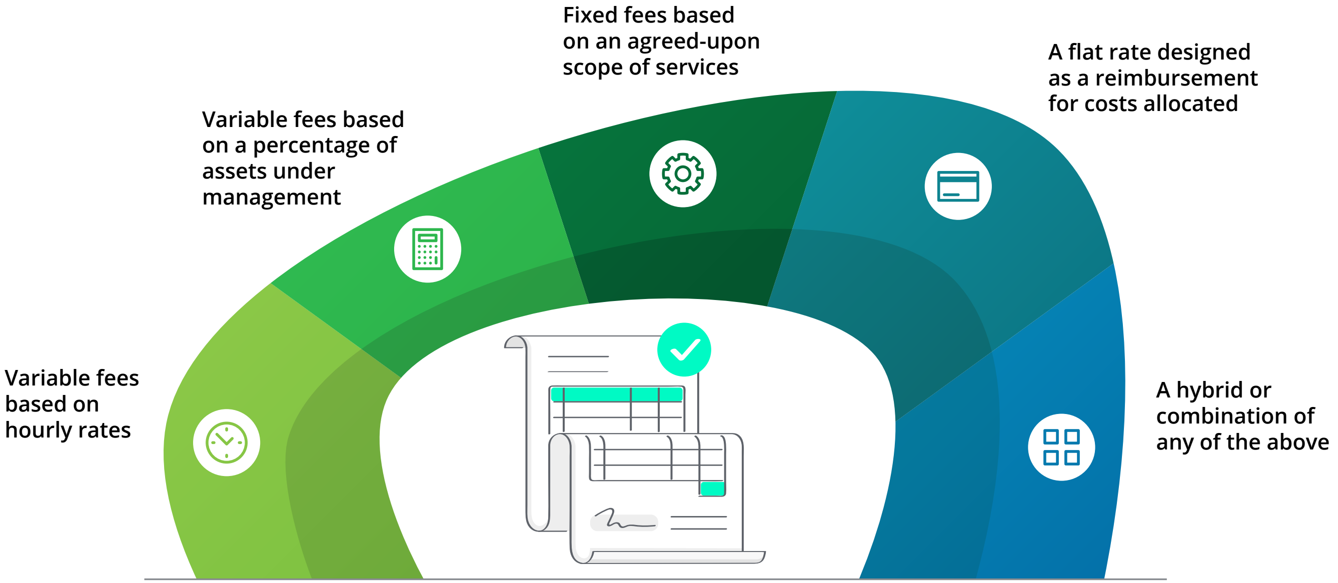
Cost structure

Family offices can provide significant benefits to the family, but not without an adequate annual operating budget. A general rule of thumb is for the annual operating costs to be approximately 100 basis points (1 percent) of assets under management. However, the actual range can vary widely, from 30 to 120 basis points depending upon the amount and type of assets under management, the complexity of the family office operations, scope of services provided, and even whether external management fees are included in the calculation.

Once annual costs for the family office have been determined, an equally important decision is how the family office will charge the family for the services provided. The charges for services provided should be sufficient to cover the family office's operating costs and ensure that it can operate as a going concern. Although no industry standard for such charges exists, figure 5 shows some leading industry practices.

Whatever method is chosen, the charges should be fair and reasonable on a comparative basis, transparent to the family client incurring the charge, accounted for accurately, and documented contemporaneously.

Figure 5. Alternatives for charging the family for services



Tip:

Some family offices undertake a transfer pricing study to determine a comparable market rate for services. Market-rate pricing analyses can avert potential gift tax issues, mitigate self-dealing concerns when services are provided to family charitable entities, and provide comfort to fiduciaries that services are provided at a fair rate.

Click the icon to learn more.

Operational considerations

Talent

A significant factor in determining the success of a family office is the talent it employs. Attracting and retaining quality talent has long been an important pillar of strong and effective family offices. Today, this pillar alone may not be enough. Family offices also need to actively invest in the technical, professional, and leadership development of their employees. In this way, professionals can become multi-faceted, agile, and able to navigate complex interpersonal dynamics within the family office and the family they serve.

The changing mix of family office work puts a premium on these attributes as family offices consider changes to their sourcing models (see figure 6). For example, if a family office keeps services in house, it will likely require new education and experiences for the professionals who lead and deliver those services. Conversely, if services are outsourced, different leadership and oversight skills may be needed to manage external service provider(s) and lead family office staff as the focus shifts to activities that matter most to the family. In the latter scenario, the family office team may need more advisory, innovation, and visioning skills to capitalize on that gift of time.

Figure 6: Anticipated changes to service model over the next five years

A shift may be occurring in the balance of in-house vs. outsourced services, particularly in finance, investments, and strategic services which may impact the family office's talent model.

	More In-house	More Outsourced	No Change	N/A
Family services (i.e. concierge, property management)	11.5%	14.8%	62.3%	11.5%
Finance (i.e. book keeping, cash management)	23.0%	8.2%	65.6%	3.3%
Investments	24.6%	14.8%	59.0%	1.6%
Legal	14.8%	9.8%	70.5%	4.9%
Operations	11.5%	8.2%	78.74%	1.6%
Philanthropy	16.4%	4.9%	75.4%	3.3%
Risk management	9.8%	19.7%	63.9%	6.6%
Strategic services (i.e. family education, governance)	21.3%	32.8%	37.7%	8.2%
Tax and wealth planning	14.8%	19.7%	63.9%	1.6%
Technology	9.8%	49.2%	39.3%	1.6%

Source: Deloitte National Family Office Forum survey 2020

Did you know?

- Family office staff size can range from one or two employees to more than 100, depending on family size and type, the services provided, and relative financial holdings and activity.
- The most common family office leadership positions include a chief executive officer (CEO), chief financial officer (CFO), and chief investment officer (CIO). Recently, many family offices have added a chief technology officer (CTO) due to the expanded role and integration of technology.
- As the business demands of the family office change over time, so do the expectations of employees. It is important for family members and family office leaders to recognize these changes and respond to them to attract and retain talent (see figure 8 on the next page).

Operational considerations

Talent - cont.

Figure 7. Family office succession planning

Many family offices have taken action as a result of discussions about the continuation of the family office as the family experiences generational transitions.

Source: Deloitte National Family Office Forum survey 2020.

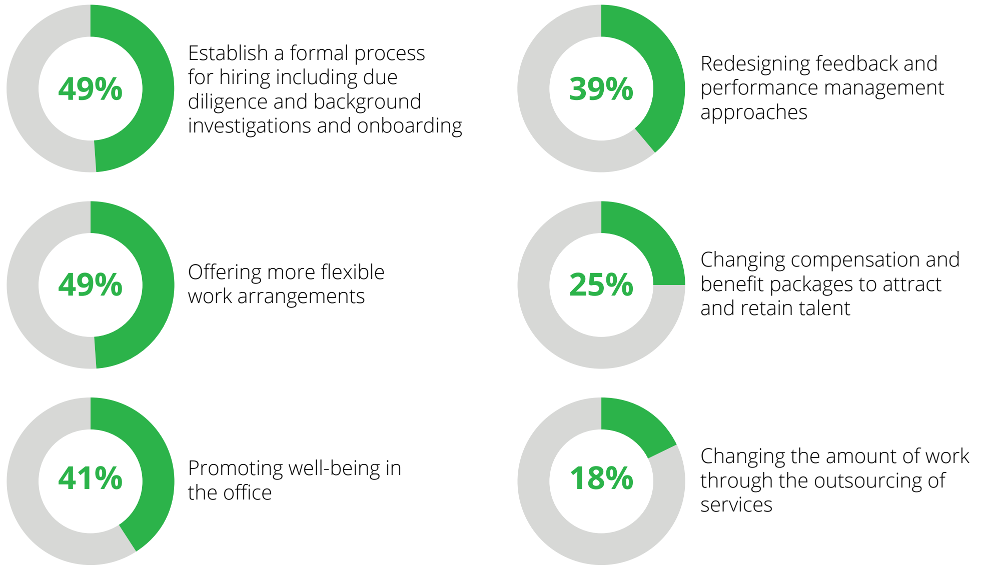
Leading practices for family office talent management:

- Identify near- and long-term talent and leadership requirements to meet the family office strategy and mission.
- Inventory talent and identify any high potential high performers and gaps in their capabilities.
- Decide how to fill gaps by building, recruiting, or borrowing talent.
- Establish a formal process for hiring including due diligence and background investigations and onboarding.
- Execute appropriate legal documents, such as employment agreements, confidentiality provisions, and privacy commitments.
- Define clear roles, responsibilities, and lines of reporting.
- Create long-term succession and development plans (see figure 7).
- Develop an employee handbook with policies and procedures for talent programs.
- Create a work environment that emphasizes employee well-being and provides flexibility.
- Establish employee goals that directly tie to the family office's short- and long-term objectives and tie rewards to those goals.
- Institute compensation arrangements that include long-term incentives to promote retention of key employees.
- Set up a formal performance review process that includes meaningful feedback.

Not surprisingly, compensation and benefits are by far a family office's largest annual cost, representing 50 to 75 percent of the annual budget. When the family office is established or undergoes modernization, the family should therefore invest significant time in attracting, incentivizing, and retaining its workforce and understanding how the talent market impacts these.

Figure 8. Family office talent strategies

Executives are using alternative strategies to ensure the family office has the right talent to meet changing employee and business needs.



Source: Deloitte National Family Office Forum survey 2020. Survey respondents could select more than one answer.

Operational considerations

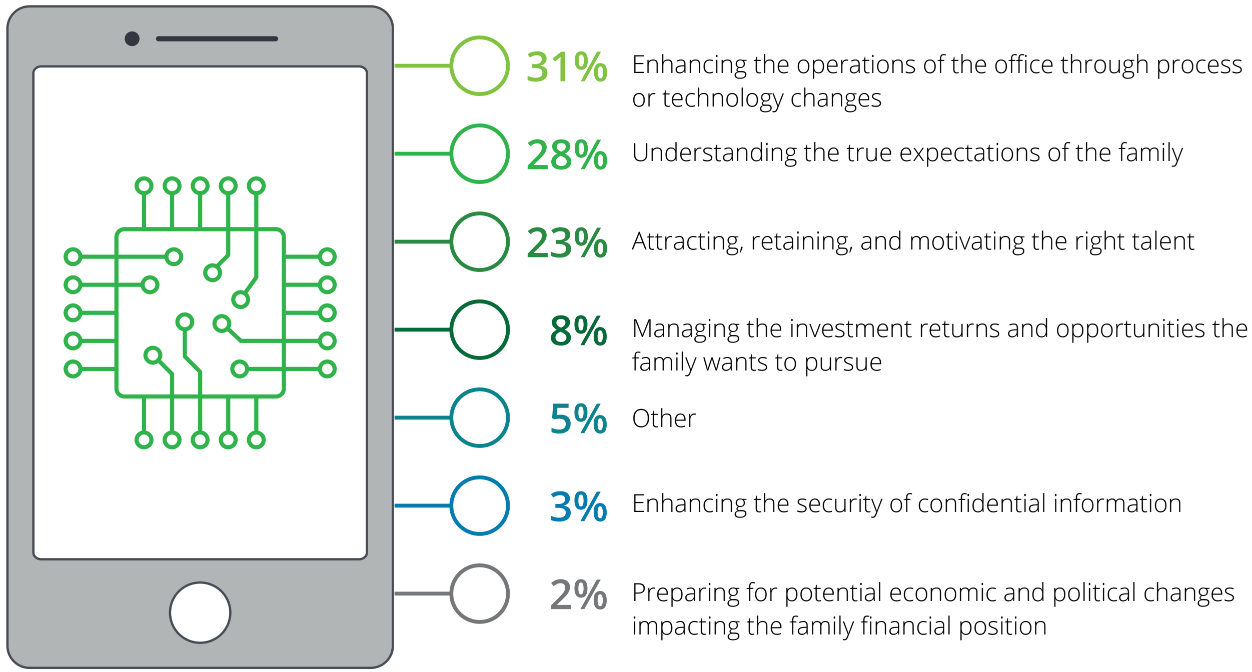
Technology

Around the world, technology continues to transform businesses and governments. As the pace of change accelerates, family offices have the opportunity to adopt and embrace technology to improve operational effectiveness, communication with clients, and data security. In fact, family office executives consider "enhancing operations" through technology and process changes as the most pressing challenge they face today (see figure 9).

Digital capabilities can help position family offices to capitalize on opportunities, address a variety of risks, retain talent, and provide transparency to key stakeholders. Cloud computing, mobile applications, robotic process automation (RPA), and other emerging technologies can significantly enhance the way the family office staff and stakeholders interact with each other, help contain information technology (IT) costs, and facilitate efficient operations.

At the same time, such technologies present risks and challenges that require specific skills and increased cybersecurity vigilance. For example, data aggregation—the ability to access, analyze, manipulate, consolidate, and report on data from multiple sources—is an important and growing challenge for family offices. Many families have moved to a global custodian to shift the burden of data aggregation away from the family office. In other cases, third-party expertise and data aggregation solutions may be warranted.

Figure 9. Most pressing challenges identified by family office executives



Source: Deloitte National Family Office Forum survey 2020. Survey respondents could select more than one answer.

Operational considerations

Transforming your family office

Every family office has its own DNA, so the approach taken to modernize operations should be customizable and scaled to match the family's needs. The goal is to identify an operating model that makes the best use of family office resources and helps the family office better align with the family's goals and expectations.

Transformation efforts can range from minor incremental tweaks to more in-depth, involved process modernization, such as:

- Improvement of data-gathering processes
- Implementation of new technologies or tools
- Identification of resource models that refine the balance of internal and external support
- Modernization of an entire area of the family office, such as the tax function

Key elements of transformation

In a transformation project, it is important to understand the family office operating and talent models, including how executive and staff time is currently spent on tasks by activity across the organization. Surveys and interview tools can shed light on areas that are most time consuming and repetitive, as well as least value-additive.

Once the analysis of survey and interview results is completed, existing processes can be assessed, areas of improvement identified and prioritized, and a roadmap created to show what the family office can achieve in a realistic transformation time frame.

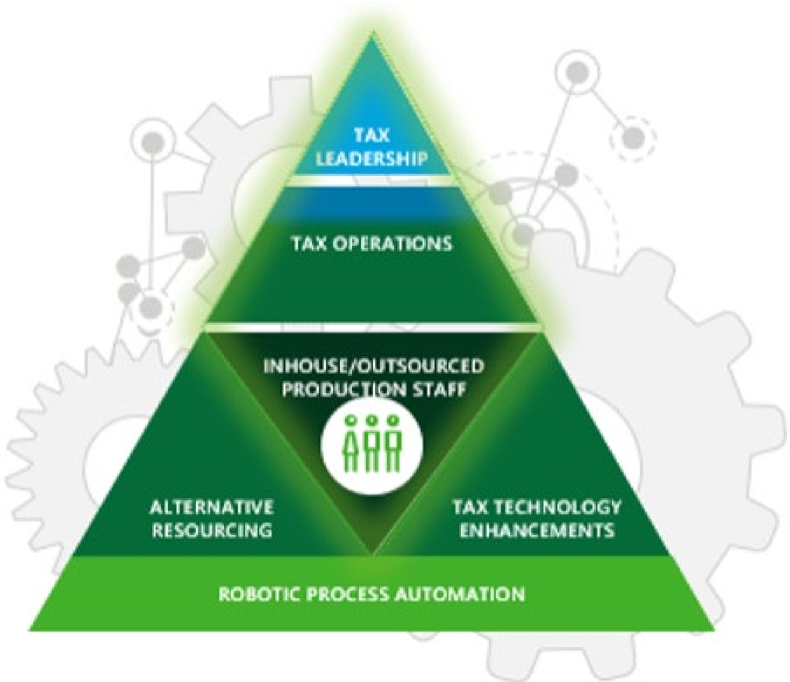
No matter the scope or duration, each transformation project should follow an actionable plan that helps the family office reshape operations and identify where time is spent so everyone involved can move in lockstep toward becoming a more strategic, efficient, automated, and modernized organization.

The role of a journey adviser

In our experience with family offices around the world, we have found that family offices can benefit from having an adviser help guide them through various parts of a transformation journey, such as in the tax department (see figure 10). For example:

- **A tax transformation adviser can help** transform the technology and processes of the family office tax department.
- **A tax planning adviser** can assist with general tax planning activities for the family.
- **A tax compliance delivery adviser** can help prepare certain tax returns for the family, including investment partnerships, trusts, and gift tax.
- **A tax reporting adviser** can help complete agreed upon procedures related to individual, trust, and partnership returns prepared by a family office's in-house tax department.

Figure 10: Family office tax operating model



A key goal of a journey adviser should be to help reshape selected areas of family office operations, such as the tax operating model, so they become more efficient, automated and cost-effective. This may include outsourcing some activities for a period of time as they are modernized, then taking them back in house at a later date. Ultimately, the objective is to achieve modernization at a lower total cost regardless of how it is sourced.

Management considerations

Risk management and controls

For family offices and the families they serve, the global risk environment is constantly changing. However, several risk areas continue to be top of mind: cyber risk, fraud risk and organizational and operational risk.

- **Cyber risk.** Areas of exposure include personal identities, reputations, public and private schedules, business and personal travel, investment accounts, business dealings, and many more.
- **Fraud risk.** This is an important area of exposure due to family office proximity to cash and assets and the significant control a single employee may have over financial activities and family communications.
- **Organizational and operational risk.** This includes family office employees, processes, systems, and external parties, as well as the physical security of family members themselves.

The approach to risk management depends on many factors, including the family office's specific priorities, size, experience, and degree of sophistication. A sound risk management framework with effective internal controls should consider such factors and is an essential part of protecting the family's wealth, safety, privacy and reputation. Common elements of an effective risk management framework—one that is continually updated and improved—may include one or more of the following:

- **Periodic Process Assessments** to evaluate the current state and provide recommendations on internal controls and other procedures, with focus on the design and operation of the process. Process assessments can be tailored as necessary based on the structure, including:
  - Internal Controls Assessments to help a family office evaluate the internal controls framework for one or more business cycles, including assessing the level of oversight and transparency.
  - Investment Oversight Assessments to understand the family office's governance structure and oversight framework for its investments held.
- **Audits of Financial Statements** prepared by the family office for one or more entities such as a private foundation, trust, or the family office itself. Auditors assist those charged with governance in fulfilling their obligations to oversee the financial reporting and disclosure process.
- **On Call Accounting Services** to help address the multitude of questions and issues that arise as a family office prepares financial statements or as their business evolves and they enter into complex and unusual transactions.
- **Family Business Strategy and Governance** to help navigate the complexities of balancing family members' goals and business needs. Development of a strategy and governance framework typically supports a long view of family wealth preservation and growth.

Figure 11: Common risks facing family offices

Financial

- Improper trade authorization
- Deviation from investment policy

Technology

- Cybersecurity
- Data confidentiality/privacy
- Business continuity

Employment

- Payroll fraud
- Internal data theft

Management considerations

Tax, legal and regulatory

The tax, legal and regulatory framework for family offices can be complicated, requiring the expertise of competent advisers.

Tax

Deloitte has amassed a significant amount of experience working with hundreds of family offices on a variety of tax matters. Common discussion topics on structuring family offices often include the following:

- For tax purposes, should the family office be structured as a flow-though entity (i.e., partnership or S corporation) or as a stand-alone entity (i.e., C corporation)?
- Will the family office activities rise to the level of a trade or business?
- How can a family office be funded tax-efficiently?
- Should the family office consider a transfer pricing study to determine how it charges for the provision of services?
- Are there sales or use tax issues related to the provision of services?
- How will the family office be taxed from a multistate perspective?
- What are the tax considerations if a family office desires to engage in philanthropy?
- Are there gift, estate, and generation-skipping transfer tax issues concerning family office ownership and succession?

Internal Revenue Service (IRS) oversight

Although the IRS does not formally "oversee" family offices, many wealthy families with extensive operations and complex organizational structures face a higher probability of involvement in tax controversy. In 2020, the IRS announced a renewed effort to examine tax returns filed by high-wealth taxpayers and their related entities through their Global High Wealth (GHW) program and related IRS programs.

A family office can work with their tax advisers to proactively assess and address risks for the family, including preparing for tax audits by revenue authorities in the United States and other countries, if applicable, along with preparation for any tax controversies that may arise from such audits.

Legal

The Deloitte US Firms do not provide legal advice. Engaging competent legal counsel to advise the family office on legal matters and other structuring aspects is extremely important. Legal counsel can advise on such issues as the appropriate legal entity type and legal jurisdiction for the family office. Legal counsel may also assist with determining the appropriate ownership and governance structure for the family office. And there may be additional contractual agreements that are necessary for the family office to conduct its business.

Securities & Exchange Commission – the "family office" rule

In 2011, the Securities and Exchange Commission (SEC) adopted a new rule defining a "family office" that would exclude it from the definition of an investment adviser under the Investment Advisors Act of 1940. Since the release of this rule, many family offices providing investment services to their clients have structured themselves in a manner to qualify under this definition. Accordingly, SEC legal counsel should be engaged to address this matter for the family office, particularly if investment-related services are being considered.

The comments in this section only provide a cursory overview of the tax, legal, and regulatory environment applicable to family offices operating in the United States. Matters concerning the structure of family offices in foreign jurisdictions are beyond the scope of this section.

Tip:

Family offices can effectively prepare for a tax examination by conducting a periodic audit readiness assessment. This can range from a simple discussion with internal advisers to a detailed audit readiness assessment that includes document analysis, interviews, and other data gathering. **Click the icon to learn more.**

* This section contains general information only and Deloitte is not, by means of this section, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This section is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action. Before making any decision or taking any action, consult a qualified professional advisor.

Executing the family's vision

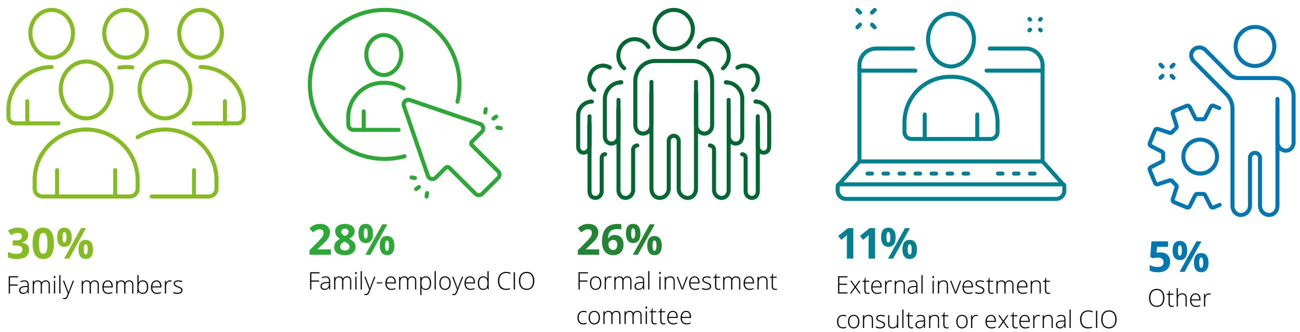
Investing and managing family wealth

How the family wealth is invested typically defines the family office.

Investment services provided by or coordinated through family offices often include:

- Developing investment objectives for each family office client, including drafting of investment policy statements, assessments of risk tolerance and creation of appropriate target asset allocations
- Selecting appropriate investments based on the family office clients' short- and long-term needs, and periodically rebalancing or making adjustments to the portfolio
- Selecting, engaging, and managing relationships with investment advisers
- Reviewing asset holdings and investment performance
- Managing cash and liquidity
- Overseeing investment due diligence
- Providing periodic investment account statements and performance reporting

Figure 12. Who makes the investment decisions?
While families may have many advisers to supplement investment decisions, the family members or family office-employed chief investment officers (CIOs) are predominately making the investment decisions.



Source: Deloitte National Family Office Forum survey 2020.

Common themes and trends for family office investing:

- A long-term investment horizon, perhaps spanning generations
- Unencumbered by regulatory constraints placed on institutional investors
- Diverse and nontraditional asset allocations
- Significant interest in private equity direct-invest and co-invest opportunities
- Focus on wealth preservation vs. growth—the more generations served, the stronger the focus on preservation
- Liquidity preferences driven by the relative cash needs for the family
- Use of family pooled investment vehicles to promote co-investment
- A more recent emphasis on social impact investing and venture philanthropy

Tip:

Family investment partnerships (FIPs) can help families address their collective and individual investment goals while offering significant benefits, which may be absent when family members invest separately. Each FIP can be tailored to meet the short and long-term investment and liquidity needs of its investors. Before forming a FIP, it is important to understand the key considerations of structuring and maintaining one or more FIPs for the family.

Click the icon to learn more.

Executing the family's vision

Philanthropy

Philanthropy often unifies a family behind a purpose, encouraging effective governance and collaboration while giving the family an opportunity to create a meaningful impact on social and environmental issues in their communities and around the world. It also engages younger generations in the family vision and succession. Similar to investing, philanthropy is often a cornerstone activity for the family office.

Families today have more options to create social and environmental impact than ever before. Today's philanthropists can donate through a dizzying array of vehicles, ranging from private foundations and donor advised funds to board service, but one common thread is the desire to make a difference in their community (see figure 13). The abundance of charitable options is further complicated by the ever-changing tax laws that can affect the ways individuals may interact with tax-exempt organizations. There are also emerging methods for individuals to effect change through their investment portfolios by using a socially responsible investment filter or making direct investments in social enterprises that produce both financial and social returns.

Tip:

For the family that desires to create a legacy and have greater control over its charitable giving, a private foundation may be an appropriate charitable giving vehicle. Click here to learn more about the decisions that need to be made before committing to the formation of a private foundation.

Click the icon to learn more.

Figure 13. Philanthropy

The vehicles being used to effectuate social goals are evolving. See which vehicles are currently being used.

89% Private Foundation	**62%** Donor advised fund	**11%** Social Welfare Organization
72% Direct donation to public charities	**20%** Strategic (debt or equity) investment	**03%** Other

Source: Deloitte National Family Office Forum survey 2020. Survey respondents could select more than one answer.

Many philanthropists are becoming more active in direct and indirect political spending. Whether locally or nationally, expenditures can be leveraged to have an impact on social or philanthropic issues of importance to the family. These efforts do not have to be purely political, and families may adopt an active lobbying or advocacy agenda and form a tax-exempt entity to facilitate these activities.

The family office can be a key player in helping family members navigate these options. The family office executives can coordinate with expert philanthropic advisers to assist the family in understanding issues and effective practices, establish clear charitable goals, and align those objectives with overall strategies that can more effectively achieve the family's philanthropic vision.

The family office can also be a critical aid in helping philanthropists make sense of the complex tax issues related to charitable giving. To encourage philanthropy, the US Internal Revenue Code grants favorable tax treatment to charitable contributions by individuals and corporations. Although the public-spirited and moral aspects of philanthropy have always been the primary motivator for giving, the tax benefits that reduce the cost of philanthropy may also increase the amount of wealth available for charitable endeavors.

Executing the family's vision

Increasing global reach of family offices

The world is becoming more connected, and investments and investment strategies now routinely include international diversification as a key pillar. Wealthy families are at the forefront of this shift. Whether through geographic dispersion of family members, property ownership in foreign jurisdictions, or investments made in foreign companies, wealthy families are increasing their global footprint. Family offices are often tasked with providing the necessary support to address the wide variety of issues that can arise from the increased global reach of the family and their assets.

Global communication

Having a secure communication platform to share information among the family, family office, and trusted advisers in real time is critical, especially when family members work and live in different jurisdictions. As a key element of modernization efforts, the global family office should have access to appropriate technologies required to meet family members' needs, regardless of where they are and when they want to access information.

Global families

When spouses are from different jurisdictions, establish residency in foreign countries, or have children who may be dual citizens, many new issues can arise on top of the already complex issues wealthy families face with respect to their income, trust, estate, and gift planning. These considerations include:

- What are the implications to existing family trusts or to the investments held by those trusts when trust beneficiaries include spouses and descendants with different nationalities and/or residency status?
- If a spouse from a different jurisdiction has his or her own separate assets and makes gifts to children, or establishes trusts for the benefit of children, what are the reporting requirements? What additional complexity is introduced if the trusts are established in a jurisdiction other than the one in which beneficiaries reside?
- If the family resides in a foreign jurisdiction for all or a portion of the year, what are the financial, tax, and legal implications?

Global investing and informational reporting

As requirements for transparency increase, and various jurisdictions demand more information regarding investments and their owners, the family office may be required to assist with addressing the rules, registration, and reporting requirements related to the family's global investments.

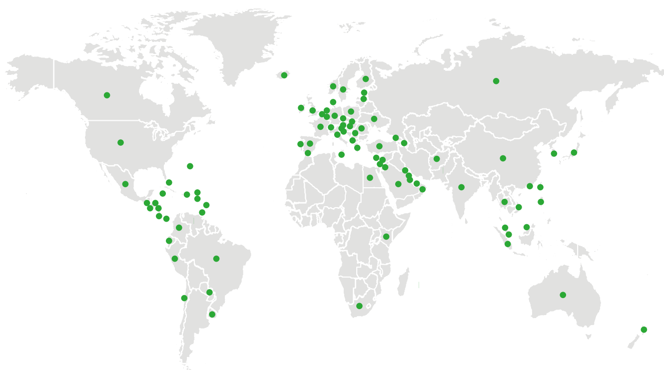
For example, one far-reaching impact from a US tax perspective relates to investments in passthrough entities, including private equity funds, hedge funds, and passive foreign investment companies. These investments frequently require disclosures of detailed amounts of information on US tax returns.

The penalties for noncompliance can be onerous, and the family office, working with its tax adviser, can assist the family with meeting these requirements. Understanding the costs associated with the incremental reporting and disclosures attributable to foreign investments is essential for taxpayers to evaluate their after-tax investment returns.

In addition, families must consider the implications of holding these foreign investments in light of the amount of personal information regarding family members that may be required to be shared with various tax authorities.

The Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) have significantly increased the tax transparency for investors across the globe. Many family offices have committed resources within the organization to complete the initial and recurring documentation required by global investments. As more families commit capital to these investments, family offices are assessing the risks associated with disclosing family members' personal information to tax authorities around the world.

Figure 14. Countries with Deloitte professionals serving Private Wealth clients



Why Deloitte?

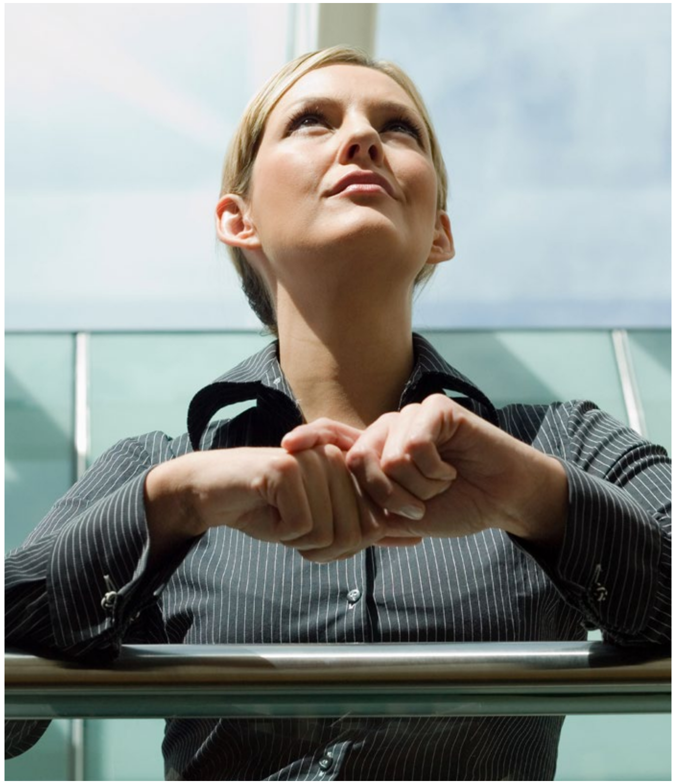
Looking ahead

The family office industry continues to evolve and become more sophisticated in response to the demands of the families they serve. Several emerging trends are reshaping the focus of family offices and how they will operate and serve families in the future.

- **Technology.** The adoption of new technologies is encouraging family offices to critically look at how existing processes and activities might be improved to reduce or eliminate repetitive, manual, time-consuming tasks. This introspection extends to the skills required of family office personnel going forward as modernization initiatives refine existing processes and enable staff to refocus on other value-added activities. So, rather than hiring individuals to input large amounts of data, family offices can seek to hire individuals with enhanced data analytics skills or other specialized skills necessary to deliver new value-added services to the family.
- **Future of Work.** Historically, the family office talent model and real estate footprint reflected the importance of in-person interactions. However, the pandemic forced many to pivot toward staying connected through virtual solutions. Family office leaders have re-evaluated their service and talent models, as well as their technology infrastructures. Some noticed that increased technology utilization improved connectivity with family members who otherwise did not regularly engage. Others chose to invest in necessary safety measures to create environments where employees could return to the office with some regularity.

  Moving forward, family offices will need to find a balance between traditional and flex work arrangements to remain competitive in the marketplace. This may lead to a reduction in office space; as their talent pool is no longer restricted to working in-person. With that in mind, it's anticipated that family offices will review their technology platforms to ensure information is exchanged securely and is readily available to those who need access; and that family members can interact confidentially. This financial investment fosters family office modernization and interactivity with each generation served.
- **Philanthropy.** For decades, family offices have been created to oversee the financial affairs of the family and to implement planning to sustain and pass on wealth to future generations. Many families created family offices after a sale of a business that had been in their family for generations with the intent that future generations would be cared for financially. Today, an increasing number of individuals desire to pass a meaningful portion of the wealth generated by the sale of their businesses to philanthropic pursuits, instead of perpetual trusts for the benefit of family members and future generations. This trend may necessitate different skills and experience among family office employees as the family's wealth is transferred during lifetime and at death to charitable vehicles to achieve their philanthropic goals.
- **Direct private equity.** As more families consider investing in direct private equity, family offices are tasked with evaluating how this will impact the family's overall investment allocations. In addition, families must evaluate whether they will acquire talent with a private equity background to source transactions aligned with the family's investment strategy. Direct private equity often requires more active involvement with respect to ongoing business decisions. Accordingly, it will be important for families to agree on the governance with respect to these business investments and whether family members will be allowed to actively participate in the acquired companies.

Each of these trends could have significant considerations for the family office and the families it serves. Addressing them will require thoughtful analysis and planning to align decisions and resulting changes with the families' expectations and the family office strategy.



Why Deloitte?

Deloitte family office events

Deloitte has discretely served high net worth individuals, families, and their enterprises for more than 100 years. As a trusted adviser to many of the world's most affluent families, family offices, and private trust companies, we offer significant experience and integrated service capabilities. Family offices gain access to our global network of resources and extensive knowledge and experience tailored to the unique circumstances of each family office and the family it serves.

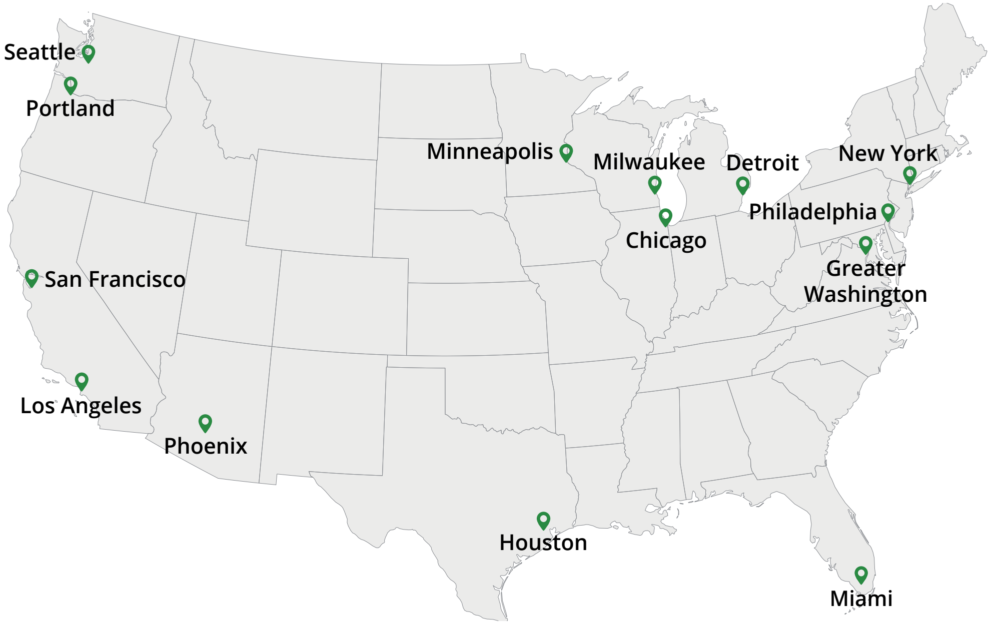
Deloitte National Family Office Forum

Our National Family Office Forum, traditionally held at Deloitte University in Westlake, Texas, brings together leaders from more than 100 of the most significant family offices in the US, allowing family office executives from across the country to network and learn about topics relevant to family offices across the globe.

Our 2020 theme of "Driving Success Through Collaboration" advanced attendees' mindset on the most important challenges family office executives face today. It included many networking opportunities, from one-on-one conversations, to small-group interactions, to cocktail receptions and dinners. An extra day, longer breaks, a technology panel discussion, and extended breakout sessions with subject matter specialists helped participants learn about leading practices and they exchanged ideas with their colleagues from other single family offices. An introduction to Deloitte's Greenhouse Labs for Family Offices previewed one-day immersive lab experiences designed to help executives develop action plans for a range of issues that are front and center for many family offices today.

Deloitte Local Family Office Forums

Deloitte Private Wealth leaders in cities across the US hold local events for family office executives to connect and discuss top-of-mind issues in a discrete, yet open and collaborative setting. With 2020 presenting unique challenges to almost all businesses, our leaders adeptly pivoted to virtual forums, and attendance continued to be strong. In this way, family office executives are driving powerful agendas to help one another understand and respond to their toughest issues.



Why Deloitte?

Family office labs in the Deloitte Greenhouse® space

Family offices and the executives who manage them are under growing pressure to deliver value. Family office labs engage people so they can take problem-solving to a new level.

Deloitte's Family Office Labs are designed to assist family office executives, high net worth families, and other stakeholders in addressing specific business challenges through immersive 1-2 day interactive sessions. Through thousands of similar sessions, we understand why groups face challenges and how to create conditions for breakthrough, which will ultimately accelerate decision making.

Since no two family offices are alike, each lab is customized for the particular family office's circumstances. The Family Office Labs include:

Family Office Formation Lab: designed to help a family and their trusted advisers identify and address financial, logistical, operational, and emotional considerations on the formation of a family office and to provide a means to build consensus and make thoughtful decisions in an accelerated timeframe.

Family Office Executive Transition Lab: designed to help newly hired or newly promoted family office executives develop an actionable plan to accelerate a successful transition that is directly aligned with the family's goals and aspirations.

Family Office Life Events Lab: designed to help the family and family office navigate issues associated with the family's complex financial and personal challenges and potential opportunities associated with major life events.

Family Office Lab Experience: designed to help family office leaders who are considering an overall transformation to meet the future family office needs and circumstances. Complex challenges associated with data, process, technology, and talent may be covered.

Why Deloitte?

Deloitte's distinguished service to family offices

Family offices face complex issues and potential opportunities. Certainly, that often includes income tax planning and compliance obligations, but it typically encompasses much more. As a result, many family offices benefit from the services of an adviser with specialists in a range of disciplines and resources to help address the spectrum of issues that they and the families they serve may confront at any given time.

Deloitte does just that, serving as a sounding board and a trusted adviser who connects family offices to what matters (see figure 15). Having worked with more than 600 family offices in relationships spanning generations, we focus on providing your family office with:

Connections to support your family—this includes Deloitte's global resources, connections, insights, and experience. We can provide a customized breadth of services that meet your diverse and dynamic needs.

Confidence to face future needs—we offer a forward-thinking advisory approach based on an in-depth understanding of the family's goals and designed to deliver a valuable point of view to help meet family expectations.

Capabilities to deliver impact that matters—our industry-leading advisory resources can help identify potential opportunities and mitigate risks. We can proactively share new guidance to identify changes that are designed to positively impact the family and its holdings.

Figure 15. Connecting you to what matters now

National and global network
- Global tax capabilities
- Compensation strategies
- Cyber and fraud services
- Internal control assessments
- Operations and technology
- Global information reporting
- Corporate finance and M&A

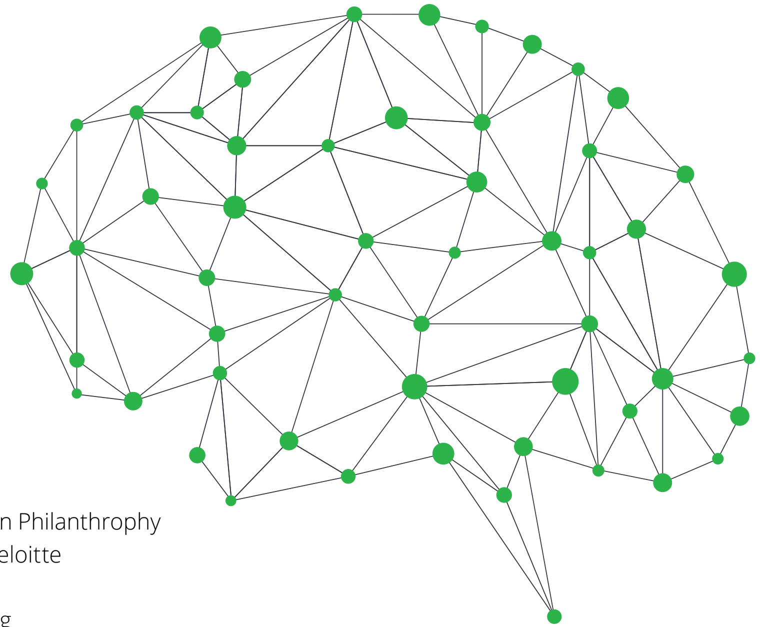
Deloitte advisory specialists
- Governance advisors
- Financial reporting
- Appraisers (situational)
- Accounting and legal services (outside the U.S.)
- Technology advisors

Your peers
- National family office forum
- Local family office forums

Industry experience
- Partnership and private equity services
- Family wealth succession planning
- Estate and post-mortem services
- 4,000 investment management practitioners
- Investment management and private wealth thoughtware
- Art and finance planning

Alignment to family expectations
- Family office labs in the Deloitte Greenhouse
- Family and governance leadership
- Family office structuring

Deloitte tax technical specialists
- Income tax planning and compliance
- State and local taxes
- Washington National Tax practice
- Tax controversy services
- Tax risk management
- Private aircraft tax considerations



Social consciousness
- Center for Excellence in Philanthrophy
- Monitor Institute by Deloitte
- Private foundations
- Charitable gift planning

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