

IF TODAY IS TUESDAY, I MUST BE BRAZILIAN

A 'portfolio of passports' sounds like something out of *The Bourne Identity* — but it helps if you want to escape disagreeable political, legal or lifestyle conditions, says **David S. Lesperance**

It's become commonplace now to state that 'the world is flat'. As the *New York Times* columnist Thomas L. Friedman says in his recent book of that name, computers and new communications technologies have broken down cultural walls and erased international borders, making it easy for human beings to converse and collaborate from any point on the planet. Yet this world still has walls. I refer of course to the walls raised by governments to reduce mobility, and erode rights and wealth. What happens when Friedman and the rest of his baby-boom cohorts discover that their governments continue to levy increasingly punishing taxes in order to 'eliminate widening wealth disparity'? What happens when courts continue to decide that litigants are more entitled to their wealth than the creators of that wealth?

Whether it is fed-up taxpayers in Manhattan or anxious non-doms in Mayfair, many of the world's most affluent are starting to realise that everyone wants to pick their pocket. As one of my clients told me, 'Fair taxation in a democracy is like nine wolves and a sheep voting over what's for dinner.'

When the wealthy discover the world isn't flat, they have to adopt a different strategy to deal with these threats and also to take full advantage of the opportunities presented. This strategy involves creating a 'passport portfolio'. Simply put, it is a combination of residences, domicile and citizenships that mitigates risks and maximises opportunities.

The creation of a successful passport portfolio requires a person to move beyond the idea that it is somehow inappropriate for them to regain control over their lives by not benignly accepting the citizenship and residence bestowed upon them through the randomness of their birth. Just as no intelligent investor would put all their assets in a single stock or bond, diversification of residence and citizenship allows an individual to spread risk, react to changing world conditions and arbitrage opportunities between countries. One would never stop to think that selling one stock to purchase another was disloyal.

As in financial planning, the creation of a passport portfolio first involves an examination of where the individual is currently at and wants to be. Then a clear road map must be set out and implemented. Unlike buying securities, changing or acquiring residence or citizenship is a complex proc-

ess. It also takes longer to execute the strategy than it does for the sands of government policy to shift underneath your feet. Therefore, those who are successful plan for possibilities rather than react to changed conditions.

Take the recent non-dom tax controversy in Britain. For over a century, the UK has enticed wealthy foreigners to reside at the centre of the Empire. The Crown avoided taxing these residents on income and capital gain from offshore assets. Due to last-minute backpedalling, the non-doms are now on probation, so to speak. While the debate about the extent of the damage will continue for years, by the unilateral moving of the goalposts the players no longer have any illusions about the stability and fairness of the game they had initially volunteered to play.

Adding to the heightened nervousness is the recent spotlight on the UK's current family-law regime brought about by the Mills-McCartney divorce. Since Ms Mills was awarded £24.3 million following the breakdown of her four-year marriage, I have been fielding many more inquiries from British ultra-high-net-worth residents

about obtaining residencies in countries with much kinder, gentler divorce laws.

Far from the 'idle rich' of legend (and opinion pieces), these non-doms are bankers, industrialists and philanthropists who've done a great deal for the UK by bringing their intellectual, philanthropic and investment capital from their home countries. Now the best of them have either left, are in the process of leaving, or are thinking of leaving. So accountants, solicitors and family offices all over the City are being bombarded by nervous non-doms who want to know their options, and it's therefore essential to add to the team an adviser who has long experience in implementing global strategies that are client-specific and appropriate.

One size never fits all. Dublin and Geneva are lively financial communities with less intrusive legislatures, but not much social life compared to London; some Caribbean nations offer welcome tax relief but limited schools and health services; Canada and Australia offer sophisticated infrastructure and excellent travel documents but may be too far from current preferred haunts for non-doms to want to spend much time there. Numerous options, rules, loopholes and tricks of the trade, unique to each jurisdiction, exist.

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That is why you now need a portfolio of passports and residences, to ensure you can live where you wish and still enjoy maximum freedom from taxes, litigation, crime or political instability.

Properly comprised and updated, a passport portfolio can offer the owner the best of all possible worlds: asset protection, freedom to conduct business, mobility to travel with minimal need for visas, proper schools, security and health-care, and back-up citizenship in a low-tax, 'lips-sealed' country that will preserve your wealth for the next generation — or for more impactful philanthropy today.

The last few years have seen an explosion in the variety of ultra-high-net-worth individuals seeking this lifestyle: Americans who think the War on Terror is eroding individual rights; Russian business families looking to insulate themselves from arbitrary government regulation; upper-crust Venezuelans hoping to escape their country's socialist regime; or London-based professionals from all over the world eager to find new residences or citizenships that would help them dodge the non-dom crackdown — without having to abandon Annabel's or the Chelsea Flower Show for good.

The people I know in these situations are smart, honest, well-read and public-spirited. Not one of them begrudges the taxes they pay to fund services and infrastructure they use. They do, however, resent unlimited ever-increasing tax liability. Some fear that travel restrictions in their home country will reduce their mobility. Many also want to ensure that their family members will always have a choice of stable, terror-free refuges. And even those who move for tax purposes are often motivated by a desire to do good: many of my clients are moving from work to philanthropy. They believe they will have a more positive impact on society by directing their donations personally, rather than letting wasteful, bureaucratic governments 'redistribute the wealth' their way.

Illustration by Jeremy Lesperance



An example of a direct casualty suffered by the UK as a result of the recent non-dom proposals is Carol Hogel. The American philanthropist had donated more than £20 million to the arts over the past few years. For a tax adviser, it is not difficult to take the position that after proper legal structuring, Hogel probably donated much more money than she would have paid in taxes even if she was not a non-dom. Unfortunately the government's attempts to compel Ms Hogel to give up that control over how her own money was to be spent has resulted in a significant loss to the UK since she has decided to move away to protest the government's 'destructively spiteful, philistine attitude' toward non-doms.

There are many more like her. I recently helped one client who had made an internet fortune settle down in a tax haven where he can focus on giving away the bulk of his wealth through his charitable foundation. A few years ago, I helped a wealthy American executive expatriate by taking up citizenship in a Caribbean island. Again, philanthropy was the motive. When his island was struck by a hurricane, he led the disaster-relief efforts himself, funding purchases of food, generators and raw materials to help his new compatriots survive the ugly aftermath.

Obviously not all UHNW individuals are wholly motivated by charity, but the consistent theme being played out is that individuals increasingly want to have control over how their own money is spent. A passport portfolio does much more than give them control over their wealth and protect them from jeopardy; it provides them with choice, security, peace of mind, and the freedom to operate the way they do best — creating wealth and opportunity, and giving back to the societies that have been so good to them.

In my career, I have learned three lessons that are worth passing on to UHNW individuals who wonder about the future for themselves and their families. One is that given the flattening effects of computers, broadband and the other forces noted by Thomas L. Friedman, there is more opportunity than ever for hard-working individuals to join the world's mobile economic elite. Another is that if they do

nothing, even wealthy, powerful people can have their power and wealth stripped away. Whether it's Chancellor Darling, the Patriot Act, new taxes or litigation, the attacks on UHNW individuals are increasing around the globe. Finally, the speed of change has increased dramatically: wars, acts of terror, economic fears and new laws are rapidly changing the political and economic landscape.

Responsible, strategic-thinking leaders of affluent families have to start planning for possibilities, not reacting to events. For the wealthy, the assets they save may well be their own.

ABOUT THE AUTHOR

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David S. Lesperance is Managing Partner of Lesperance & Associates, based in Toronto. He specializes in helping High Net Worth individuals acquire residency or citizenship to fulfill personal, tax or estate-planning objectives. He recommends that today's affluent, mobile elite adopt a "Passport Portfolio" approach to citizenship and residency, to ensure the ongoing safety of their assets and their families.

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