SECOND EDITION

# Private Wealth Newsletter 2026

**TAX FROM EVERY ANGLE**

# Editor's note

We are pleased to share with you the second edition of Baker McKenzie's *Private Wealth Newsletter* for 2026, once again bringing together insights from across our Private Investments and Family Office Group.

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The middle months of 2026 have done little to dispel the political, economic and regulatory uncertainty that shaped the earlier part of the year. Across major economies, governments continue to recalibrate tax policy, tighten transparency and enforcement, and respond to a fragmented geopolitical landscape - developments that bear directly on how global families structure their affairs, move between jurisdictions and plan for the future. The thread running through this edition is a familiar but increasingly urgent one: the shift from planning built around optimization towards planning built around governance, resilience and adaptability.

In our lead feature, *"The end of easy assumptions: Governance, mobility, technology and resilience for global families in volatile times"*, Marnin Michaels sets the thematic anchor for this edition. Marnin argues that global families must move beyond planning focused narrowly on tax, asset protection and succession, towards an integrated, continually evolving governance framework – one that builds resilience across family identity, mobility, succession, technology, geopolitical risk, philanthropy and next-generation engagement. With old assumptions about mobility, banking, privacy and succession no longer reliable, his message is a simple one: wealth is now protected less by privacy than by preparedness, judgment and coherent governance.

This theme is complemented by three further feature articles. In our second feature, Jason Wen and his colleagues examine China's landmark new individual income tax regime for offshore trusts, introduced in July 2026. The regime establishes a life-cycle taxation and reporting framework for PRC-connected structures, bringing both existing and prospective arrangements under fresh scrutiny. With a 90-day transition window, early action is imperative. As our third feature, we present Christopher Cook's *"You say tomato"*, a timely reminder for the growing number of US citizens relocating to the UK that US revocable living trusts, though routine in the US, can be classified and taxed very differently in the UK. Careful pre-arrival review of their terms, governing law, trustee residence and treatment on incapacity or death is therefore essential to avoid unexpected UK tax and reporting consequences. We round off our feature section with Part II of Marnin Michaels' and Eva Scheiwe's series, *"Key Challenges for Philanthropy in Complex Geopolitical Times"*. Following Part I's mapping of the shifting legal terrain, this instalment turns from terrain to impact. It explains how administrative enforcement measures, criminalisation, financial disruption, reputational pressure and security threats increasingly jeopardise cross-border philanthropy, and why strong governance, rigorous documentation, careful partner vetting and resilient funding structures have become essential to continued operations.

Our *"Around the World"* section highlights a number of further developments of relevance to our readers. From the EMEA (Europe, Middle East and Africa) region, we feature a trio of French updates. Firstly, a French Tax Supreme Court decision confirming that gains on management incentive shares may be taxed as employment income where they reward executive duties, notwithstanding their contribution to a personal holding company or the application of a capital gains tax deferral regime. Secondly, a French Administrative Supreme Court ruling that trust distributions are taxable under Article 120(9) of the French Tax Code unless the taxpayer can produce sufficiently reliable evidence that the amounts represent capital rather than income. Thirdly, a Paris Judicial Court decision treating shares in French SCIs as real estate, and therefore subject to French real estate wealth tax under the France–Netherlands treaty.

Two Spanish updates follow. The first concerns the evidence required to secure the family business Wealth Tax exemption where holding companies carry significant financial investments. The second addresses the Supreme Court's confirmation of a group-level approach to the full-time employee requirement for wealth and inheritance tax relief on genuinely integrated real estate rental activities. We also include an update on the United Arab Emirates (UAE) Federal Tax Authority's revised Corporate Tax guidance on Family Foundations, their underlying entities and family offices.

Turning to the APAC (Asia Pacific) region, we provide an overview of the Monetary Authority of Singapore's July 2026 circular updating the S13D, S13O, S13OA and S13U fund tax incentive regimes for funds and family offices.

From the Americas, we feature the SEC's enforcement action and near-US$489,000 settlement against Papamarkou. It arose from fee-calculation practices and disclosures inconsistent with the firm's advisory agreements. The action is a cautionary reminder for investment advisers to monitor compliance with contractual fee terms and conflicts-of-interest requirements. We also include an analysis of IRS Notice 2026-40, which provides transitional guidance bridging the expiring TCJA-era Qualified Opportunity Zone regime and the new permanent QOZ 2.0 regime as the rules change on and after 1 January 2027.

We hope you find this edition interesting and informative. Please feel free to contact our editors, Elliott Murray and Phyllis Townsend, or any of the contributing authors, with any questions or comments. As ever, we are grateful to our colleagues across the Private Investments and Family Office Group for their continued collaboration, and to our production team for their support in delivering this issue.

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# The end of easy assumptions: governance, mobility, technology and resilience for global families in volatile times


## Marnin Michaels

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The operating environment for internationally mobile families has changed fundamentally. For decades, private wealth planning was often built around a relatively stable triad: tax efficiency, asset protection and succession. Families asked where wealth should be held, which structures minimized leakage, how control should pass, and which jurisdictions offered attractive residence or investment conditions. Those questions remain important, but they no longer define the full planning agenda. Today, global families must navigate an environment shaped by geopolitical fragmentation, sanctions, cultural polarization, technological acceleration, regulatory expansion and changing expectations from the next generation.

The modern global family is not simply a group of related individuals. It is a network of people, assets, values, legal systems, residences, institutions and reputational exposures. It may include multiple citizenships, children educated in different countries, intermarriage across cultures and religions, family members living under different political systems, and business interests exposed to conflicting norms. A family may be headquartered emotionally in one place, legally in another, operationally in a third and financially in several more. That complexity creates opportunity, but it also creates fragility.

The central challenge is that many historic assumptions have become unreliable. It is no longer safe to assume that a family can move easily after a crisis begins, that banks will process payments consistently across jurisdictions, that philanthropic activity will be viewed as benign, that tax savings outweigh civil liberties, that children will naturally join the family business, or that a family office can be run informally by a small trusted circle. The combination of public scrutiny, regulatory intervention and social media amplification means that decisions may be judged not only by whether they are legal, but by whether they are defensible.

This article postulates a single framework for global family resilience. It begins with the changing definition of family and the need to reintegrate evolving notions of family life. It then turns to education, cultural polarization, planning for volatility, relocation, diversification, tax and civil liberties, succession, next generation engagement, technology, cybersecurity, medical decision-making, family office operations, talent shortages, investment shifts, philanthropy, ESG and politics in practice. The objective is not to provide a technical checklist for every jurisdiction. Rather, it is to describe the broader strategic shift: from planning for optimization to planning for resilience.

The families best positioned for the coming decade will be those that build structures capable of absorbing disagreement, disruption and scrutiny. They will treat governance not as a document, but as a living practice. They will treat mobility not as lifestyle optionality, but as risk management. They will treat technology not as a tool to be adopted casually, but as an operating system requiring controls. They will treat philanthropy and ESG not as public relations exercises, but as areas of legal, political and reputational consequence. Above all, they will recognize that wealth is no longer protected by privacy alone. It is protected by preparedness, judgment and coherent governance.

## 1. Reintegrating evolving notions of family life

The first question for any family governance exercise is deceptively simple: who or what is the family? In prior generations, the answer may have seemed obvious. Family was often defined by bloodline, marriage and legal succession. Today, that definition is increasingly incomplete. Global families may include blended families, stepchildren, adopted children, long-term partners, former spouses, children born or raised in different jurisdictions, and family members who identify with different cultures, languages and political traditions. Wealth-owning families in particular often develop economic and governance ecosystems that extend beyond strict legal kinship.

This matters because legal definitions and emotional realities do not always align. A trust deed, shareholder agreement or foundation charter may identify beneficiaries and decision-makers, but it may not reflect who is treated as part of the family in practice. Conversely, a person may be emotionally central to family life but legally peripheral to wealth structures. If these differences are ignored, they can produce resentment, uncertainty and disputes at exactly the moment when the family needs cohesion.

The modern family should therefore be understood as a deliberately constructed economic, legal and governance ecosystem. It is economic because family members share or depend upon pools of capital, operating businesses, real estate, investment portfolios and philanthropic resources. It is legal because rights and obligations are mediated through succession law, matrimonial property regimes, trusts, companies, tax residence, citizenship and regulatory rules. It is governance-based because sustainable family life across generations requires mechanisms for communication, decision-making, education, dispute resolution and accountability.

Globalization intensifies the issue. A family with members in Zurich, London, Singapore, Amsterdam, Dubai and New York cannot rely on informal conversations around one dining table. It needs structured ways to transmit values, explain structures, educate beneficiaries and resolve disagreement. Mobility also changes assumptions about belonging. Children educated abroad may return with different expectations about work, gender roles, philanthropy, politics, marriage, privacy and public responsibility. The family must decide whether its governance system can absorb these differences without turning them into existential conflicts.

The most effective families do not attempt to freeze family identity in the language of a prior generation. They define the family clearly enough to govern, but flexibly enough to remain humane. They distinguish legal entitlement from emotional inclusion. They create forums where difficult questions can be discussed before they become disputes. They understand that continuity is not the same as uniformity. A family can preserve shared purpose while allowing members to live differently. That balance is now central to responsible stewardship.

## 2. Family education and twenty-first century schooling

Education is one of the most powerful tools for sustaining family continuity, but it is often treated too narrowly. Families commonly focus on choosing the right school or university, securing places in prestigious institutions, or ensuring that children learn the languages needed for international mobility. These are important decisions, but they do not amount to a family education framework. In the twenty-first century, education planning must be jurisdiction-sensitive, values-conscious and adaptable to geography.

A child educated in Switzerland, Singapore, England, the United States or the Netherlands may be exposed to different histories, civic narratives, attitudes toward authority, views on speech, approaches to drugs, perspectives on gender, and expectations of individual autonomy. These differences are not merely academic. They shape identity. A global family that educates children across several systems may produce highly capable, cosmopolitan young adults, but also individuals who disagree profoundly about the meaning of responsibility, freedom, risk and family obligation.

The best practice is to design a family education framework that is adaptable to geography. Such a framework should establish global principles while allowing local customization. Global principles might include obligations to understand the family history, basic financial literacy, awareness of legal structures, respect for privacy, understanding of philanthropic commitments, and the development of practical skills. Local customization recognizes that a child in Singapore may face a different social and regulatory environment from a child in Amsterdam or London. The family's framework should not deny those differences; it should help children interpret them.

Advisers increasingly play a role as translators between educational systems and custodians of continuity across relocations. This is not limited to school selection. It includes helping families maintain records, anticipate admission requirements, understand university pathways, evaluate qualifications and prepare children for transitions. Where families relocate frequently, continuity becomes a governance issue. A child who changes schools and cultures repeatedly may need support in maintaining a sense of belonging and purpose.

Family education should also include structured exposure to the responsibilities of wealth. Too many families postpone such conversations until the next generation is already adult, suspicious or disengaged. Education should proceed in stages. Younger children can learn family history and values. Teenagers can learn basic financial concepts, philanthropy and privacy. Young adults can learn governance, investment principles, tax residence, legal structures, cybersecurity and public reputation. The purpose is not to burden children, but to equip them.

A family education framework should also prepare children for independence. Wealth can insulate children from consequences, but excessive insulation impairs resilience. Families often encourage young adults to work outside the family business to experience ordinary professional relationships and accountability. That instinct is sound. The ability to operate outside the family orbit is a form of human capital. In a volatile world, a child who can adapt, work, learn and build relationships in multiple environments is one of the family's strongest assets.

## 3. Cultural polarization, values conflict and the global household

Cultural polarization is no longer an abstract political trend. It enters family life. The decline of shared civic narratives, social media amplification, accelerated geopolitical fragmentation, identity-based politics and migration have created households in which family members may inhabit different moral and informational worlds. This is particularly acute for global families because they cannot easily retreat into a single cultural environment. Their members live, study, marry, work and invest across jurisdictions with conflicting norms.

The problem is not simply disagreement. Families have always disagreed. The new challenge is that disagreements are increasingly reinforced by external systems: media ecosystems, peer groups, universities, political movements and online platforms. A family member in one country may regard a particular issue as settled common sense, while another family member in a different country views the same issue as dangerous, illegal or morally unacceptable. Speech, religion, gender roles, drugs, sexuality, authority, philanthropy and political participation may all be interpreted differently depending on jurisdiction and culture.

Consider the example of a family with members in Singapore, Amsterdam and London discussing drugs. In Singapore, drug offences may carry severe criminal consequences, including imprisonment, visa issues and reputational damage. In Amsterdam, cannabis may be treated with relative social tolerance. In London, enforcement practice may differ again. Which family member is right? The better question is how the family should govern disagreement when legal risk, personal freedom and cultural assumptions diverge. It is rarely sufficient for one family member to impose a single perspective on all others.

Effective governance creates a forum for these conversations before they become crises. A family constitution, council or education program should not only discuss investments and succession. It should also address values, public behavior, social media, political expression, philanthropy, privacy and respect for local law. Governance can help distinguish between non-negotiable family principles and matters on which members may differ. It can also clarify that respecting local law is not optional, even where family members personally disagree with the policy underlying that law.

Cultural polarization also affects reputation. A comment made casually in one jurisdiction may be offensive, unlawful or commercially damaging in another. Social media collapses geography. A family member's post, photograph or donation can move instantly across borders and be interpreted without context. For prominent families, the line between private expression and public consequence has nearly disappeared. Family education should therefore include digital conduct and reputational awareness.

The goal is not to depoliticize family life entirely. That would be unrealistic and undesirable. Families may have values and should be able to discuss them. The goal is to create enough structure, humility and respect to prevent disagreement from becoming fragmentation. Global families need a governance culture that can handle pluralism. Without it, the same diversity that gives the family global reach can become a source of permanent internal conflict.

## 4. Planning for stability in volatile times

Volatility is no longer episodic. Wars, sanctions, abrupt regulatory shifts, asset freezes and restricted financial access have become recurring features of the global planning environment. For internationally mobile families, the practical question is not whether they are directly exposed to a particular conflict. It is whether their people, assets, advisers, banks, structures or counterparties could be affected by the legal and operational consequences of conflict.

Sanctions illustrate the point. Measures may begin with a narrow list of individuals or entities but expand through ownership, control, facilitation, professional services, securities restrictions or sectoral prohibitions. A family may not be sanctioned, yet may hold assets through an entity, trustee, bank, director or counterparty that becomes sensitive. Banks may freeze activity while assessing risk. Professional advisers may pause work. Insurers may reconsider coverage. Payment systems may slow. The legal position may be uncertain, but the operational consequences can be immediate.

Planning for stability therefore requires a shift from optimization to optionality. Families should ask whether key functions can continue if one jurisdiction becomes inaccessible, one bank relationship fails, one trustee cannot act or one family member is unable to travel. This is not paranoia. It is the same logic that underlies business continuity planning in sophisticated organizations. Family offices should be no less disciplined simply because the enterprise is private.

Mobility is central. It is tempting to describe relocation planning through tax residence, visas and permits. Those issues matter, but they miss the human dimension. In a crisis, families ask whether they can be close to children and grandchildren, whether the place is safe, whether they can walk at night, whether they can speak the language, whether the culture is familiar, whether friends are nearby, whether schools and medical care are available, and whether the climate and lifestyle are tolerable. A technically perfect relocation option is useless if no one will use it.

Optionality may seem wasteful until it is needed. A family that obtains residence rights in Singapore or New Zealand without immediate plans may look over-prepared in calm times. When travel restrictions, conflict, public disorder or health emergencies arise, those rights can become invaluable. The key is to secure options while circumstances are stable. Governments and embassies may be overwhelmed during crises. Documents may be difficult to obtain. Banks may not open accounts quickly. Families should not discover these practical obstacles only after they need to move.

Stability also requires clear decision protocols. Who decides when a relocation plan is activated? Which facts matter? Who holds passports and documents? Which advisers are contacted first? How are elderly relatives, household staff, pets and security handled? Which assets fund the move? These questions can be answered calmly in advance or painfully during crisis. The families that answer them early preserve dignity and agency.

## 5. Diversification beyond asset allocation

Investment diversification once meant spreading capital across asset classes, geographies and managers. That remains relevant, but it is no longer sufficient. In the current environment, diversification also applies to structures, location of operations, family locations and political affiliations. A family can hold a diversified investment portfolio while remaining dangerously concentrated in one custodian, one governing law, one trustee, one residence strategy or one reputational narrative.

Structural diversification asks whether the family's companies, trusts, foundations, partnerships and holding vehicles are overly dependent on a single jurisdiction or service provider. A structure may be efficient, elegant and tax-conscious, yet fragile if all decision-making depends on one person, one office or one bank. Families should understand which entities perform which functions, which documents govern them, who has authority to act, and whether successor mechanisms exist.

Operational diversification asks whether the family office can function if its normal environment is disrupted. Are records digitized and securely accessible? Can payments be made remotely? Are signing authorities redundant? Can board or family council meetings be held across jurisdictions? Is there a cyber incident response plan? Are employees cross-trained? Many family offices rely heavily on trusted individuals who hold enormous informal knowledge. Trust is valuable, but undocumented dependency is a risk.

Family location diversification is both a reality and a planning tool. Many families already have members spread across countries. This can create resilience if family members hold different residence rights, understand different cultures and maintain local networks. But it can also create confusion if the family has not discussed where people would go in a crisis, how they would support each other and whether assets are accessible where people actually live.

Political affiliation is perhaps the most overlooked category. Donations, board roles, public statements, social media activity, friendships, business partnerships and philanthropic commitments may become sensitive as geopolitical divisions intensify. A relationship that appears harmless in one era may be scrutinized differently in another. Families should review not only what they own, but what they are publicly associated with. The question is not whether a family should have values. It should. The question is whether public affiliations are understood, documented and governed.

The broader point is that resilience requires multidimensional diversification. Families should not scatter assets and structures randomly. Complexity without purpose creates its own risk. The objective is disciplined optionality: enough distribution of functions, jurisdictions, relationships and decision-making capacity to avoid single points of failure, while maintaining a clear governance architecture.

## 6. Governance failure and the concept of "legally permissible, but indefensible"

The governance lesson associated with the Epstein files is not limited to one individual or one scandal. The broader issue is how elite systems fail when informality, trust and perceived immunity replace governance. Wealthy networks often operate through long-standing relationships, personal introductions, reputational shortcuts and assumptions that certain people or institutions are beyond ordinary scrutiny. Those habits can be efficient, but they can also be dangerous.

The concept of "legally permissible, but indefensible" is increasingly important. Many actions may technically comply with law, contract or internal policy while still being impossible to defend to family members, regulators, employees, beneficiaries, counterparties or the public. A relationship may not be unlawful, but may be reputationally toxic. A payment may be permitted, but poorly documented. A board appointment may be valid, but inappropriate. A philanthropic grant may be charitable in form, but politically problematic in context.

For family offices, this creates a need for a higher standard of judgment. Legal advice remains essential, but legal permissibility should not be the only test. Families should ask whether a decision is consistent with their stated values, whether it would withstand public scrutiny, whether conflicts have been disclosed, whether independent review is appropriate, and whether documentation explains the rationale. The more prominent the family, the less useful it is to rely solely on technical legality.

Informality is a particular risk. Many family offices are built around personal trust. The principal trusts the adviser. The adviser trusts the banker. The banker trusts the intermediary. The family trusts the long-standing friend. But governance systems exist precisely because trust alone is not enough. Documentation, conflict checks, approval processes, due diligence and independent oversight protect both the family and the trusted individuals who serve it.

A mature governance framework should include reputational risk review for sensitive relationships, investments and philanthropic activities. It should identify who has authority to approve high-risk matters and when external advice is required. It should also create a culture in which advisers can say no. Families often employ advisers to solve problems, but the most valuable advisers sometimes prevent problems by refusing to normalize indefensible decisions.

The shift from "is it legal?" to "is it defensible?" may be one of the defining changes in private wealth governance. It acknowledges that legitimacy now depends on law, ethics, optics and process. Families that internalize this lesson are less likely to face crises caused by preventable governance failures.

## 7. Taxes, relocation and civil liberties

Tax remains a powerful driver of relocation, but the era of easy relocation planning is ending. Historically, many families approached residence planning by comparing tax outcomes and then fitting lifestyle around the preferred answer. That approach is increasingly inadequate. Governments are expanding transparency, strengthening anti-avoidance rules, scrutinizing economic substance and coordinating across borders. At the same time, families are paying more attention to civil liberties, quality of life, legal certainty and political stability.

The tension between tax and civil liberties deserves direct discussion. People will often trade personal freedoms for tax savings, sometimes without fully understanding the nature of the trade. A jurisdiction may offer low taxes but impose restrictions on speech, media, political activity, personal behavior, family law, privacy or exit. Another may impose higher taxes but offer stronger institutions, independent courts, social freedoms and predictable administration. The correct answer depends on the family's values, risk tolerance and long-term goals.

Relocation should therefore be assessed through multiple lenses. Tax is one lens. Immigration is another. But families should also consider safety, healthcare, education, language, culture, banking access, sanctions alignment, extradition risk, political neutrality, reputation, regulatory stability and the ability of the next generation to thrive. A move that saves taxes but weakens family cohesion or exposes the family to rule-of-law concerns may prove costly in other ways.

The suggestion that "relocation for tax planning is at an end" should not be read literally as meaning that tax no longer matters. Rather, it means that tax-only relocation is increasingly obsolete. Families need integrated relocation planning. Advisors should not simply produce a ranking of low-tax destinations. They should help families understand the lived reality of each jurisdiction and the legal consequences of becoming connected to it.

There is also a timing issue. Families that relocate hastily after a crisis begins may lack the documentation, substance, residence history or personal integration needed to make the move credible. Tax authorities increasingly examine facts rather than labels. Where is the center of life? Where are decisions made? Where are children educated? Where are doctors, clubs, homes, staff and social networks? A paper residence may not withstand scrutiny if the family's real life remains elsewhere.

The best relocation strategies begin with family objectives. What kind of life does the family want? Where can children thrive? Where can businesses be governed? Where can assets be accessed? Where are civil liberties acceptable? Only then should tax optimization be integrated. In the new environment, the best jurisdiction is not necessarily the lowest-tax jurisdiction. It is the jurisdiction that best aligns with resilience, legitimacy and family purpose.

## 8. Succession planning as governance, not merely transfer of control

Succession planning is often treated as a technical discipline: drafting wills, creating trusts, transferring shares, minimizing taxes and managing control. These tasks matter, but they are only part of the picture. Succession is a subset of governance. Its deeper purpose is to create understanding, preserve family harmony and prepare the next generation to live responsibly with wealth.

Many families spend substantial amounts on sophisticated tax planning while neglecting communication. A patriarch or matriarch may structure assets efficiently, but fail to explain intentions, write a meaningful letter of wishes or prepare children for future roles. After death, heirs may discover structures they do not understand, expectations they did not share and grievances that were never discussed. If they have the resources to litigate, disputes can last years and destroy family relationships.

The question for many families is whether family unity is worth a tax cost. Often the honest answer is yes. A plan that saves tax but generates resentment, suspicion or litigation may be worse than a less efficient plan that everyone understands and largely accepts. This does not mean ignoring tax. It means tax should serve the governance objective rather than dominate it.

Illiquid assets create additional pressure. A family business, estate, art collection, concentrated shareholding or private investment may carry emotional significance, but also liquidity risk. If heirs need cash to pay taxes, equalize inheritances or fund their lives, they may be forced to sell cherished assets at a loss or under pressure. Alternatively, some heirs may want to preserve an asset while others want liquidity. Without governance mechanisms, the asset becomes a ticking time bomb.

Effective succession planning should therefore include communication, education and scenario analysis. Who is expected to own, control or manage key assets? What happens if some heirs are involved in the business and others are not? How will liquidity be provided? What role do spouses play? How are conflicts resolved? What values should guide decisions about legacy assets? Are letters of wishes clear and current? Have beneficiaries been prepared for the responsibilities they will inherit?

Family harmony should not be sentimentalized. It requires work. It requires honest conversations, fair process and mechanisms for disagreement. It requires founders to explain not only what they have decided, but why. It requires next-generation members to engage seriously rather than passively waiting for distributions. When succession planning is treated as governance, it becomes a process of building understanding before control changes hands. That is far more valuable than a tax-efficient plan that no one believes in.

## 9. Reengaging the next generation

Next-generation engagement has changed. Many younger family members are no longer automatically interested in the family business. Some want ordinary careers outside the family ecosystem. Some want to be entrepreneurs, using family capital as seed funding. Some want to work in the family business or family office. Others may be unmotivated, overprotected or unsure how to build a meaningful life. A single engagement model will not work for all of them.

The phrase "meet them where they are" captures the essential shift. Older generations sometimes assume that children should care about the same assets, institutions and priorities that built the family wealth. But younger members may be more interested in technology, climate, philanthropy, venture capital, social entrepreneurship, art, health, digital assets or entirely independent careers. They may regard tax planning as necessary but uninspiring. They may question the legitimacy of inherited wealth. They may want impact, autonomy and authenticity.

Families should not interpret this automatically as disloyalty. A child who does not wish to work in the family business may still become an excellent owner, board member, philanthropist or steward. Another who pursues entrepreneurship may develop resilience and judgment. Encouraging a career outside the family often gives young adults a taste of ordinary working relationships, accountability and professional discipline. That experience can make them more effective if they later return to family roles.

Engagement should be structured around pathways rather than assumptions. For those pursuing ordinary careers, the family can offer education on ownership, privacy and governance without demanding operational involvement. For entrepreneurs, the family can create clear rules for seed funding, accountability, conflicts and failure. For those joining the family business, there should be professionalism: qualifications, reporting lines, performance expectations and independent supervision. For those not working, the family should avoid enabling permanent dependence while offering support for education, purpose and responsibility.

Philanthropy can be a powerful engagement tool, but it must be governed. Younger family members may care deeply about social impact, yet philanthropy now carries legal and geopolitical risk. Grant-making, advocacy and partnerships should be subject to due diligence and compliance. Done well, philanthropy can help the next generation connect values with responsibility. Done casually, it can create reputational or sanctions exposure.

The broader goal is to transform beneficiaries into participants. Participation does not require everyone to do the same thing. It requires each person to understand the family's history, structures, responsibilities and values. It also requires the family to listen. Engagement is two-way. If older generations want the next generation to care, they must give them a voice in shaping the future.

## 10. Technology, cybersecurity, AI and medical decisions

Technology has become central to family wealth, governance and privacy. Family offices now rely on digital systems for banking, reporting, communications, document storage, investment analysis, compliance and household administration. This creates efficiency, but also vulnerability. A serious data breach can cause financial loss, reputational harm, physical security concerns and family conflict. Privacy is therefore a paramount concern.

Cybersecurity should be treated as a governance issue, not merely an IT issue. Families hold sensitive information about assets, homes, travel, children, medical matters, investments, structures, beneficiaries and disputes. Attackers may target not only the family office but also household staff, advisers, family members and vendors. The weakest link may be a personal email account, an unsecured device, a staff member's password or a social media post revealing travel patterns.

A mature cyber program should include technical controls, vendor due diligence, employee training, incident response planning, secure document management and periodic testing. Family members themselves must be included. Wealth does not protect against phishing, identity theft or reputational manipulation. In fact, visibility may increase risk. Digital hygiene, secure communications and disciplined information sharing are now basic elements of family governance.

Artificial intelligence adds a new dimension. AI is no longer a buzzword; it is becoming an operational backbone. Advisers using AI can transform client service, research, compliance, reporting and portfolio management. AI can summarize documents, identify patterns, improve monitoring, support scenario analysis and accelerate administrative work. Family offices that ignore AI may fall behind in efficiency and insight.

At the same time, AI must be governed. Families should consider data confidentiality, model reliability, hallucination risk, bias, auditability and accountability. Sensitive family information should not be placed into tools without understanding where data goes and how it may be used. AI outputs should not be treated as legal, tax or investment advice without professional review. The family office needs policies on approved tools, permissible uses, human review and recordkeeping.

Technology is also changing medical decision-making. Legal definitions of life, health, capacity and treatment may become increasingly outdated as AI-driven diagnostics, predictive medicine and digital health tools develop. Families may confront questions about longevity, cognitive decline, medical data, reproductive technology, assisted decision-making and end-of-life choices. AI may be helpful, but it may also complicate consent, privacy and responsibility.

These issues belong within governance. Families should consider healthcare proxies, capacity planning, medical data protocols and the role of technology in supporting vulnerable members. The intersection of AI, health and law will continue to evolve. Families that prepare thoughtfully will be better equipped to use technology without surrendering judgment.

## 11. The future of family offices: complexity, talent and investment shifts

Family offices are becoming more professional, more regulated and more expensive to operate. The cost of finding and retaining good people is pricing out some single-family offices, particularly those with assets under management below roughly USD 2 billion. At the same time, more regimes require some form of regulatory supervision or compliance infrastructure. The informal family office model is under pressure.

The talent challenge is acute. Family offices now need expertise in investments, tax, legal coordination, cybersecurity, data management, ESG, digital assets, philanthropy, cross-border planning, reporting, risk management and family education. Few individuals possess all of these skills. Smaller organizations may struggle to attract and retain the necessary professionals, especially when competing with banks, asset managers, law firms, consultancies and large institutional platforms.

Standalone firms and funds may face similar problems. In specialized areas such as ESG, digital assets or cross-border structuring, talent tends to flow toward larger institutions that can offer resources, compensation, career progression and brand stability. Smaller teams may provide independence and focus, but can suffer from key-person risk. Families must decide whether to build, buy or outsource capabilities. The answer may differ by function.

Operational complexity also changes governance expectations. A family office is no longer simply a private administrative office. It may function as investment adviser, risk manager, reporting hub, philanthropic coordinator, education platform, household administrator and crisis response unit. That breadth requires clear mandates, reporting lines, budgets, controls and accountability. Family members should understand what the family office does and does not do.

Investment diversification has also evolved. It no longer means a simple 60:40 portfolio. Diversification has become a multidimensional risk management strategy shaped by globalization, technology, geopolitics and structural changes in markets. Families must think about currency, custodian risk, banking access, private market liquidity, manager concentration, cyber exposure, political risk, social media risk, sanctions alignment and jurisdictional resilience. Even a careless public comment by a family member may affect reputation and, indirectly, investment relationships.

The family office of the future will likely be more networked than monolithic. It may combine a lean internal team with external specialists, technology platforms and regional advisers. It will need to maintain institutional quality without losing family sensitivity. It will also need to support governance, not merely administration. The best family offices will help families make better decisions, not just manage assets.

## 12. Politics in practice: philanthropy, geopolitics and ESG

Politics increasingly enters areas that families once viewed as private or benevolent. Philanthropy used to be described simply as doing good. Today, depending on the cause, location, partners and beneficiaries, philanthropy can create sanctions exposure, regulatory scrutiny, lobbying concerns, reputational risk or even criminal consequences. A donation that appears charitable in one jurisdiction may be interpreted as political support, foreign influence or prohibited assistance in another.

This does not mean families should retreat from philanthropy. It means philanthropy requires governance. Families increasingly need internal compliance teams, external legal counsel, formal advocacy policies and election-cycle monitoring systems. Grant-making should involve due diligence on recipients, jurisdictions, beneficial ownership, political connections, sanctions status and use of funds. Advocacy should be distinguished from charity. Public statements should be coordinated. Documentation should explain the purpose and process.

The same pragmatism applies to ESG. ESG investing for families has moved from values signaling to risk management, capital strategy and family governance. The question is no longer whether families consider environmental, social and governance factors, but how pragmatically they do so. ESG can be ideological if badly handled, but it can also be a disciplined way to evaluate long-term risks: regulatory change, stranded assets, labor practices, governance failures, litigation exposure, supply-chain fragility and reputational harm.

Families should align ESG with their own values and investment objectives. Some may emphasize climate transition. Others may focus on governance quality, human capital, health, education or community resilience. The key is clarity. A family that claims to invest according to certain values should be prepared to explain methodology, tradeoffs and exceptions. Otherwise, ESG becomes another area where the family may be accused of inconsistency or hypocrisy.

Politics in practice also affects family cohesion. Members may disagree about causes, candidates, advocacy and social priorities. Governance can help by defining approval processes, separating personal giving from family philanthropy, setting thresholds for public positions and creating procedures for disputed grants. Without such rules, philanthropy can become a proxy battlefield for broader family conflicts.

The wider lesson is that values now require infrastructure. It is no longer enough for a family to say that it wants to do good. It must understand the legal, geopolitical and reputational environment in which good is attempted. Responsible philanthropy and ESG are not constraints on generosity. They are the conditions under which generosity can endure.

## Conclusion: Building resilient global families

Global families are especially vulnerable because they cannot opt out of complexity. They operate across multiple citizenships, residences and legal systems. They experience intermarriage across cultures, religions and political traditions. Their children are educated in systems with differing value frameworks. They face conflicting norms on speech, gender roles, religion, authority, philanthropy, drugs, privacy and public responsibility. Retreating into a single cultural environment is rarely possible, and often not desirable.

The task, therefore, is not to eliminate complexity. It is to govern it. Governance must broaden beyond succession documents and investment committees. It must include family identity, education, values, mobility, sanctions planning, tax and civil liberties, next-generation engagement, cybersecurity, AI, medical decision-making, family office operations, philanthropy and ESG. These topics may appear diverse, but they are connected by a single question: can the family continue to act coherently under pressure?

The answer depends on preparation. Families need documentation, but also communication. They need structures, but also judgment. They need tax advice, but also values-based decision-making. They need privacy, but also defensibility. They need advisers, but also educated family members. They need technology, but also controls. They need philanthropy, but also compliance. They need optionality, but also discipline.

The strongest families will be those that accept the end of easy assumptions. Tax efficiency alone is not resilience. Informal trust alone is not governance. A prestigious family office alone is not capability. A diversified portfolio alone is not protection. A residence permit alone is not mobility. A philanthropic mission alone is not legitimacy. Each element must be integrated into a broader architecture.

That architecture should be reviewed continually. Family composition changes. Laws change. Technology changes. Politics changes. Children mature. Businesses are sold. New risks emerge. Governance is not a one-time exercise; it is an ongoing practice of adaptation.

In volatile times, the purpose of planning is not to predict the future with precision. It is to preserve the family's ability to choose among responsible options when the future arrives unexpectedly. The families that thrive will be those that combine flexibility with values, optionality with accountability and ambition with stewardship. They will understand that wealth is not only financial capital. It is human capital, social capital, intellectual capital, cultural capital and reputational capital. Protecting all of these forms of capital is now the real work of global family governance.

# China: tax updates — new IIT regime for offshore trusts


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**China (PRC), introduces a life-cycle taxation and reporting regime for PRC-connected offshore trusts, impacting existing and prospective structures.**

## In brief

For PRC-connected high-net-worth individuals, the long-held assumption that offshore trusts fall outside the immediate reach of PRC individual income tax (**IIT**) may no longer be sustainable. The landmark rules released on 24 July 2026 introduce an immediately effective look-through and life-cycle taxation and reporting regime for offshore trusts, potentially bringing years of historical arrangements under fresh scrutiny. The clock is already running. A 90-day transition window applies to specified historical exposures, and failure to take timely action may result in late payment surcharges and, where applicable, penalties. A "wait-and-see" approach is therefore no longer a low-risk option.

The new regime specially called out the concept of economic interest when assessing the domiciliation of an individual, i.e., an individual may be treated as a PRC-domiciled resident where their principal economic interests are regarded as originating from PRC, notwithstanding foreign nationality or long-term or permanent residence overseas. It remains to be seen whether this specific reference to economic interests will be confined to offshore trusts or extend beyond the trust context. Either way, it could significantly reshape the wealth management landscape for PRC-connected high-net-worth individuals.

Responding effectively to the new regime requires more than a technical reading of the rules. It demands a coordinated and commercially pragmatic strategy that takes into account the broader factual context, evidentiary considerations, interactions with the tax authorities and, where necessary,


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the resolution of potential disputes. Professional support can be critical in developing and implementing such a strategy. This update discusses the key rules and practical implications and, more importantly, our observations of the trends and recommended next steps. High-net-worth individuals, trustee companies and family offices should consider seeking professional legal and tax advice to assess potential exposure and evaluate available options under the new regime.

## 1. Background

Before the new rules, PRC had no comprehensive or dedicated IIT regime specifically addressing offshore trusts. In recent years, tax authorities in certain regions of PRC have reportedly conducted interviews, education campaigns, self-review requests and tax examinations involving existing offshore trust structures relating to individuals. These local enforcement developments appear to have accelerated the need for formal rules dealing with offshore trust structures.

On 24 July 2026, the Ministry of Finance (**MOF**) and the State Taxation Administration (STA) issued two implementing instruments: MOF and STA Bulletin [2026] No. 21 (**Bulletin 21**), which establishes the substantive IIT treatment; and STA Bulletin [2026] No. 15 (**Bulletin 15**), which sets out the filing, documentation and administration requirements. Together, the two bulletins establish a comprehensive taxation and reporting framework for the full offshore trust life cycle, including asset injection into a trust, generation of trust income, trust distributions, trust termination, residency changes of settlor/asset contributor and succession events.

## 2. Covered scope

Bulletin 21 defines an "offshore trust" as a trust established under foreign law, and also captures other foreign legal arrangements that are not labelled as trusts but perform substantially similar functions. Regulated financial products issued by banks, insurance companies, securities companies and fund management companies that are subject to local financial regulatory supervision, independently offered to unspecified customers and operated at the issuer's own risk are excluded from this extended concept.

Non-profit foundations and charitable organizations are not expressly carved out and may require separate analysis if they have trust-like features under the relevant foreign law.

## 3. Taxation throughout the trust life cycle

The table below summarizes IIT obligations across the offshore trust life cycle.

| Event | Resident-settled offshore trust | Non-resident-settled offshore trust |
|---|---|---|
| Asset contribution into offshore trust/ trust underlying entities | Resident settlor/asset contributor is treated as transferring the assets at fair market value (FMV). IIT applies at 20% on FMV less tax basis and reasonable transfer expenses, generally as property transfer income. The trust asset tax basis is stepped up to FMV after tax is paid.<br><br>No instalment relief is available, which may create a cash flow issue where assets with built-in gains are settled or contributed into the trust/trust underlying entities without corresponding cash consideration. | Non-resident settlor/asset contributor is taxed on PRC-sourced property transfer income. This usually covers direct transfers of PRC equity, PRC real property and certain offshore equity interests whose value is mainly derived from PRC real property.<br><br>A nominally non-resident-settled trust is treated as resident-settled if actually controlled by a PRC resident, and transfers through nominees or intermediaries may be attributed to the person who actually funds, bears the cost of, or controls the assets. |
| Trust income generation / distribution | Income of the offshore trust and trust underlying entities is attributed annually to the resident settlor/asset contributor, rather than to beneficiaries, and taxed at 20% as property transfer income or interest/dividend/bonus income regardless of whether any distribution has been made. Amounts already taxed are not taxed again upon distribution.<br><br>The two categories of income (i.e., property transfer income vs interest/dividend/bonus income) cannot be cross-offset. Property transfer income is determined as the net amount after deducting the property's tax basis and reasonable expenses from the proceeds derived from the transfer of assets such as equity interests, shares and real property. Gains and losses arising from property transfers within the same year may be offset against each other. However, any losses cannot be carried forward to following years, and trustee remuneration, trust administration fees, legal fees, investment advisory fees and similar expenses are not deductible. | Retained income in a non-resident-settled trust is not annually attributed unless the structure is treated as resident-controlled. Tax generally arises when an economic benefit is distributed or deemed to be distributed to a PRC resident. The statutory taxpayer is the PRC resident individual who receives or is deemed to receive the benefit. |
| Trust termination | Resident settlor/asset contributor is taxed on liquidation gain, measured by FMV of all trust assets less tax basis and reasonable expenses. Five-year instalment relief may be available if payment difficulty exists and the required filing and tax recordal are made on time. | If a PRC resident receives trust property upon termination of a non-resident-settled trust, the resident is taxed on the FMV of property received as interest/dividend/bonus income. |
| Resident-to-non-resident status change | A mark-to-market charge arises on the date the resident settlor/asset contributor becomes non-resident, based on FMV less tax basis of trust assets. Tax basis is stepped up after tax payment. | Not applicable in the context of a non-resident-settled trust. |

| Event | Resident-settled offshore trust | Non-resident-settled offshore trust |
|---|---|---|
| Death / succession | If the resident settlor/asset contributor dies and another PRC resident succeeds to the trust, resident-trust treatment generally continues.<br><br>If the successor is non-resident, or there is no successor, tax is triggered on the FMV of the trust assets less their tax basis. Five-year instalment relief may be available if the conditions are satisfied. | If a non-resident-settled trust is later succeeded by a PRC resident, the resident generally becomes subject to the resident-trust rules for subsequent periods. |

# 4. Tax filing requirements

Bulletin 21 sets out the substantive IIT treatment, taxable events, timing rules, transition relief and non-compliance consequences. Bulletin 15 operationalizes the regime through detailed filing and documentation requirements. The table below summarizes the principal filing obligations for existing trusts and future periods.

| Event | Tax filing timeline |
|---|---|
| Assets contribution into an offshore trust/offshore trust entities | Resident settlor: 1 March to 30 June of the year following the year of asset contribution.<br><br>Non-resident settlor: within 15 days after the end of the month in which the asset contribution occurs. |
| Trust income generation / distribution | Resident-settled offshore trust: 1 March to 30 June of the year following the year in which trust income is generated, regardless of distribution.<br><br>Non-resident-settled offshore trust: the PRC resident beneficiary should file between 1 March and 30 June of the year following the year of receipt. |
| Trust termination | Resident-settled offshore trust: within 15 days after the end of the month in which liquidation is completed.<br><br>Non-resident-settled offshore trust: any PRC resident recipient of trust property should file within 15 days after the end of the month in which liquidation is completed.<br><br>If liquidation is not completed within 60 days from termination, the 60th day is deemed to be the liquidation completion date for filing purposes. |
| Resident-to-non-resident status change | Within 15 days after the end of the month in which the residence status changes. |
| Death / succession[1] | The trustee or its designated domestic institution should file within 15 days after the end of the month in which the resident individual dies. |

Five-year instalment relief is available only for payment difficulty arising from: (i) termination of a resident-settled offshore trust; or (ii) death of a resident settlor where the trust passes to a non-resident or has no successor. The resident individual or trustee must complete the required recordal before the prescribed deadline. The relief defers, but does not reduce, the tax liability and does not apply to settlement gains, annual trust income, residence changes, or actual or deemed distributions.

Taxpayers must submit tax returns and relevant supporting materials as required. If a taxpayer cannot provide true and complete materials demonstrating reasonable commercial purpose and arm's-length treatment, the tax authority may make adjustments. If the taxpayer cannot provide asset values, or if

1 Economically, the residence-change and death rules operate like exit-tax or estate/inheritance-tax charges in the offshore trust context, although the tax imposed remains PRC IIT rather than a separate exit tax or estate/inheritance tax.

the values provided are clearly unreasonable, the tax authority may appoint a valuation institution to determine the relevant FMV.

The regime also clarifies responsibility for non-compliance. Taxpayers that fail to pay tax on time may be subject to late payment surcharges and, where tax evasion or other tax violations are established, penalties under the Tax Collection and Administration Law. Trustees, and in some cases intermediaries or agents, may also face administrative consequences if failures to provide information, submit materials or assist with filings result in underpaid tax.

## 5. A 90-day transition window

Beyond the ongoing filing requirements, Bulletin 21 provides a 90-day transition period starting from 24 July 2026 for specified historical exposures, likely the most immediate action item for existing structures. The window applies to unpaid IIT on (1) assets settled/contributed into offshore trusts by resident settlors/asset contributors from 1 January 2023 to 31 December 2025, or by non-resident settlors/asset contributors from 1 January 2023 to 24 July 2026; (2) offshore trust income generated before 1 January 2026; and (3) income distributed / deemed to be distributed by non-resident-settled offshore trusts to PRC residents before 1 January 2026, where IIT would have been payable under the new regime.

For exposure arising from the contribution of assets into offshore trusts, the rules effectively look back to 1 January 2023, with a possible extension where the statutory conditions for a longer recovery period are met. For offshore trust income generated before 1 January 2026 and income distributed / deemed to be distributed by non-resident-settled offshore trusts to PRC residents before 1 January 2026, Bulletin 21 does not specify the same look-back cut-off date and requires pre-2026 income to be taxed uniformly as interest/dividend/bonus income. Tax returns and payments must be submitted within 90 days from 24 July 2026.

Bulletin 21 permits taxpayers to rectify historical positions without late payment surcharges if the unpaid tax is settled within the 90-day window. If the deadline is missed, the tax authority may recover the tax, impose late payment surcharges and, where the statutory conditions are met, pursue penalties. Failure to file after receiving a tax authority notice may materially increase the risk of a tax evasion characterization.

Settlors, beneficiaries and trustees of existing offshore trusts (with a potential nexus to PRC residents) should promptly review records and determine whether to use the transition window. Missing the deadlines for the required filings or payments may result in late payment surcharges and, where applicable, penalties. A deferral or “wait-and-see” approach would therefore carry significant risk and additional cash costs.

## 6. Anti-avoidance rules

To ensure the effective implementation of the new regime, the law drafters appear to have anticipated potential bypass routes and incorporated targeted anti-avoidance rules into Bulletin 21. The table below sets out the baseline rules, the anticipated bypass routes and the corresponding anti-avoidance rules.

| Baseline rules | Potential bypass routes | Targeted anti-avoidance rules |
|---|---|---|
| A settlor is treated as transferring assets at FMV when assets are settled into an offshore trust. | Assets are transferred through another person, nominee, company, SPV or other organization. | The settlement is attributed to the individual who actually funds, bears the cost of, or controls the assets. |
| Non-resident settlors are taxed only on PRC-sourced property transfer income when settling assets into an offshore trust. | A non-resident settlor contributes assets, while a PRC resident actually controls the trust or the relevant assets. | If assets settled by a non-resident settlor are actually controlled by a PRC resident, the settlement is treated as made by that PRC resident. |
| A PRC resident is taxed when receiving a distribution from a non-resident-settled offshore trust. | Distributions are routed through a non-resident individual, while the economic benefit is actually obtained, used, controlled or disposed of by a PRC resident. | If trust income is distributed to a non-resident but actually obtained, used, controlled or disposed of by a PRC resident, it is treated as a deemed distribution to that PRC resident. |
| | Benefits are provided through loans, guarantees, expense payments, reimbursements, free or below-market use of trust assets, or arrangements involving third parties or related parties, rather than through formal distributions. | Such arrangements may be regarded as deemed distributions to the relevant PRC resident. The deemed amount is determined based on the value of property obtained, used or enjoyed, expenses paid or reimbursed, debt discharged, or the market value of other economic benefits. |
| Resident-settled trust income is attributed annually to the resident settlor whether or not distributed. | Income is accumulated in low-substance offshore entities held under the offshore trust structure to defer PRC taxation indefinitely. | Income of offshore entities held, controlled or managed under offshore trust structures may fall within the offshore trust tax framework. Offshore entities may be looked through where they lack operating substance, earn substantial passive or low-risk income, pay personal or non-business expenses, or do not make decisions independently. |
| Two or more resident individuals may act as joint settlors and/or contribute assets into a trust and should report by reference to their respective contribution ratios. | Resident and non-resident settlors are combined in the same trust to dilute or isolate the resident settlor's tax exposure. | Where resident and non-resident individuals contribute property to the same offshore trust, the trust is treated as fully resident-settled and subject to the resident-trust rules. |

# 7. Observations

Bulletins 21 and 15 indicate a stricter enforcement environment for PRC's worldwide income regime as applied to PRC residents. The key practical implications and open issues are discussed below, for which early, high-quality and coordinated legal and tax review by professional advisers will be critical.

## (1) Liquidity pressure

The new regime may create a significant liquidity pressure for the settlor/asset contributor. A resident settlor/asset contributor may be taxed when appreciated assets are settled into a trust and on trust income attributed during the trust period, even if no cash consideration or distribution is received. The resulting liquidity burden can be material, particularly for trusts holding concentrated, illiquid or difficult-to-value assets. This issue should be modelled carefully when assessing whether to establish, retain, restructure or terminate an offshore trust, and therefore requires professional tax input.

## (2) Evidentiary requirement

Compliance with the new regime is likely to be evidence-intensive, and the taxpayer's ability to substantiate their technical positions may materially affect the outcome. This requires more than simply gathering documents. Experienced professional judgment is essential to identify the evidence needed for each position, assess the relative weight and reliability of available materials, address inconsistencies or gaps, and strengthen the evidentiary record as a whole. Professional support may be particularly valuable in developing a coherent evidence strategy and determining how the supporting materials and underlying analysis should be organized and presented to the tax authority.

## (3) Expanded domicile concept

Bulletin 21 provides that foreign nationality or long-term or permanent overseas residence does not, by itself, preclude PRC-domiciled resident status. If an individual's main economic interests are regarded as originating from PRC, the tax authorities may still treat the individual as a domiciled PRC resident who is subject to IIT on worldwide income. It remains to be seen if the scope of taxation for a deemed domiciled PRC resident will be limited to the offshore trust related income or extended to other non-PRC-sourced income. Given that "main economic interests" is undefined, the analysis may focus on the location and source of the individual's principal businesses, investments, assets and economic decision-making.

The domestic-law analysis should be distinguished from the treaty residence analysis. If another jurisdiction also treats the individual as tax resident, the applicable treaty tie-breaker rules should still be considered in determining the individual's residence position for treaty purposes. Determining—and, where necessary, defending—an individual's tax residency and domiciliation position can be highly complex. The outcome is fact- and evidence-sensitive, requiring consistent legal positions, a well-developed evidentiary record and a carefully managed defense strategy in any engagement with the tax authority. Given the potentially significant consequences for the individual's worldwide income, experienced professional assistance is essential in assessing the position, identifying and strengthening the supporting evidence, and presenting a robust and coherent case.

## (4) Availability of foreign tax credits

The new regime allows qualifying foreign IIT paid on offshore trust income to be credited against the corresponding PRC IIT, subject to the ordinary foreign tax credit rules and adequate supporting evidence. This is intended to mitigate double taxation where the same offshore trust income has already been taxed outside PRC. However, trust structures often involve differences in taxpayer identity, income characterization and timing across jurisdictions. These mismatches can restrict credit relief and create residual double taxation. A transaction-level review, coordinated among tax advisers in the relevant jurisdictions, may be necessary to assess the likely availability of foreign tax credits with confidence.

## (5) Trustee filing obligations after settlor's death

Practical questions may also arise where a trustee is required to file on behalf of a deceased resident settlor. This obligation differs from statutory withholding and may be harder to enforce against an offshore trustee if the filing is not completed. Trustees should nevertheless treat it as a material compliance risk and address it in advance, which requires professional advice in assessing the scope of their obligations and potential exposure, as well as in preparing and submitting the requisite tax filings and supporting documentation.

## (6) Spillover effect

Although Bulletins 21 and 15 apply directly to offshore trusts, their substance-over-form and look-through approach may influence future scrutiny of domestic trusts and other trust-like arrangements. Any such spillover will depend on future rules and administrative practice and should be assessed cautiously rather than assumed.

# 8. Recommendations on next-steps

These observations lead to a common conclusion: affected structures should be reviewed holistically, taking into account tax cost, liquidity, evidentiary support, governance and long-term compliance capacity. Existing and prospective offshore trust settlors, together with trustee companies, should consider the following actions.

## (1) Existing settlors/asset contributors

Existing structures may require careful consideration of both historical and prospective exposure under the new regime. The analysis is likely to be highly fact-sensitive and may extend beyond the trust itself to the wider circumstances of the settlor, asset contributors, beneficiaries and underlying arrangements. Given the limited transition window, an immediate priority is to determine whether to use the 90-day transition window for historical settlements/contributions, income generation or distributions, and prepare any filings promptly.

## (2) Assets owners planning to set up trusts

For individuals considering an offshore trust, the new regime reinforces the importance of assessing the arrangement in the context of its intended non-tax objectives and its expected operation over time. Whether an offshore trust remains appropriate will depend on a range of personal, commercial and cross-border considerations that should be evaluated together rather than in isolation. Specialist advice at an early stage can help to ensure that material implications are understood before positions become difficult or costly to change.

## (3) Trustee companies

For trustee companies, the regime may affect the administration of PRC-connected structures, the scope of relevant responsibilities and the management of associated compliance risks. The implications will vary according to the trustee's role, the information available and the features of each arrangement. Trustee companies should assess whether existing governance, information collection and compliance procedures remain adequate in light of the new reporting and tax obligations.

# You say tomato

## US REVOCABLE TRUSTS - UK TRAPS FOR SETTLORS, TRUSTEES AND BENEFICIARIES

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## Introduction

Recent UK press reports suggest that increasing numbers of US citizens are relocating to the UK. London's position as a global financial centre, together with the UK's educational institutions, arts and culture, diverse housing stock, favourable currency conditions and wider social factors, continues to attract US families. Indeed, within our own practice, we have noticed increased interest in enquiries from US persons.

At the same time, the UK's move away from its long-standing domicile-based tax regime to a residence-based framework has created a potentially valuable opportunity for new arrivals during their first four years of UK residence. Under the new foreign income and gains (**FIG**) regime, qualifying individuals may be able to shelter non-UK income and gains from UK tax and bring those funds to the UK without triggering a UK tax charge. For US citizens, who remain subject to US federal income tax on their worldwide income regardless of residence, this creates a valuable planning window: the US tax filing and payment obligations continue, but the UK may effectively disregard foreign income and gains for the first four years of residence. That can significantly reduce the risk of double taxation and make the early years of UK residence a particularly attractive option for US families.

However, those planning opportunities can become more complicated where a US individual moving to the UK has already established a revocable living trust[2], as many will have done as part of their domestic US estate planning. In the US, these trusts are familiar and widely used: they can offer privacy, continuity and, most importantly, a way of avoiding or simplifying probate, and are often treated as practical will substitutes. For UK-connected individuals, however, the same arrangement may be viewed very differently. It can raise questions that are deceptively difficult: is the arrangement a trust at all for UK purposes, is it a bare trust, or is it a settlement subject to the UK's specialist trust tax rules? The answer matters. Classification can affect the income tax and capital gains

2 These types of trusts are also sometimes referred to as "revocable management trusts".

tax position, inheritance tax exposure, trustee residence, UK reporting obligations and the tax treatment of payments to UK resident beneficiaries. The analysis is also fact-sensitive, depending on the trust deed, the applicable US state law and, in particular, the powers retained by the settlor (or "grantor", to use a US term) during lifetime.

Before UK residence begins, the settlor, trustees and beneficiaries should therefore understand how the arrangement is likely to be characterised for UK purposes and what tax or reporting consequences may follow.

## Why US revocable trusts are different

A US revocable living trust is often described as a "will substitute". During the settlor's lifetime, the settlor will commonly retain the power to amend or revoke the trust, direct distributions and retain the economic benefit of the trust property. The intended remainder beneficiaries usually benefit only after the settlor's death and, during the settlor's lifetime, may have no enforceable rights against the trustee.

This is not merely a matter of terminology. Many US states have rules under which, while a trust is revocable and the settlor has capacity, the trustee's duties are owed exclusively to the settlor. If that is the effect of the governing law, the apparent interests of remainder beneficiaries may be no more than an expectation. In English law terms, that is much closer to the position of someone named in the will of a living person than to a beneficiary with present enforceable trust rights.

## Is there a trust for UK purposes?

The first question is whether the arrangement is a trust in the sense relevant to UK tax law. A foreign arrangement called a "trust" will not necessarily be treated as a trust for all UK purposes. The UK analysis looks at the rights and obligations created by the instrument and the governing law, rather than the label attached to the arrangement.

Where the settlor is also the sole trustee, and retains complete control over the assets, there may be no substantive trust during the settlor's lifetime. The settlor is not, in any meaningful UK sense, holding assets for someone else. The position may instead be analysed as the settlor continuing to own the assets outright, subject to a testamentary scheme that takes effect on death.

Where there is a separate trustee, or more than one settlor or trustee, there may be a trust as a matter of English law. But that does not answer the tax question. If the trustee's duties are owed exclusively to the settlor, and the settlor can compel the trustee to deal with the assets as directed, the trust may be closer to a bare trust than to a substantive settlement.

## Bare trust or settlement?

For UK income tax and capital gains tax purposes, the distinction between a bare trust and a settlement is fundamental. A bare trust is broadly transparent; the beneficiary is treated as owning the underlying income and gains. A settlement, by contrast, is subject to specific statutory rules that can attribute income and gains to settlors or beneficiaries, or tax trustees directly.

For inheritance tax, the question is equally important. A bare trust should not be treated as settled property. A settlement may fall within the relevant property regime, with potential entry, ten-year anniversary and exit charges. The difference can therefore determine whether moving assets into, or holding assets within, the structure creates an immediate or future inheritance tax exposure.

In many cases, a revocable trust governed by a US state law that gives the settlor complete lifetime control should be analysed, for UK tax purposes, as a bare trust or as an arrangement that is testamentary in substance until the settlor's death. The position is strongest where the trustee owes duties only to the settlor and the remainder beneficiaries have no enforceable rights during the settlor's lifetime.

That analysis can be attractive, but it is not risk-free. The UK tax authority (HMRC) has not published comprehensive guidance confirming the treatment of US revocable trusts. Advisors must therefore work from first principles, the trust instrument, the relevant governing law and any available case law. Where the amounts involved are significant, the absence of published HMRC guidance may itself be an important part of the risk analysis.

## Capacity and death: when the analysis can change

Even if a US revocable trust is treated as a bare trust, or as testamentary in substance, during the settlor's lifetime, the analysis may change when the settlor dies or loses mental capacity. At death, the settlor can no longer revoke the trust or direct the trustee, and the trust may then become a substantive settlement if the assets are held on continuing trusts for beneficiaries rather than distributed outright.

Loss of capacity can be a particular trap. If, under the trust instrument and governing law, the settlor's power of revocation cannot be exercised by an attorney, guardian or other representative, the settlor may cease to have the control that previously supported bare trust treatment. A structure that was not previously a settlement may therefore become one during the settlor's lifetime, potentially triggering unexpected UK tax consequences, including an inheritance tax entry charge where relevant assets are within the UK tax net.

## Trustee residence and UK reporting

Trustee residence should be reviewed before a US individual becomes UK resident. US individuals are often appointed as trustee of their own revocable trust, or of a wider family trust, without this being viewed as significant from a US tax perspective. If they continue to act as trustee from the UK, the trust may be inadvertently brought within the UK tax net, triggering UK filing obligations and potentially exposing the trustees to UK tax on trust income and gains.

Broadly, trustees are UK resident for capital gains tax purposes if all the trustees are UK resident. Where there is a mix of UK and non-UK resident trustees, the trust will generally be UK resident if the settlor had a relevant UK residence or domicile connection when the settlement was created or funded, and non-UK resident if that connection is absent. Income tax residence broadly follows a similar trustee-based analysis, although the detailed rules and consequences should be considered separately.

The risk is particularly acute where the settlor is also the sole trustee and relocates to the UK, but similar issues can arise where a US individual acts as trustee of a family trust. Reviewing trustee appointments and decision-making arrangements before relocation is therefore essential. If the trust is subsequently moved offshore again, the trustees may be treated for UK capital gains tax purposes as disposing of and immediately reacquiring certain assets at market value, crystallising latent gains as the trust exits the UK tax net.

Registration under the UK Trust Registration Service may also need to be considered. In some cases, even bare trusts and trusts without an immediate UK tax liability can fall within the registration regime, particularly where UK land is held or where there is a UK resident trustee and a relevant UK business relationship. Specific exemptions may apply, but they should not be assumed without checking the facts.

## UK resident beneficiaries

The position of UK resident beneficiaries can be materially different depending on whether value is received as a direct inheritance or as a distribution from an ongoing non-UK trust. A direct inheritance from an individual is generally outside the scope of UK income tax and capital gains tax. By contrast, a distribution from a non-UK resident trust may be matched with accumulated income or gains within the trust and taxed accordingly in the hands of a UK resident beneficiary.

This makes timing and characterisation important. Beneficiaries moving to the UK, or expecting to receive assets from a US revocable trust, should understand whether the trust will terminate on the settlor's death, continue for a period, or divide into further trusts. The UK tax outcome may depend on that post-death administration and on whether income or gains have accumulated before the beneficiary receives value.

## Conclusion

The overall message is that US citizens moving to the UK should not assume that arrangements which are routine, straightforward or tax neutral in the US will be treated in the same way in the UK.

US revocable living trusts, in particular, sit on the boundary between will substitute, bare trust and settlement for UK purposes, and that boundary is where unexpected tax charges and reporting obligations can arise.

Those advising UK connected settlors, trustees and beneficiaries should therefore review the trust deed, the relevant US state law and the factual pattern before UK residence begins, with particular attention to who can exercise the power of revocation, whether trustee duties are owed only to the settlor during lifetime, what happens on incapacity or death, and whether any UK resident trustee or UK asset creates UK tax or reporting exposure.

# Key Challenges for Philanthropy in Complex Geopolitical Times — Part II

## ENFORCEMENT, CRIMINALIZATION, AND SYSTEMIC RISK

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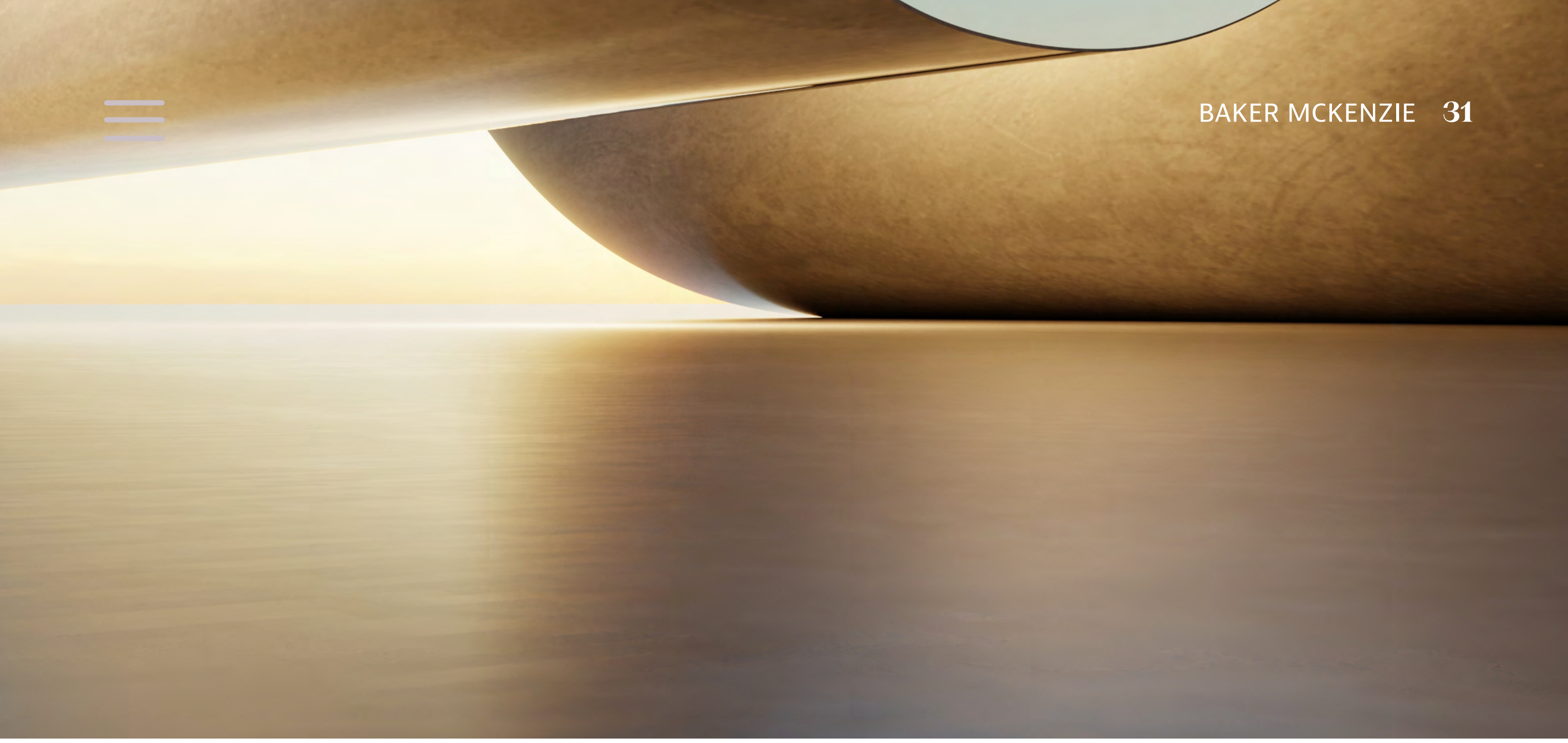
Part I of this Series charted the shifting legal terrain of global philanthropy – a regulatory river increasingly shaped by sanctions, foreign-funding controls, national-security rules, and persistent financial-sector caution. These forces redraw the safe channels through which philanthropic capital can lawfully and reliably move.

Part II turns **from terrain to impact**. Across many jurisdictions, the most significant pressures now arise not from criminal prosecution but from administrative tools — account freezes, registration cancellations, findings of violation — that can halt operations overnight. At the same time, several high-profile cases illustrate how swiftly administrative friction can harden into criminal exposure. This Part explores what actually happens when philanthropic structures confront enforcement systems, political narratives, and the financial chokepoints that sit between donors and their intended beneficiaries.



## 1. Civil enforcement: Penalties without prosecution

In many jurisdictions, the true pressure point for philanthropic actors lies not in criminal prosecution but in the array of civil measures regulators may deploy long before — or entirely instead of — a formal charge. These tools, though administrative in name, can halt operations as decisively as any courtroom judgment.

Sanctions administration offers a clear example. Under the U.S. Office of Foreign Assets Control's (**OFAC**) practice, a simple sequence – *Finding of Violation*[3] → *PrePenalty Notice* → *Penalty* – can be triggered by something as mundane as a misscoped general license (**GL**) use or inadvertent dealings with blocked parties.[4] In such cases, the organization's fate often turns not on the moral character of the underlying conduct but on the discipline of its documentation. Rigorous recordkeeping, contemporaneous analyses supporting license interpretation, and (where appropriate) voluntary selfdisclosure can affect penalty calculations under OFAC's Enforcement Guidelines.[5]

Elsewhere, registration and licensing regimes carry similar force: under foreign funding frameworks such as India's Foreign Contribution (Regulation) Act, 2010 (**FCRA**), authorities may freeze accounts or cancel registrations – a procedural step that can halt all activity while investigations proceed.[6] The experience of Amnesty International India underscores the point: Amnesty International India reported that its bank accounts were frozen (a development it said it learned of on September 10, 2020), prompting it to halt operations. Criminal charge

3 Note that a "Finding of Violation" is an OFAC determination that a violation occurred, without a civil monetary penalty; a "Pre-Penalty Notice" proposes a penalty; a "Penalty Notice" imposes the penalty.

4 31 C.F.R. §§ 501.706–.709 (2026) (setting out PrePenalty Notice and Penalty Notice procedures); *see also* 31 C.F.R. pt. 501 (2026) (including civil penalty procedures and related enforcement mechanisms), https://ecfr.io/Title-31/Part-501; *see also* U.S. Dep't of the Treasury, Off. of Foreign Assets Control, *Supplemental Guidance for the Provision of Humanitarian Assistance* 2 (Feb. 27, 2023) (noting humanitarian authorizations are limited and excluding transfers to blocked persons, including the SDN List and 50%owned entities), https://ofac.treasury.gov/media/931341/download?inline

5 31 C.F.R. pt. 501 app. A (2026) (OFAC Economic Sanctions Enforcement Guidelines, including treatment of voluntary selfdisclosure and general factors), https://www.ecfr.gov/current/title-31/subtitle-B/chapter-V/part-501/appendix-Appendix%20A%20to%20Part%20501.

6 Amnesty International Forced to Halt Work, Hum. Rts. Watch (Sept. 30, 2020) (describing use of foreign funding regulations, including FCRA, against civil society), https://www.hrw.org/news/2020/09/30/india-amnesty-international-forced-halt-work.

sheets, by contrast, were reported later – first in January 2022 and again in December 2023.[7] The administrative action, not the criminal process, delivered the decisive operational blow.

In more severe settings, administrative measures can escalate into existential sanctions. On December 28, 2021, Russia's Supreme Court ordered the dissolution of Memorial International for alleged labelling violations under the country's "foreign agent" rules.[8] This case illustrates how administrative infractions can be repurposed into grounds for institutional liquidation.

Across these contexts, a consistent pattern emerges: civil enforcement often arrives first and moves fast; it can reshape an organization's future long before any judge or jury becomes involved. For boards and executives, the practical lesson is unmistakable: philanthropic organizations must be auditready, not as a defensive posture but as a condition of survival in a regulatory environment where administrative action is often the first, and sometimes the final, sanction.

## 2. Criminalization & case studies: the chilling signal

In some jurisdictions, the distance between administrative inconvenience and criminal exposure has narrowed to a single step. Three highprofile examples illustrate how quickly administrative friction can harden into criminal exposure and punitive state action.

In **Türkiye**, the long-running prosecution of **Osman Kavala**, founder of Anadolu Kültür, has become representative of this trend. Detained since 2017, Kavala received an aggravated life sentence on April 25, 2022, for allegedly attempting to overthrow the government through his support for the 2013 Gezi protests.[9] The European Court of Human Rights (**ECtHR**) had already ruled in 2019 that his detention was arbitrary and politically motivated and indicated that Türkiye was to take steps to end the detention and secure his immediate release.[10] In proceedings under Article 46 § 4 of the European Convention on Human Rights (**ECHR**), the ECtHR Grand Chamber held on July 11, 2022, that Türkiye failed to fulfill its obligation under Article 46 § 1 to abide by the Court's judgment.[11] Yet Kavala's conviction was upheld by Türkiye's Court of Cassation in September 2023,[12] signaling the limited restraining force of international law where domestic political narratives dominate.

**Hong Kong** presents a different but equally consequential route. Authorities have made extensive use of the **2020 National Security**

7 Amnesty Int'l, Amnesty International India Halts Its Work on Upholding Human Rights in India Due to Reprisal from Government of India (Sept. 29, 2020) (reporting account freezes and operational halt), https://www.amnesty.org/en/latest/news/2020/09/amnesty-international-india-halts-its-work-on-upholding-human-rights-in-india-due-to-reprisal-from-government-of-india-2/; Amnesty Int'l India Received Foreign Funds Without FCRA Licence: CBI, Econ. Times (Dec. 21, 2023) (reporting supplementary charge sheet and noting earlier charge sheet in Jan. 2022), https://economictimes.indiatimes.com/news/india/amnesty-international-india-received-foreign-funds-without-fcra-licence-cbi/articleshow/106163630.cms.

8 Top Russian Court Orders Shutdown of Human Rights Group Memorial, Politico (Dec. 28, 2021), https://www.politico.eu/article/russia-supreme-court-dissolution-memorial-international-human-rights-ngo-foreign-agents/; Russia: Closure of International Memorial Is an Insult to Victims of the Russian Gulag, Amnesty Int'l (Dec. 28, 2021), https://www.amnesty.org/en/latest/news/2021/12/russia-closure-of-international-memorial-is-an-insult-to-victims-of-the-russian-gulag/.

9 Chronology, Solidarity with Osman Kavala (noting aggravated life sentence imposed Apr. 25, 2022 and detention history), https://www.osmankavala.org/en/judicial-process/chronology.

10 Kavala v. Turkey, App. No. 28749/18, Eur. Ct. H.R. (Dec. 10, 2019) (final May 11, 2020), https://hudoc.echr.coe.int/eng?i=001-199515.

11 Kavala v. Türkiye (Infringement Proceedings), App. No. 28749/18, Eur. Ct. H.R. (Grand Chamber) (July 11, 2022) (finding violation of Article 46 § 1), https://hudoc.echr.coe.int/eng?i=001-218516.

12 Chronology, Solidarity with Osman Kavala (noting Court of Cassation decision upholding conviction Sept. 28, 2023), https://www.osmankavala.org/en/judicial-process/chronology.

**Law**,[13] and the **2024 Article 23 Ordinance**[14] further broadened offenses, including "external interference", with provisions enabling extended detention and extraterritorial application. For funders and grantees alike, foreign partnerships or funding relationships may be framed as collusion or interference.

**Russia**'s evolving "foreign agent" regime shows how administrative rules can mature into criminal liability. Following the dissolution of Memorial International in 2021 for alleged labelling violations, lawmakers in 2025 amended **Criminal Code Article 330.1** to lower the threshold for criminal liability by allowing a single prior administrative offense to trigger criminal charges for subsequent violations.[15] This sharpening of liability exemplifies the drift from registration-based compliance into direct penal sanction.

Individually stark and collectively sobering, these cases are signals to boards and executives: where national-security and foreignfunding narratives dominate, philanthropy must plan for detention risk, asset freezes, and legal escalation, even when actions are lawful, humanitarian, and missionaligned.

## 3. Economics, wealth geography & liquidity

The financial landscape introduces its own layer of complexity. Market volatility and currency swings can compress grant budgets and endowment payouts at precisely the moment when needs intensify in jurisdictions with restrictive civic space. This is compounded by the shifting geography of wealth: as new wealth emerges in higher-risk or politically sensitive environments, questions of provenance, reputational exposure, and source-of-funds scrutiny become more acute. For crossborder or foreigncurrency funded programs, exchangerate volatility can materially distort the purchasing power of grant budgets and reported program costs where budgets are set in donor currency but expenditures occur in local currency.[16] The result is a dual challenge. Philanthropic organizations must do more in jurisdictions where legal constraints are tightening, while simultaneously evidencing donor integrity and segregating higher-risk program flows.[17] Funding that was once treated as fungible now requires granular structuring, with an emphasis on defensible documentation and clear boundaries between distinct risk categories.

13 Gov't of the Hong Kong Special Admin. Region, The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region Gazetted and Takes Immediate Effect (June 30, 2020) (describing offenses including collusion with foreign/external elements), https://www.info.gov.hk/gia/general/202006/30/P2020063001015.htm; Promulgation of National Law 2020—The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (H.K. e-Legislation) (effective June 30, 2020), https://www.elegislation.gov.hk/hk/a302!en.assist.pdf?FILENAME=Assisted%20Monolingual%20PDF%20%28English%29.pdf&DOC_TYPE=K&PUBLISHED=true.

14 Safeguarding Nat'l Sec. Ordinance (H.K.) (effective Mar. 23, 2024), https://www.elegislation.gov.hk/hk/2024/6!en; Cong. Rsch. Serv., *Hong Kong Adopts New National Security Ordinance: Article 23* 1–2 (Apr. 1, 2024), https://www.congress.gov/crs_external_products/IN/PDF/IN12341/IN12341.2.pdf.

15 Russia: Bill Amending Article 330.1 of Criminal Code Clarifying Foreign Agents' Liability for Failure to Fulfill Obligations (Bill No. 9562938) Was Introduced to State Duma, Digital Policy Alert (July 1, 2025) (tracking amendment and inforce date), https://digitalpolicyalert.org/event/32000-bill-amending-article-3301-of-criminal-code-clarifying-foreign-agents-liability-for-failure-to-fulfill-obligations-bill-no-956293-8-was-introduced-to-state-duma; Bill on Criminal Prosecution of Foreign Agents After the First Administrative Offense Submitted to Russian State Duma, Interfax (July 1, 2025), https://www.interfax-russia.ru/military/news_eng/424640.

16 Yanga Elias Lagu, *Exchange Rate Fluctuation and Management of Foreign DonorFunded Program Budget* 1–3 9 Texila Int'l J. Mgmt. 2 (discussing donorcurrency budgeting with localcurrency spending and resulting surplus/deficit risk), https://www.texilajournal.com/thumbs/article/Management_Vol%209_Issue%202_Article_9.pdf; *see also* Budget at Risk: Empowering a Global NonProfit Client with a Clearer Steer on FX Risk, Zanders (case study) (describing how FX movements can materially impact annual operating budgets of global nonprofits), https://zandersgroup.com/en/insights/case-studies/budget-at-risk-empowering-a-global-non-profit-client-with-a-clearer-steer-on-fx-risk.

17 *See* e.g., FinCEN & Fed. Banking Agencies Clarify BSA Due Diligence Expectations for Charities and NonProfit Customers, U.S. Dep't of the Treasury (Nov. 19, 2020) (emphasizing riskbased approach to customer due diligence for nonprofit customers), https://home.treasury.gov/news/press-releases/sm1183; Protecting NonProfits from Abuse for Terrorist Financing Through the RiskBased Implementation of Revised FATF Recommendation 8, Fin. Action Task Force (Nov. 16, 2023) (emphasizing proportionate, riskbased measures affecting NPO sector and intermediaries), https://www.fatf-gafi.org/en/publications/Fatfrecommendations/protecting-non-profits-abuse-implementation-R8.html.

Boards should expect liquidity planning to become a strategic function rather than an administrative one. Multi-bank arrangements are increasingly necessary to avoid single points of failure; ring-fenced entities may be required to contain higher-risk program strands; and contingency reserves must account for scenarios such as account freezes, suspended corridors, or abrupt regulatory shifts. In a world where capital movement is as vulnerable to geopolitics as program execution itself, financial resilience becomes a core pillar of mission resilience.

## 4. Trust, legitimacy & perception

In an era marked by public skepticism toward concentrated private power, philanthropy operates under an increasingly unforgiving spotlight. Mis- and disinformation can transform a routine grant into a matter of political intrigue, and in contested environments the mere appearance of partisanship, coordination with "external forces," or opaque funding structures can prompt inquiries, labelling, or even de-registration.

Against this backdrop, trust and legitimacy are not abstract virtues, but operational safeguards. The antidote is discipline: clear documentation linking programs to charitable objects; non-partisan messaging that withstands hostile reading; transparent partnership criteria; and due-diligence records that demonstrate integrity rather than simply assert it. These are not embellishments; they are risk controls.

Some jurisdictions make this explicit. In England and Wales, the Charity Commission's "Campaigning and political activity guidance for charities" (**CC9**) explains that political activity is permissible only where it supports the charity's purposes. A charity must remain independent and must not support a political party or candidate[18] – a standard that has become instructive well beyond the United Kingdom. In the United States, organizations described in **§ 501(c)(3)** of the Internal Revenue Code (**IRC**) face an absolute prohibition on partisan campaign intervention; breaches may lead to revocation and excise taxes.[19] The IRS has published extensive guidance (including Revenue Ruling 2007-41) illustrating, through fact-pattern examples, how the prohibition applies and where non-partisan voter education and limited lobbying remain permissible,[20] and regulators show little indulgence for misinterpretation.

The lesson for global philanthropy is straightforward: reputation, documentation, and message discipline do not merely preserve credibility – they determine operational viability.

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18 Charity Comm'n for Eng. & Wales, *Campaigning and Political Activity Guidance for Charities (CC9)* (updated Nov. 7, 2022), https://www.gov.uk/government/publications/speaking-out-guidance-on-campaigning-and-political-activity-by-charities-cc9/speaking-out-guidance-on-campaigning-and-political-activity-by-charities.

19 Restriction of political campaign intervention by Section 501(c)(3) tax-exempt organizations, Internal Revenue Serv. (Aug. 20, 2025), https://www.irs.gov/charities-non-profits/charitable-organizations/restriction-of-political-campaign-intervention-by-section-501c3-tax-exempt-organizations; Election Year Activities and the Prohibition on Political Campaign Intervention for Section 501(c)(3) Organizations, Internal Revenue Serv. (PDF) (stating violations may result in revocation and excise taxes), https://www.irs.gov/pub/irs-tege/Avoid%20Political%20Campaign%20Intervention.pdf.

20 Published guidance on political campaign activity of 501(c)(3) organizations, Internal Revenue Serv. (listing Rev. Rul. 2007-41 and related authorities), https://www.irs.gov/charities-non-profits/charitable-organizations/published-guidance-on-political-campaign-activity-of-501c3-organizations; Restriction of political campaign intervention by Section 501(c)(3) tax-exempt organizations, Internal Revenue Serv. (Aug. 20, 2025) (describing permissible nonpartisan voter education/registration and limited activities), https://www.irs.gov/charities-non-profits/charitable-organizations/restriction-of-political-campaign-intervention-by-section-501c3-tax-exempt-organizations.

## 5. Operational & security risks

Where national security and foreign influence laws dominate, the risks facing organizations extend beyond institutional exposure to the personal safety of staff and partners. Detentions, raids, compelled disclosure of communications, and travel restrictions are no longer hypothetical in several operating environments; they are practical contingencies that require preparation.

These legal and security pressures intersect with another fragile domain: the financial system. Correspondent banks scrutinize humanitarian transfers with heightened vigilance, and even payments that are licensed, lawful, and mission-critical may be delayed or blocked by over-zealous compliance filters.[21] The resulting uncertainty affects not only program delivery but also the safety of teams dependent on predictable funding flows.[22]

"Duty of care" thus acquires a far broader meaning. It encompasses pre-deployment briefings and travel protocols for higher-risk jurisdictions; maintaining local counsel on retainer; investing in secure communications; and minimizing sensitive data footprints in environments where seizures or inspection orders are a possibility. Operational resilience and staff safety, once viewed as distinct workstreams, are now inseparable.

## Conclusion: Navigating the hidden shoals of enforcement

The pressures described in this Part – administrative freezes, criminalization risks, financial bottlenecks, reputational vulnerabilities, and operational hazards – form the practical obstacles that philanthropic actors must navigate day-to-day. They are the submerged rocks and shifting sandbars that can turn a lawful, well-intentioned mission into a stalled barge mid-river. But these obstacles are not insurmountable. Organizations with strong governance, disciplined documentation, thoughtful partner vetting, and structured financial pathways remain able to move safely through even the most constrained corridors.

Part III will take up that task directly, outlining the governance frameworks, operational controls, and strategic choices that allow philanthropy to move with resilience – keeping the barge afloat, on course, and capable of reaching those it was built to serve.

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21 Office of the High Comm'r for Hum. Rts., *Guidance Note on Overcompliance with Unilateral Sanctions and Its Harmful Effects on Human Rights* (2022), https://www.ohchr.org/en/special-procedures/sr-unilateral-coercive-measures/resources-unilateral-coercive-measures/guidance-note-overcompliance-unilateral-sanctions-and-its-harmful-effects-human-rights; The Dep't of the Treasury's DeRisking Strategy 1–3, 36–39 (Apr. 2023), https://home.treasury.gov/system/files/136/Treasury_AMLA_23_508.pdf.

22 E.g., Norwegian Refugee Council, *Overcoming Derisking of Humanitarian Payment Channels to Regions Impacted by Sanctions and Counterterrorism Measures* (June 30, 2025), https://www.nrc.no/resources/briefing-notes/overcoming-derisking-of-humanitarian-payment-channels-to-regions-impacted-by-sanctions-and-counterterrorism-measures.

# Around the world

# EMEA

## A contribution of management package shares to a holding company does not prevent the recharacterization of the gain on the contribution as salary (*French Tax Supreme Court, 8th - 3rd Chambers, 7 May 2026, no. 493083*)

The French Tax Supreme Court held on 7 May 2026 that the gain arising from the contribution of shares to a company subject to corporate income tax, that were acquired by a company chairman under a management incentive plan (**MIP**) may be taxed as salary. Neither the tax deferral applicable at the time of contribution nor the interposition of a personal holding company prevents such recharacterization.

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Co-authors: Agnès Charpenet and Inès Chandeclerc

## Taxation of amounts distributed by a trust and the burden of proof regarding the nature of the distributions (*Conseil d'État, 9è - 10è ch., 13 mars 2026, n° 500318)*

The French Administrative Supreme Court clarifies the conditions under which trust distributions are subject to tax pursuant to Article 120(9) of the French Tax Code (**FTC**), highlighting the key role of characterizing the distributed amounts and assigning the burden of proof regarding their origin ("income" or "capital") to the taxpayer.

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Co-authors: Pauline Thiault and Julie Rueda

## French SCI shares are treated as real estate assets under the France-Netherlands double tax treaty for real estate wealth tax purposes (*Paris Judicial Court, 9th Chamber, 1st Section, 5 May 2026, No. 24/13163*)

The Paris Judicial Court has ruled that shares of French "sociétés civiles immobilières" (**SCIs**) held by Dutch tax residents, where the SCI's assets consist principally of French real estate, must be treated as real estate assets for the purposes of the France-Netherlands tax treaty, and are therefore subject to French real estate wealth tax.

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Co-authors: Julie Rueda and Inès Chandeclerc

## Spanish Wealth Tax: Evidence requirements for the family business exemption in structures with financial investments

In a judgment issued in December 2025, the High Court of Justice of Catalonia (**TSJC**) has reaffirmed a restrictive approach to the application of the Spanish Wealth Tax exemption for shareholdings in holding companies whose assets include investments in SICAVs (Sociedad de Inversión de Capital Variable). The Court denied the exemption under Article 4.8.Two of the Spanish Wealth Tax Law, concluding that the taxpayer failed to evidence that such investments were genuinely allocated to an economic activity.

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Co-authors: Davinia Rogel and Mario Navarro

## Spanish Wealth & Inheritance Taxes: The Supreme Court confirms a group-level approach for real estate rental activities — practical implications for family-owned groups

In two recent and closely aligned judgments (number 167/2026, of 17 February, and 186/2026, of 19 February), the Spanish Supreme Court has clarified how the family business exemption should be applied to real estate rental activities carried out within corporate groups.

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Co-authors: Davinia Rogel and Mario Navarro

# UAE updates Corporate Tax guidance on Family Foundations

The United Arab Emirates (**UAE**) Federal Tax Authority (**FTA**) continues to refine its approach to the taxation of private wealth structures, reflecting the growing sophistication of the family office and private wealth ecosystem in the region. On 10 June 2026, the FTA released an updated version of its Corporate Tax Guide on the Taxation of Family Foundations (**CTGFF1**), introducing a series of clarifications that will be of particular interest to high-net-worth individuals, family offices, and advisors operating in the wealth management space.

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Co-authors: Tina Hsieh, Jacopo Crivellaro and Ben Phillips

# Asia Pacific

## Singapore: Tax Incentives Changes for Funds and Family Offices

On 31 July 2026, the Monetary Authority of Singapore (**MAS**) issued a circular on the tax incentive schemes for funds available under S13D, S13O, S13OA, and S13U of the Income Tax Act 1947 of Singapore (**ITA**) ("**Circular**"). The Circular refines the changes introduced by the MAS on 1 October 2024, with certain changes taking effect from 1 August 2026 and others applying retroactively from 1 January 2025.

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Co-authors: Dawn Quek and Enoch Wan

# Americas

## Non-compliance with client agreement terms may result in US SEC enforcement scrutiny

Recently, the US Securities and Exchange Commission (**SEC**) brought an enforcement action against a registered investment adviser alleging fraud based on purported non-compliance with investment advisory agreement provisions involving fee calculations.

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Author: Peter Chan

## United States: Notice 2026-40 Provides Interim QOZ Guidance

On June 18, 2026, the IRS released Notice 2026-40 ("Notice") providing long-awaited transitional guidance bridging the original qualified opportunity zone (**QOZ**) regime under the Tax Cuts and Jobs Act ("**TCJA**" and such QOZ regime, "QOZ 1.0") and the new permanent, "rolling" QOZ regime enacted as part of the One Big Beautiful Bill Act (**OBBBA** and such QOZ regime, "QOZ 2.0"). The Notice previews forthcoming proposed Treasury Regulations which are expected to cover (i) the mechanics of QOZ re-designation under section 1400Z-1; (ii) transition rules for investors with pre-2027 deferred gains; and (iii) transition rules for qualified opportunity funds (**QOFs**) and qualified opportunity zone businesses (**QOZBs**) operating in previously-designated QOZs.

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