

# Spotlight on Family Offices

A newsletter series by KPMG China's Private Enterprise team sharing insights on developments in the family offices market

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## Residency plans may need to be reviewed in the wake of COVID-19

As we confront the impact of COVID-19, it may be natural to shift our attention away from financial issues and other related issues that we previously concerned ourselves with, given how our priorities have changed during this time. One of these potentially overlooked areas is an individual's tax residency status.

Each country has its own laws for determining when an individual is a resident for tax purposes. For those who are residents in more than one country, the question of which country has taxation rights over specific types of income is determined primarily through double-taxation agreements.

Individuals and families who have spent time living in different locations will be familiar with the need to maintain clear and ordered evidence of their taxable presence in a country. This could include the total amount of time spent in that country, how much of that time was at their home, the number of days they spent working, and the number of days in other categories as defined in tax laws.

We know that some families and individuals have worked with their family offices or advisors to carefully plan their time and ensure they are complying with the residency requirements. In specific circumstances, individuals have also carefully spent the requisite number of days in a particular country in order to qualify for residency status in that country for tax purposes.

### Questions to consider

As borders begin to close and citizens are encouraged to self-isolate, these plans may begin to feel less relevant. However, there are several courses of action worth examining that could reduce the impact of quarantines and other social safety initiatives on your residency plans. Now may be the time to review such plans or consult with your advisor to consider these four possibilities:



Is there a country to which you can safely travel or base yourself that would fit your tax residency plans, or where you can spend a significant amount of time without being classified as a resident?



Have temporary relief restrictions been introduced in certain countries that will not lead to you being taxed as a resident or that will reduce the burden associated with tax compliance and filing requirements? Some countries, for example, allow you to ignore factors beyond your control (e.g. COVID-19) in determining the days that count towards your taxable presence. Others may not be so generous, and it will be interesting to see how tax authorities around the world respond to what will hopefully be a once-in-a-generation pandemic.



Do you need to consider the specific tax laws of the country in which you are spending time? Your advisors or family office should be able to assist you with this.



Lastly, what evidence will you need to collect to support your position if you are unable to leave a country and exemptions apply? Have you gathered sufficient evidence to support your position?

Regarding the second point above, we are aware that some Chinese nationals who hold foreign green cards or residency visas and who work and live abroad on a long-term basis planned to stay in China for only a short period of time (i.e. during the Lunar New Year). However, in the early stages of the outbreak in China, they were prevented from returning to their original country of residence due to border closures and quarantine-related requirements. As the pandemic spreads abroad, they prefer to continue staying in China because they believe it is much safer. Some foreign nationals working and living in China on a long-term basis face the same situation. They left China in the outbreak's early stages, and now that the borders have been closed, they cannot return to China and must work remotely.

As discussed above, some countries have introduced temporary relief restrictions for tax residents during the pandemic. However, China's State Taxation Administration has not yet issued any relevant exemption policies. Therefore, affected

individuals must refer to the bilateral tax treaties entered into between China and the relevant countries for tax residency-related issues.

### Tax residency tips

We recommend that affected individuals consider the following in order to retain their tax residency status in their original country of residence:



They should not rent out their home in their original country of residence when they have to stay in China;



They should retain additional evidence demonstrating that their key interests are more closely related to their original country of residence, for example, in terms of social relations, family, income, properties, etc.;



They should retain additional evidence demonstrating that their habitual place of residence is in their original country or region of residence and that they are only living in China on a temporary basis.

Health, well-being and safety will continue to supersede most other concerns as we navigate this period of unprecedented change and unpredictability. To help prepare for a more stable future, however, it may be worth considering actions that you can take now to reduce the longer-term impact.

At KPMG Private Enterprise, we understand the potential consequences of the current global health situation for family offices. We encourage you to follow our regular series of blog posts to stay informed about how COVID-19 may affect your family office strategies and operations. Please reach out at any time to the KPMG Private Enterprise, Family Office and Private Client advisors for guidance.

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