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Family Office Insights
Digitalisation of Tax: Effect on Family Offices

Jeremy Cape explains why Family Offices need to be aware of the changing tax landscape towards digitalisation.

A New Era

New technology has changed and will continue to change the way businesses, including Family Offices, structure and conduct their operations. The speed, breadth and depth of change facilitated by digitalisation has been described – rightly, given the sheer breadth and depth of transformation – as the Fourth Industrial Revolution. The concept of globalisation has evolved from a world in which countries have integrated **across** borders to one in which they have integrated **without** borders.

The framework of international tax rules, designed more than a century ago, appears desperately in need of an overhaul.

Whether or not the international framework will be reinvented wholesale remains to be seen, but what is certainly happening is that individual countries are coming up with their own responses to the tax challenges presented by digitalisation.

Changes are set to impact both revenue raising (e.g. introducing new taxes for digitalised businesses), and tax procedures (e.g. reformulating the way authorities are able to assess and collect taxes through digitalisation). As with any significant change, both challenges and opportunities present themselves to those affected.

Three important considerations Family Offices are:

1. Privacy

New data-driven technology, robotics, automation, artificial intelligence and the secure capabilities of blockchain can afford new and exciting opportunities to business and tax authorities alike.

As technologies mature and the investment in adopting them expands, the day when tax authorities have real-time access to business' day-to-day transaction grows nearer. That brings real-time assessment and payment of tax much closer, too. Indeed, some aspects of these changes are already evident today. These include, for example, HMRC's Connect system and the shortening of payment windows for stamp duty land tax and capital gains tax.

This exposes the Family Office in a far more significant way than ever before. Complete transparency will be necessary, including any tax planning strategies. The opening up of digital data also throws up risks of data security.

Given the inherently private nature of Family Offices, preparation for this change towards more transparency is essential.

2. Impact on Investment Decisions

As highlighted, numerous jurisdictions around the world are taking unilateral action to implement different forms of digital taxes. In most cases, the justification is the prosperous new world of online business necessitates new methods of taxation. Global tax authorities, therefore, have good reasons to introduce digital taxes. Not only do they present a significant new stream of revenue, but they also address public pressure for the imposition of "fair" taxation on major online companies. As such, digital taxes are rooted in both political and fiscal necessity.

Family Offices are, of course, sizeable investors into many such businesses. In light of the immediacy of these changes – HMRC, for instance, has announced its intention to introduce a Digital Services Tax in April 2020; Italy, Spain and France are likely to move even more quickly – Family Offices should consider the impact of these taxes when undertaking due diligence on potential investments in businesses which have a digital dimension. The impact will not be limited to "Big Tech" or the FAANGs. Shares in ASOS Plc fell over 5% when news broke of the US Supreme Court ruling that individual US states could collect digital taxes, highlighting the fact that the market places a real value on digital taxes affecting businesses.

3. Streamlining Tax Affairs

In the same way tax authorities will leverage the adoption of technology to streamline tax assessment procedures, Family Offices should be able to benefit from embracing digitalisation to streamline their own tax administrative and compliance processes.

This not only makes Family Offices more efficient and allows them to meet the ever-increasingly tight deadlines and demands set by fiscal authorities for tax payments, but also ensures that they can understand better the impact of tax law on their business models. Indeed, digitalisation could help Family Offices plan and structure their affairs more efficiently.

Streamlining tax affairs would represent, in the long term, a genuine time and cost save for Family Offices.

Future Opportunity

The digitalisation of tax is of significance to Family Offices and represents both challenge and opportunity. The change is coming, globally and domestically. Family Offices stand to benefit from the digitalisation of tax provided that they understand how the digitalisation of tax affects them, and what they might do in turn.

How We Can Help

We are a full-service global law firm. We are connected, both locally and globally, on these issues. We can provide unique insight at the point where law, business and government meet. We place our clients at the core of everything we do, giving them a voice, supporting their ambitions and achieving successful outcomes.

Tracking, understanding and adapting to these fundamental changes will be critical. With deep sector knowledge, global tax expertise and a commercial approach, we can help monitor the evolution of tax law across multiple jurisdictions and anticipate when change will affect you. We are also ready to assist with the implementation of appropriate strategies to ensure you react most efficiently when change comes. In addition, we can support engagement with government and multinational agencies and help formulate appropriate responses to proposals advanced by them.

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