

PASSPORT PORTFOLIO™ DIVERSIFICATION: HOW CHOOSING THE RIGHT MIX OF RESIDENCES AND PASSPORTS IS ESSENTIAL TO PRESERVING WEALTH OVER GENERATIONS

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Good morning. I'm looking out at a group of very intelligent, sophisticated people whose job it is to advise High Net Worth ("HNW") families on how to preserve and grow their wealth over generations. We are also asked to preserve the family's freedoms and quality of life.

Our skills have all been severely tested over the last year and especially over the last few months. We are all dealing with a level of volatility in the markets and the world in general which is both extreme and far reaching. Clearly we are experiencing first-hand the Chinese curse of "May you live in interesting times".

In his recent bestseller, *The Black Swan: The Impact of the Highly Improbable*, Nassim Nicholas Taleb explains in great detail the factors which result in unexpected and game changing events such as 9-11 and the current global economic meltdown. He also clearly sets out the reasons why such "unexpected but extreme" events will occur in greater and greater frequency in the future.

If I was to have told my clients this time last year that I thought there was even a 10% possibility that Bear Sterns, Lehman Brothers and Merrill Lynch would not see New Years Day 2009, they would have thrown me out of their office as a paranoid crank. The new accepted reality is that our clients now understand that their current world will not last the next decade, let alone their lifetime. Furthermore, the world in which their children and grandchildren will face will be vastly different and the possibilities are wide and varied.

Today I am going to speak to you about one often overlooked area, Passport Portfolio™ diversification. I will be bold in saying that getting this right will be the most important factor in determining whether our clients maintain and grow their wealth over their lifetime and future generations.

If you think that I am overstating its importance, it is worth remembering that the decisions made by our own ancestors to move from their country of origin had a profound effect on the course of not only their own lives, but those of the generations that followed them. With change and risk occurring at significantly accelerated rates, having alternatives and options already in place could mean the difference between on-going wealth or shirtsleeves to shirtsleeves in a single lifetime, let alone three generations.

Passport Portfolio™ diversification has been a lifetime study for me. I grew up in a border city surrounded by friends and family who were dual citizens and who lived in one country and worked in another. Later on I worked as a border official at Canada's busiest car and air entry point, where I experienced first-hand, the power that these officials have over the lives of travellers. Finally, during the almost 20 years of my professional legal practice, I have seen the ever increasing pervasive impact of my clients' Passport Portfolios™ not only on their ability to travel but on the preservation of their wealth.

During this presentation, I will first be reviewing the basic thesis of Passport Portfolio™ diversification and why it is important. Specifically, I will walk through the three major threats which one's Passport Portfolio™ can be used to protect against. I will then walk through the process of maximizing the efficiency of our client's current Passport Portfolio™. Finally, I will review the importance of incorporating monitoring and education in this area as part of the "family story".

What is a Passport Portfolio™?

A Passport Portfolio™ is the collection of an individual's residence (or residences), citizenship (or citizenships) and current domicile (i.e. single "ultimate home").

You all know what citizenship is: the right to live work and carry the passport of a particular country. Some citizenships offer more benefits or rights than others. This may include visa-free travel to most of the world, the right to hold more than one passport, or the right to live and work in other countries that are part of the same trade bloc – such as a citizen of Europe or Australia/ New Zealand. Other trade blocks such as NAFTA don't give an absolute right of abode but do offer preferred entry for professionals or HNW business people.

Some of the *benefits* of citizenship, aside from visa-free travel, include access to markets, transportation and business facilities; a civil society with modern services and infrastructure; or a capital-friendly fiscal regime with low tax rates. Of course some citizenships come with drawbacks, such as travel restrictions, mandatory military service, restrictions on the transfer of capital abroad, high tax rates or , as with the U.S., worldwide taxation whether you reside in the country or not.

A country may grant citizenship in various ways:

- birth in the jurisdiction,
- lineage (through parents and grandparents),
- marriage,
- naturalization,
- religious affiliation (e.g. Law of Return to Israel),
- meritorious service,
- economic benefit to the country.

Citizenship is a valuable asset that is rarely handed out lightly. Unless you are born in the territory or have parents of that country, it generally takes years of residence to qualify for citizenship. In the UK and its territories the naturalization period is five years; in Canada and New Zealand it's three years, and in Singapore it's only two.

But there is an alternative called **Economic Citizenship** that doesn't take so long. Countries that offer economic citizenship waive the normalization period for people who make an economic contribution to the country, usually by buying government bonds or real estate. Allow four to eight months for the paperwork, and our client will have a new citizenship for life. That's useful if they want to arrange an early exit from a country, such as the U.S. for tax reasons, or as a supplement to their Russian passport to enable them to travel without needing to obtain visas in advance.

Over the years there have been many countries that have opened and closed legal Economic Citizenships. Many were small countries but this list has included larger countries like Ireland and Austria. Some countries have offered a status called "Honorary Citizenship". Unfortunately, Honorary Citizenship, like Honorary Pregnancy, does not produce the desired result.

Tragically, there have been (and continue to be) many offers by unscrupulous characters for economic citizenship programs that do not exist, with the purchasers becoming victims of advance fee fraud. Even worse, some "consultants" pay off government officials to get real but illegally issued passports. Not only is the individual without recourse when the fraud is discovered, the purchaser is also threatened with being charged with corruption of a foreign official.

As a lawyer, I only deal with properly issued legal citizenships and residences. I am governed by a regulating body, which requires me to fulfil my fiduciary duty to my clients and ensures that I maintain strict solicitor-client privilege. I am constantly carrying out due diligence on programs and even meet with governments to provide my suggestions as to how to design and operate a viable legal Economic Citizenship or residence program. In your roles, you need to work with professionals who are able to provide legal long-lasting solutions which will not get your clients in trouble.

If you have a client who might be interested in an Economic Citizenship, I suggest we investigate it sooner, rather than later. The history of these programs suggests that current windows may not be open forever, and indeed current programs could close at any time.

Along with citizenship, the other elements of a Passport Portfolio™ are residence and domicile.

Residence generally has both a tax and an immigration element to it.

Tax residence is usually based upon a count of the number of days a person spends in a jurisdiction or a review of various indicia of residency.

Immigration residence is usually granted on a temporary or permanent basis. It may allow an individual physical presence, re-entry, employment/study rights as well as land ownership.

Domicile is an estate- tax concept. It looks at a person's "*ultimate home*". All persons, even "*perpetual tourists*" are deemed under law to have a domicile. Everyone acquires a "*domicile of origin*" at birth. Then, they may acquire a "*domicile of choice*" by changing their residence and acquiring long-term trappings of a new home, such as a cemetery plot and new will.

In some cases, merely being resident or domiciled in a country will get you what you want. For instance, if I wanted to escape Canadian taxes, I could establish residence in the Bahamas, or Austria, or Singapore, and as long as I did not have close connections or spent more than 6 months a year in Canada, I would be considered resident in my new home for tax purposes. If I were an American though, I would still be liable for paying U.S. taxes until I become a citizen elsewhere and renounce my U.S. citizenship.

Why is a Passport Portfolio™ important?

As previously stated, our world is not only changing, but changing faster than ever. Technology is changing, travel is changing, and the economic balance of power is shifting in ways we never dreamed possible a few years ago. Who gets affected most by these global headwinds? The globally mobile elite, HNW individuals and business families – your clients and mine. The sort of people whom Tom Wolfe once called "Masters of the Universe" are actually dangerously exposed to new taxes, regulations and limitations that are regularly being imposed on travel, on wealth, on privacy and on residency.

Let's look at just a few examples, torn (as they say) from today's headlines:

* Fired-up tax authorities in the U.S., U.K., Germany and many other countries are turning the heat on global bankers and their private clients. They are demanding names and account numbers in their merciless search for tax evaders large and small. Innocent clients are also finding themselves negatively affected, like dolphins caught in a tuna net.

*U.S. and U.K. politicians are seeking votes by looking to “Wall Street” or “The City” to take care of “Main Street” or “The High Street”. This is code for our clients being taxed to pay for recent government bailouts and to buy the politicians out of the recession or depression that they find themselves in. The politicians want to force our clients to turn over most of their money under the pretext of involuntary charity for the underprivileged masses. However, in reality little of this tax money will ever benefit humankind. To quote the largest philanthropist in recent history, Charles Feeney who was one of the founders of Duty-Free Shoppers, “Governments are the worst charitable vehicle there is”. Bill Gates and Warren Buffet seem to agree.

* Newly affluent Russians are discovering the limitations of their passports as increased political posturing on all sides leaves them helpless to exit Russia without first arranging visas for an ever increasing number of Western countries. And too often, I am hearing reports that front line officials, who are responsible for approving these visas, are demonstrating their personal displeasure with Russia by delaying or refusing visa applications!

* Here in the UK, non-domiciled residents – HNW individuals and affluent urban professionals whose presence would be welcome just about anywhere in the world – are being driven out by a Chancellor who has changed the way that Britain has taxed wealthy foreigners for the past 150 years!

Fortunately for the people in this room, these ever-increasing challenges mean job security for us. Our clients will always need specialists in tax, accounting, law and business. Today, as a result of the “clear and present” dangers I’ve already cited, they also need experts in international citizenship and residency. Protecting these individuals and families will always be a team effort, and this team must keep expanding to cope with emerging threats and take advantage of the new opportunities in our ever changing world.

Clearly, it is harder than ever for our clients to find a secure path to freedom: freedom **from** (freedom from overtaxation, regulation, violence and political unrest), and freedom **to** (freedom to travel for business or pleasure, work around the world, create the best possible future for their family, do with their money as they see fit).

As the world’s economies continues to globalize and integrate, more and more of our clients are recognizing that citizenship is much more than the nationality inherited at birth. Citizenship and residence are powerful, strategic tools. They are assets that they can acquire or give up in order to create a better life for themselves and their families. Citizenship is really about family, safety, and choices.

There are still circles where these practical sentiments are misunderstood. The first Prime Minister of Canada, Sir John A. Macdonald, once declared, “A British subject I was born, a British subject I will die.” That's the popular view of citizenship: a gift you acquire, even if it's entirely by accident, and something that you clutch proudly to your bosom until you perish from the earth. Many people who spend years picking out the right vacation home in Spain or Mexico still think it's improper to select another citizenship.

Increasingly, however, business families are realizing that it's not unpatriotic to admit that there are both advantages and disadvantages to being British, American, or even Canadian. And they are recognizing that in a fast-changing and often dangerous world, having options just make sense. One of my clients recently pointed out the hypocrisy of most countries by noting, “They never questioned our character or loyalty when my ancestors decided to move here, but listen to them howl when we decided to leave!”

“Creating options” is the motivation behind the concept of the Passport Portfolio™. Many of our clients have homes, businesses and investments in multiple countries. Some even have children working or studying on different continents. Leveraging this situation by acquiring new residences and citizenships is a way of giving the whole family more options for the future, more shelters from the storm, in case of trouble or unrest in their home country. In today's complex and often dangerous world, it is perfectly legal and natural for our clients to develop a comprehensive Passport Portfolio™. To make sure that they and their families have strategic options, no matter what life, business or politics throws at them.

Everyone knows about the value of portfolio diversification when it comes to investments. You don't just invest in one stock and wait for it to go up: you invest in a basket of stocks, and other instruments, to balance your risk and provide diversification to insulate you from the markets' inevitable ebb and flow. You would never advise your clients to invest in a single asset class. So why would you have your clients restrict themselves to a single citizenship and residence?

The benefits of a Passport Portfolio™ are clear. There is no single perfect passport or residence. And even if there were one at this moment in time, the wise globetrotter would still benefit by having a backup passport and residence—just in case.

Many people consider an American passport to be a gift from God: recognized and respected the world over, backed by the strongest country in the world, and giving its holder the opportunity to participate in the world's biggest and most open economy. But even a U.S. passport is not perfect. When they travel, some Americans prefer to travel with their *other* passports, to help them fly under the radar or evade the notice of any political activist with a grudge. Many of our

clients would never want to give up their U.S. passport – but many are recognizing that a second passport can mitigate their risk in certain parts of the globe.

Many people ask me if it legal for Americans to have second passports? The truth is the United States has fully recognized dual citizenship for over 40 years. The government clearly allows Americans to hold other citizenships without jeopardizing their U.S. citizenship. In fact, if an American wants to lose their U.S. citizenship they must take active and definite steps to do so.

Another popular misconception is that if our clients give up their U.S. citizenship they will not be able to visit the U.S. in the future. I did my first U.S. expatriation in 1991 and have done many since. In that time, I have never had an expatriate client denied a visa or entry into the U.S. The issue is not being allowed in, it is self-limiting time once the expatriate gets into the U.S., so as not to fall back into the U.S. tax net on a day count basis.

So here is the scenario faced by many of our clients. They've amassed some wealth, probably from owning a successful business, and they have a family. They are concerned about their family's future: not only does the IRS tax them every year; it will also collect a sizable estate tax upon their death that will erode their estate of much of its hard-earned value. The U.S. remains one of the few jurisdictions on earth that taxes its CITIZENS' income even if they have lived elsewhere for years – or indeed, have never lived in the United States at all.

In my practice I am seeing more and more American clients looking to give themselves and their children the option to expatriate from the U.S. For most, it's a last resort: they love their country. But they realize that there may come a time when they have to put the interests of their families ahead of the interests of U.S. politicians.

That moment may come when they are asked to financially support a political policy they are deeply opposed to; it may come when they realize that confiscatory taxes will destroy the business or lifestyle they have worked so hard to build and preserve. Or it may come when they realize that their strategic philanthropy goals will be much more efficiently achieved in-house than by simply handing over their estate to the U.S. government in the form of tax dollars.

By applying for alternate residences and citizenships, our clients can retain maximum control over their assets and estate. Of course, it takes time and specialized expertise to identify which countries provide the best combination of security and opportunity for each client. And once your clients do identify the most likely jurisdictions, it's not always easy or cheap, to get the citizenship or residence they are seeking and qualifying for those citizenships can take years. That's one more reason why our clients need a Portfolio of passports and residencies – to help them transition from one citizenship to another, without

leaving them at the mercy of one country while they wait for their new country to embrace them as a citizen.

Not everyone has the means, risks or global vision for this exercise. However for our clients, the question they should be asking themselves is not why should they be doing this – but why not?

As you can appreciate, selecting the right Passport Portfolio™ for each individual is a job for experts. Our clients need advisors who understand the tax, financial and mobility needs of business families. To maximize their security and freedom, they also need advisors who know the pros and cons of multiple citizenship and residency opportunities around the world. One reason the concept of the Passport Portfolio™ is still relatively new is that very few of the people who qualify for this strategy have advisors who fully understand the opportunity, or know who to call to find the best solutions.

But don't worry: an international citizenship and residence specialist isn't trying to lure clients away from you. They are true specialists: they get called in to complete a specific task, and it's their job to do that one thing very well. They don't want to take over your clients' tax-shelter strategy, advise on their investments, or rewrite their succession plan. They want to find the citizenship/residency portfolio that best meets the clients' needs by supporting their existing advisor's strategy. They work with you to understand your client's objectives and develop the best solutions. This is true teamwork, and it can make you look like a star.

How can this kind of teamwork help you? Here's an example. A few years ago, I helped an American client obtain a second passport to provide more flexibility and security when he travelled on business. When a disgruntled business partner later sued my client, he tried to paint my client as a flight risk – and got the courts to seize his U.S. passport. He figured that clipping his wings would force my client to give in to his unreasonable demands. Imagine how delighted my client was to have a second non-American passport that helped him elude his former partner's trap. And imagine how happy he was with the advisor who had hooked us up in the first place. We gave him a strategic option that helped him win a battle worth millions of dollars. As one advisor to another, you can't buy better referrals than that.

Three Threats Increasing the Importance of a Passport Portfolio™

So, now that I've introduced you to the concept of the Passport Portfolio™, and why it is becoming a "must have" for our clients, let's step back a bit. I want to look at the three key areas that are increasingly threatening our clients' wealth, security and peace of mind. And I want to illustrate how a Passport Portfolio™ can help them deal with these threats and win back control over their lives.

The three threats are: Family Law and Divorce Settlements; Restrictions on Mobility; and Taxation. Many of you are helping clients with these issues right now. Let me show you why a multiple-passport and residence approach might be part of the solution for your client.

Threat 1: Family Law and Divorce Settlements

I've yet to see anyone on their wedding day who didn't think their marriage was going to last forever. But over 50% of these starry-eyed lovers (including me!) were in for a rude awakening.

As you know, many jurisdictions have beefed up their family-law provisions in recent years to ensure that divorce settlements are as generous as possible to the partner with the lower income. Of course, generosity and fairness are in the eye of the beholder. Our clients don't want their ex-spouse to starve to death. But most of our clients don't think it's fair to have to hand over **half of their lifetime accumulated assets** to a spouse, or hefty portions of their **future** income. Yet that's exactly what can happen when they reside in a jurisdiction – such as the U.K., or the U.S. – that treats divorce as an opportunity for wealth redistribution.

Whether the wealthy marriage partner is male or female makes no difference, as Britney Spears and Taylor Thomson, daughter of Lord Thomson of Fleet St. found out in California. As for the U.K. courts, one can only hope that Roman Abramovich and Sir Paul McCartney seek proper advice before wandering down the aisle again.

You wouldn't advise a client to get married without a pre-nup, but even those can be attacked in many jurisdictions. The best way to preserve a client's wealth is to make sure they have residency or citizenship in a country that takes a hands-off approach to divorce and upholds legitimate prenuptial and trust arrangements. That's how our clients can clearly define their obligations, avoid long and draining legal battles, and make appropriate, and sustainable, decisions regarding marriage and divorce.

And the sooner our clients do this, the better. The longer our clients reside in an accommodating legislative climate, the more they will benefit. If they have grown children, they too will share in the benefits. After all, the only worse thing than giving up too much of your estate in a divorce settlement is to see **your children** get taken by *their* spouses. Have you heard the golf joke about the "Son-in-Law" shot? It is not exactly what you were hoping for.

I hate to be so negative, but it's all our jobs to help our clients through the tough spots. You all know the statistics on divorce rates. And for the people in our target market, the rate is even higher: Around 65% of our married clients are likely to go through a divorce.

I have one client in the U.S. right now, a well known industrialist, who is now marrying wife No. 3, even though he still hasn't finished up the property division with wife No. 2. That divorce will eventually cost him tens of millions. But I and the rest of his advisory team will be making sure that if anything goes wrong, wife No. 3 will cost my client a lot less than wife No. 2 did. I sure hope that Elizabeth Taylor calls me before she enters marriage number 9!

I have many clients who are avoiding this situation through a pre-marriage combination of trust planning, pre-nuptial agreements and residence in a jurisdiction which will uphold the prior two elements. Divorce settlements aren't just about fairness, or need: they are all about **geography**.

Threat 2: Restrictions on Mobility

All over the world, affluent business people who thought they had the freedom to travel have found themselves facing unexpected restrictions. Gulf nationals who thought their country was joining the first world of industrialized nations now find they need a visa to travel almost anywhere. And Russians who have found themselves on the wrong side of an administration have had their passports yanked away.

And then there was my Kuwaiti client. This is an older example, but it demonstrates the difficulties facing our clients in our unpredictable world. Saddam invaded Kuwait in August, 1990. In August, no one stays in Kuwait. It's hot and stiflingly humid, and any Kuwaiti who can afford to travel is enjoying more temperate climates in Britain, Europe or America. So when Saddam invaded, a lot of people were left outside looking in. They were away from their country, their families, and the sources of their wealth. To make things worse, some governments, including the U.K. and U.S., froze the bank accounts of their Kuwaiti clients. They did this for the best of reasons: they wanted to ensure that these "free" Kuwaitis could not be blackmailed by Saddam's thugs holding their relatives hostage in Kuwait. As a result, Kuwaitis woke up in luxury hotels all over Europe and found they suddenly had no homeland and no money.

Here's where an international outlook comes in handy. My Kuwaiti client was staying in a suite at the Dorchester Hotel here in London when the invasion happened. His U.K. and U.S. bank accounts were frozen, for his protection.

Fortunately, I was able to help. My client had sent money to me in order to close a condo deal in Toronto. So I advised him to back out of the deal and use that money to pay his bills. I set up a system for paying his accounts from Canada, and I was even able to overpay his bill at the Dorchester so he could get some cash from the hotel.

My client survived the situation by moving in with a friend. But without that money in Canada, he would have been up the proverbial wadi without a paddle. Having an international portfolio of investments bailed him out – and he realized how vulnerable he had left himself by keeping just one passport and residence and promptly engaged me to provide his family with a suitable Passport Portfolio™.

Even today, these types of situations are occurring. Last summer I had a Venezuelan family client who had their Venezuelan passports stolen in Paris while on vacation. When they went to the Venezuelan Embassy to get replacement passports, they were told that their children would only be given a document that allowed them to travel directly back to Venezuela. The parents vividly remembered a recent Hugo Chavez television diatribe about how children were the property of the state and should be taken from the homes of their capitalist parents and educated in socialist state schools. The parents never risked finding out whether this would happen to their children as they secured second passports and residence status in Switzerland and Canada. They will never take their children back to their home country until President Chavez is no longer in office.

If you think nothing can happen to our clients because they're British, American or German, think again. Look at the first page of your own passport. You know what it says? It's not your passport, it's the governments. The government and its courts reserve the right to take it away at any time. How would our client's life be affected right now if they did? Remember the American who was in a civil lawsuit with his business partner? Is that even a remote possibility for our clients?

Today, our clients treasure mobility. Unfortunately, the world of passports – the fundamental document that enables us to travel – hasn't kept up with people's needs. Any passport can be subject to seizure, curtailed travel benefits or political jeopardy.

Prudent HNW people need a second passport and a second home. Better still, they need a strategy to make sure they have the right combination of citizenships and residencies to meet their personal and business needs, and those of their families. Armed with an appropriate Passport Portfolio™, our clients don't need to worry about their passports being seized, or about tightening regulations grounding them in their home country. They always have options. They are protected from the unexpected, or what the 18th-century scholar known as Junius calls "arbitrary measures."

Threat 3: Increasing Taxation

You've all heard the quote from Oliver Wendell Holmes: "I like to pay taxes. With them, I buy civilization." Now, I like civilization as much as the next guy, but we all know that taxes for our clients bear absolutely no relationship to the services that the government does or could provide to them. And the fact is that, after a few years of tax reductions in many countries, including the US, and the UK, the tax-and-spenders are on the march again. I would venture to guess that tax cuts for our clients will not be part of any Washington inauguration speech next January.

As one of my clients once memorably told me, "Fair taxation in a democracy is nine wolves and one sheep voting over what's for dinner." Is it any wonder that many of the sheep don't intend to just sit still and get fleeced?

I've already mentioned the growing pressures on the UK budget that earlier this year saw Britain begin for the first time to tax non-domiciled residents on their worldwide income – even though that "loophole" had been a cornerstone of British policy. What do you think the result has been? Our clients, who have the assets to own 2 or 3 homes, are deciding to step out of the U.K. tax net completely. Suddenly a lot of affluent professionals here in the City – Americans, Asians, Russians, etc. – are planning to shuffle off to Dublin, Switzerland or Dubai.

It doesn't seem right that as we increasingly realize that "the world is flat," some governments are driving talented people away. But as Richard Lambert, Director-General of the Confederation of British Industry recently remarked, "Damage has been done to the UK's reputation for tax stability and as a country which actively wants to attract talent and capital."

Why are our clients fleeing, or thinking of it? It's not so much that they mind the thirty thousand pound minimum tax that the Treasury has imposed: it's that they realize the fox is now in the henhouse. They know that now that their international income is subject to tax, their tax rates will only go up and up as future governments look for more new revenue sources to balance their bloated budgets and to pay for the bank bailouts.

For Americans, it's not enough to just move out of the U.S. As I mentioned, American citizens are cursed with the "Original Tax Sin" of taxation based on citizenship. They are subject to U.S. income taxes no matter where they live. As a result, many Americans are revising their citizenship strategy. Having a second passport is a good defensive play, but some now realize that expatriating themselves from U.S. citizenship may be a more viable long-term strategy for preserving their family's financial future.

I have a number of affluent U.S. entrepreneurs as clients, and I have been telling them for years that their estates would benefit significantly should they ever decide to accept another country's citizenship and renounce that of the U.S. As you know, Americans love their country and their flag, and have trouble envisioning themselves as anything but Americans. But I can tell you now, that with IRS's new aggressiveness; the cost of the Iraq war; the increasing possibility of selective service; the recent and on-going government bailout and the campaigns of both candidates calling for higher taxes on the most successful; many wealthy Americans are allowing this strategy to enter the "realm of possibility". In recent months a number of these clients have come to me and said, "Okay. It's time to look at alternatives to being American."

And here's the value of a Passport Portfolio™. In the end, many of our clients may never make the jump. We will help them get a second passport and residences in civilized, well-connected jurisdictions that fits their business and life styles and help them arrange their affairs to give them increased mobility, options and freedom – even if they never renounce their U.S. citizenship. But they will have that option ready to go. If the U.S. applies the particular straw which breaks their camel's back, they will be able to make their move without panic or delay.

Many members of society may call creating a Passport Portfolio™ to defend against tax grabs etc. cynical or unpatriotic. My clients just view it as prudent. All over the world, governments are looking for revenue and eyeing the affluent as the most promising source of that revenue – and the easiest target politically.

Our clients should consider their Passport Portfolio™ as the ultimate insurance policy. They may never need it, but it's there if they do. Think about your own fire-insurance policy: The chance of your home burning down is pretty remote. But the devastating impact of a fire is so great that homeowners *have* to protect themselves. In global citizenship strategies, the calculation is similar. Our clients are investing in a solution they may not ever use – but if worse comes to worst, they're prepared.

For many of our clients, the United States and the U.K. remain amongst the best places in the world to live. But these governments' commitment to taxing wealth means that there are friendlier jurisdictions out there that may be more appropriate to consider. And it's up to us as their advisors to help them identify all possibilities. I truly believe that in today's fast-changing and often fragile society, affluent, mobile and prudent people should be exploring these options. People who don't explore the best life strategies for themselves, their businesses and their families are leaving themselves vulnerable to the whims of fate, fanatics and politicians.

Maximizing the efficiency of a Passport Portfolio™

Now that I have talked about the threats and needs behind a Passport Portfolio™, let's walk through how to evaluate our client's current Passport Portfolio™ and increase its quality and flexibility. Before doing anything, let's establish benchmarks. Clearly, some citizenships and residencies are better than others. I divide them into three categories: Five Stars, Three Stars and One Star.

Five-Stars are citizenships or residences with great advantages in lifestyle, visa-free travel, preferences to live and work in trade blocs such as NAFTA or the EU, and preferences in local investment opportunities.

Three-Stars are citizenships or residencies that have the potential to become five stars. For example, residencies that, after the naturalization period, will become five star citizenships – or citizenships in emerging countries that may, in time, join trade blocs.

One-Stars are citizenships or residencies that come with problems, such as poor visa-free travel, world-wide taxation, restrictions on dual citizenship, poor lifestyle and business opportunities, capital expatriation restrictions, mandatory military service or excessive government intrusion.

As you can see, it gets quite complicated. Add in the needs of a business or a growing family, and things become even more complex. Also factors such as progressive tax rate systems can turn a Five Star jurisdiction into a One Star jurisdiction for a wealthy client. The good news is, the more we help our clients properly identify their own Five Stars, Three Stars and One Stars, the more control they gain over their lives and assets.

A Passport Portfolio™ review will help our clients answer questions like:

- “Where are the jurisdictions that allow me to do business, be mobile, and visit my home country as often as possible, all while minimizing my global tax burden?”

-“Where can I be free from unwanted government intrusions into my private life, such as taxation, regulation, currency restrictions, military service, or unfair seizure of personal property – yet still get a decent latte?”

-“Where is the best place to get married and live– and not have to give up half my assets in case of divorce even with a pre-nup in place?”

-“Where are the best places for my kids to be born?”

- “Where can I live that allows me to build up a sizable estate for my children, yet still have access to modern schools, medical services and cultural institutions?”

Once our clients realize that the world really is their oyster, there are many options to consider. And you see why our clients need specialized expertise to guide them through those alternatives to find the best solutions.

Who does this kind of work? There are many lawyers and advisors who understand the tax codes and residence/citizenship rules in one or maybe two jurisdictions. But there are significantly fewer who understand the technicalities and opportunities of residence and citizenship options on a **global** basis. Look for a true specialist who understands the needs of wealthy families and both the lifestyle and financial implications of relocation and citizenship decisions.

Let me tell you how the process works. When helping an advisor to improve our client’s Passport Portfolio™, I suggest we follow a four-step process.

1. Set out the client’s goals. Include needs and wants, and those of their spouse, business and children. Remember, this is one of the most important decisions our clients will ever make. It will impact their children and grandchildren, so we must help them to get it right.

2. Review the client’s existing Passport Portfolio™. Find out what rights and benefits our clients have with the current citizenships and residences they possess. In addition, we review the background of the client, their parents, their spouse, and their children. They may be surprised how many options – or problems – they already have.

3. Plan an integrated strategy to revise the client’s Passport Portfolio™. The loss or acquisition of residence, citizenship and domicile can have a profound effect on all the other elements of our client’s life. Care must be taken to make sure that the Passport Portfolio™ supports and does not undermine the financial, succession, or business plan designed by the advisory team. In addition, the strategy should be consistent with our client’s lifestyle and not have an onerous physical presence or tax burden.

4. Regular monitoring of the client’s Passport Portfolio™. Laws, taxes, rights and benefits all change over time. In addition, your client and their family’s lifestyle will change as they progress through the normal stages of life. On-going monitoring of the Passport Portfolio™, and its integration with the other planning elements and our client’s life **as they actually live it**, is critical.

A dramatic public demonstration of the importance of monitoring both changes in law and a client's lifestyle occurred in 1998. As a result of a small but significant change in the U.K. tax law, spending even one more night in the U.K. in that tax year to do a concert at Wembley Stadium would have cost the Rolling Stones 10 million pounds in taxes. Mick, Keith and the lads asked for a specific exemption. In response, then Chancellor Gordon Brown said that he would not be dictated to by tax exiles. The Glimmer Twins decided to cancel the concert. Not only were the fans disappointed but Gordon Brown never collected his 10 million pounds.

As the Rolling Stones example demonstrates, Passport Portfolios™ must be dynamic. We live in a world where the Soviet Union can collapse in a few years; where the century old non-dom tax system in UK can change within a few months; and where markets are closed, passports seized or bank accounts frozen overnight. A Passport Portfolio™ can never be static. Investment portfolios require regular reviews and adjustments, and so does a Passport Portfolio™. Monitoring ongoing trends and changes in law, tax, travel and citizenship ensures that our clients will keep one step ahead of negative changes, and position them to take advantage of new opportunities.

It is also critical that proper Passport Portfolio™ management become part of the family's ethos. Just as in some cultures, the story of exile is deeply ingrained, the importance and means of maintaining a healthy Passport Portfolio™ in a volatile world must be included as part of the skills passed on to each new generation.

Now, let me explain how all these tools work together.

CASE STUDY

Our hypothetical client is an American businessman named Peter Computer. He is forty-something and married, with one child on the way. He is the founder and CEO of a large software company, and currently is involved in litigation with the U.S. government. Although he could run his company from anywhere, he needs to travel frequently for business meetings, mostly on the west coast of the U.S.

Mr. Computer is concerned about ever-increasing U.S. income, capital-gain and estate taxation, as well as increased government interference in his company's operations. He would like to leave the U.S., but wants to live in a developed country with good education and medical facilities.

Although he has enjoyed an enviable lifestyle in the U.S., it's clear that increasing tax and regulatory issues make U.S. citizenship a "One Star" for Mr Computer. Prudence would suggest that he get out from under the burden of U.S. citizenship without sacrificing his ability to travel and do business.

Since Mr. Computer currently does not have any “Five Star” citizenships, I would advise him to acquire an Economic Citizenship, as soon as possible.

(Remember: Economic citizenships can be arranged in just a few months, where the normal naturalization period and conditions are waived in return for investing in real estate or government bonds.) This back-up citizenship may be of great benefit should Mr. Computer’s U.S. passport be seized during his current litigation with the U.S. government.

Since his wife was born in the UK, Mr. Computer should explore acquiring residence in this “Five Star” jurisdiction, and move towards Five Star UK citizenship. However, he needs to examine the shifting tax sands of the U.K. “non-dom” tax regime and determine if it is better to acquire U.K. citizenship through acquisition of a residence in a tax-free British Overseas Territory. Acquisition of a U.K. passport either through residence in the U.K. or a British Overseas Territory would give him the right to live and work anywhere in the EU.

I would also suggest Mr. Computer consider acquiring another “Five Star” residence, this time in Canada. This could lead to a “Five Star” Canadian citizenship after a three-year naturalization. Normally high Canadian tax rates can be avoided with very basic tax planning. Mr. Computer will then acquire the right to live and work throughout the NAFTA bloc. It will also immediately increase the mobility of travelling on his Economic Citizenship passport. Officials from countries who are considering issuing him a visitor visa on the Economic Citizenship passport will take great comfort from the fact that Canada has granted him the right to reside permanently.

This is a key benefit if Mr. Computer accepts my final piece of advice: to give up his U.S. citizenship. That's a powerful tax and asset-protection strategy, but a highly emotional one. It must also be carefully planned and executed. But if it is done right, Mr. Computer will achieve his tax and security goals, without sacrificing lifestyle or business opportunities.

By the way, Ms. Computer is expecting. If they take my advice, the baby would be born in a Canadian hospital, so he or she will acquire Five Star Canadian citizenship by birth and a U.K. citizenship through her mother. With careful planning, Baby Computer can begin life with a very healthy Passport Portfolio™, including both NAFTA and EU citizenships, which he or she can pass on to a future spouse and children.

Into the Future

Hopefully, I have made you realize the importance of proper Passport Portfolio™ diversification. Threats such as matrimonial law, taxation and restrictions on mobility have an increasingly significant impact on our client's lives and wealth. Evaluating and changing our client's current Passport Portfolio™ must be done in a methodical and co-ordinated manner to ensure maximum benefit and flexibility. Finally, once this initial work is done, it is critical that systems for on-going evaluation, fine tuning and education of future generations are put into place.

Clearly, the options available to our client's Passport Portfolio™ are many, varied and powerful. This is a life-changing exercise that will affect generations of family members to come. By working with experienced, professional advisors, we can increase their satisfaction with their total family office experience.

It's an uncertain world out there. Neither the state nor our politicians can guarantee our safety, our freedom from excess taxation or from government intrusion. I believe that our clients should have options in place to enable them to visit, live, work, and thrive in any country they choose; to pursue the opportunities they envision; and to preserve the freedom and privacy they require. As people become used to thinking globally and governments continue to treat their citizens arbitrarily, our clients must have the means to pursue their own objectives and fulfill their own dreams. For our clients, a healthy Passport Portfolio™ is as important as a healthy financial portfolio. Don't let them leave home without one.

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