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## FAMILY OFFICE BASICS: STRUCTURE, BENEFITS AND VALUABLE TAKEAWAYS

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### WHAT IS A FAMILY OFFICE?

A family office is a private wealth management entity that may provide a variety of services to a wealthy family, such as investment management, financial planning, estate planning, and philanthropy. Family offices can be set up as a standalone entity or as a division of a larger company. The beauty of a family office is that it can be customized for each family's goals and objectives – as well as evolve with the family.

The decision to set up a family office is a complex one, and there are many factors to consider. These factors include the size and complexity of the family's wealth, the family's investment goals and desire to coordinate investments, and the family's desire for privacy and control.

### LEGAL CONSIDERATIONS

There are a number of legal considerations that should be taken into account when setting up a family office, including:

- **Entity structure:** An early step is to decide on the entity structure of the family office. The most common entity structures are a limited liability company (LLC), a trust, or a corporation. Each entity structure has its own advantages and disadvantages, so it is important to choose the one that is right for the family.
- **Taxation:** The taxation of a family office will depend on the entity structure that is chosen. For example, LLCs are generally taxed as pass-through entities, which means that the income of the LLC is taxed to the individual members of the family. This can be beneficial for families who want to defer or reduce their taxes. More specifically, case law suggests that certain family offices may be considered a trade or business. Consequently, a family could deduct investment expenses and salaries paid by the family office, which would otherwise not be deductible for individuals partners participating in a partnership structure.
- **Regulation:** The regulation of family offices will depend on the jurisdiction in which the family office is located. For example, in the United States, family offices are generally not subject to the same level of regulation as banks and other financial institutions. However, with the implementation of the Corporate Transparency Act (CTA) in January 2024, affected businesses, including many family offices, are now subject to additional reporting requirements. To learn more about the CTA and its impact on affected businesses, click [here](#) to read our recent advisory and [here](#) to listen to our podcast episode on this topic.

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■ **Compliance:** Family offices must comply with a variety of laws and regulations, including those related to anti-money laundering, securities, and taxation. It is important to have a compliance program in place to ensure that the family office is in compliance with all applicable laws and regulations.

■ **Litigation:** Family offices may be involved in litigation, such as disputes between family members or lawsuits alleging investment fraud. It is important to have a litigation plan in place to protect the family office and its assets in the event of litigation.

### BENEFITS OF SETTING UP A FAMILY OFFICE

There are a number of benefits to setting up a family office, including:

■ **Advancing family objectives:** A key benefit to forming a family office is the advancement of family objectives for years to come. The generation that initiates the formation of the family office structure has an opportunity to marry charitable ambitions with economic growth. The governance created through the formation of a carefully designed family office can advance charitable goals for generations to come.

■ **Increased efficiency and control:** A family office can help to centralize the management of a family's wealth, which can lead to increased efficiency and control. This can be especially beneficial for families with complex financial structures or multiple generations of wealth. Whether from an investment or legal perspective, family offices can choose internal team members solely focusing on that particular family's wealth considerations or resolving issues. Having an internal and cohesive team helps eliminate data gaps, to efficiently and effectively address any issues (operational or legal) that may arise in a given day.

■ **Reduced costs:** A family office can help to reduce the costs of managing a family's wealth by negotiating lower fees with service providers and by taking advantage of economies of scale. This can be a significant savings for ultra-high-net-worth families.

■ **Enhanced privacy:** A family office can help to protect the privacy of a family's wealth by providing a confidential forum for discussing financial matters. This can be important for families who want to keep their financial information private.

■ **Improved decision-making:** A family office can help to improve the decision-making process by providing a forum for family members to discuss their financial goals and objectives. This can help to ensure that the family is making informed decisions about their wealth.

■ **Generational planning:** A family office can help to facilitate generational planning by providing a forum for family members to discuss their financial goals for the future. This can help to ensure that the family's wealth is preserved and managed for future generations.

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*This publication is a summary of legal principles. Nothing in this article constitutes legal advice, which can only be obtained as a result of a personal consultation with an attorney. The information published here is believed accurate at the time of publication, but is subject to change and does not purport to be a complete statement of all relevant issues.*

## FAMILY OFFICE BASICS: STRUCTURE, BENEFITS AND VALUABLE TAKEAWAYS

### TAKEAWAYS

- Setting up a family office can be a complex process, but it can also be a valuable way to manage a family's wealth.
- There are a number of legal considerations that should be taken into account when setting up a family office.
- There are a number of benefits to setting up a family office, including increased efficiency and control, reduced costs, enhanced privacy, improved decision-making, and generational planning.

### CONCLUSION

Setting up a family office is a significant decision, but it can be a valuable way to manage a family's wealth. By carefully considering the legal considerations involved and the specific needs of the family, a family office can be set up in a way that meets the family's specific goals and objectives. If you are considering setting up a family office, it is important to consult with experienced attorneys who can help you to navigate the legal considerations involved.

Wiggin and Dana, through the creation of its specialized **Family Office and Strategic Investments** practice group, has been a trusted advisor to successful families, helping to meet their often complex legal needs while developing an understanding of each client's priorities, goals and values along the way. Our wide breadth of knowledge in the areas of corporate law, real estate, tax, and trust management allows us to provide clients with top-tier legal counsel and strategic guidance that considers the intricacies of their financial, business, family and personal affairs. To learn more about our **Family Office and Strategic Investments** practice group and to be connected to one of our attorneys, [click here](#).