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# Study on the Impact and Response of the Implementation of Property Tax and Estate Tax on the Worldwide Asset Allocation of Chinese High Net Worth Individuals in the Context of Global Tax Reform

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## Abstract

This paper examines the impact of property tax and estate tax implementations on high-net-worth individuals in China, offering insights into effective asset allocation and tax planning strategies to achieve legal tax optimization. It explores global asset diversification, the establishment of offshore trusts, family offices, strategic immigration planning, and philanthropy as mechanisms to mitigate tax liabilities while ensuring wealth preservation and compliance with evolving tax regulations. This analysis aims to provide a comprehensive framework for navigating the complexities of wealth management in the face of significant fiscal policy changes.

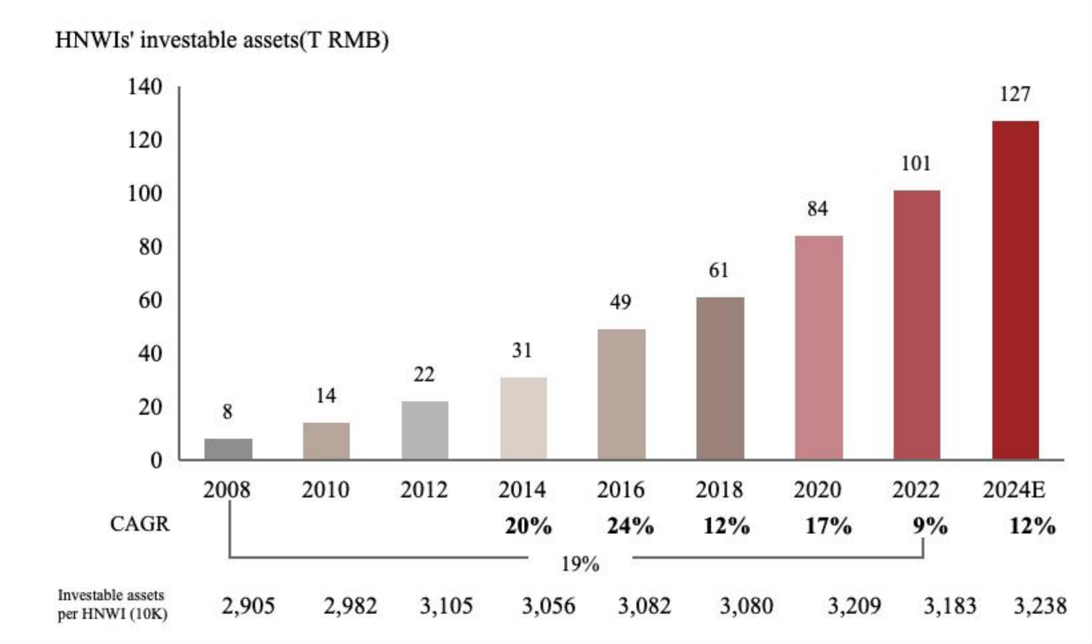
### Keywords

Property tax, Estate Tax, High net worth individuals, Worldwide asset allocation

## 1. Introduction

As China introduces estate and property taxes, high net worth individuals (HNMI) with huge size of individual assets (see Figure 1) face unprecedented challenges and opportunities in wealth management. The identity and wealth characteristics of the rich focus on the diversification of tax status, diversification of asset types and globalization of asset allocation, which exposes the rich to global tax liabilities. For these specific groups, the globalization of asset allocation is a great game, which is a reflection of various needs such as corporate profit tax planning, international capital operation, domestic risk prevention, and family migration planning. In other words, the definition of tax saving is that taxpayers in the presence of a variety of tax options, without violating the spirit of the tax law legislation, make full use of a series of incentives inherent in the tax law, including thresholds, tax deductions, in order to minimize the tax burden in a way to deal with financial, business and transaction matters.

*Figure 1: Size of individual investable assets of Chinese HNWIs*




*(Source: HNWI income-wealth distribution model, Bain & Company)*

Property tax plays a very important role in local governments as a stable source of revenue. Professor Yang (2023) mentioned, it is gradually viewed as a tool for local governments to "create fair and efficient programs for the redistribution of resources to vulnerable populations" and to play a "crucial role in regulating the real estate market". Particularly, the land value tax or property tax is "a levy on the ownership of land and its structures". Its features include a stable tax base, difficulty in shifting the tax burden, and the promotion of fairness, and retracting heat in the housing market.

Zhang and Huang (2023) examined the estate tax, a transfer tax not a broader concept — estate tax, "which taxes the net estate conveyed from the deceased. It is meant to prevent excessive wealth concentration by imposing a tax on wealthy individuals' estates. Expert evaluation of assets by professionals and efficient tax collection by government administration is needed to ensure the fairness and effectiveness of the inheritance tax."

Grounding social equity through fiscal policies is a common goal of these kinds of taxes. In relation to fiscal policymaking, property tax on the cost of real estate ownership is regarded as market regulation and estate tax on wealth inheritance is viewed as pre-distribution taxation. Therefore, this paper first explores the necessity and implementation of property tax and estate tax, then use related formulas to search for the rationality of these two taxes, finally raise discussions on strategic responses to these fiscal changes, focusing on legal asset allocation and tax optimization methods. We investigate global diversification, offshore trust formation, and the strategic use of family offices and charitable foundations. Aimed at navigating China's evolving tax landscape, the analysis offers a blueprint for safeguarding wealth while adhering to the new tax regulations, providing a vital resource for individuals and families seeking to maintain and grow their wealth in a compliant and efficient manner.

## 2. Property tax and estate tax analysis: Necessity and global practice

### 2.1 Definition and purpose of property tax and estate tax

Property tax and estate tax represent the use of fiscal measures to redistribute wealth, reducing social disparities and promoting overall societal well-being:

Property tax is effective because it leads directly to property owners making economic behaviors organically. For instance, property owners who own multiple properties might sell a couple of properties with tax liabilities arising from not living in, and not renting or occupying them, which may increase market supply and slow wildly appreciating prices. Furthermore, it supports as a constant source of revenue to local governments, for example, public services and infrastructure development in education, healthcare, and transportation.

Estate tax is a critical measure to combat wealth accumulation and encourage wider wealth circulation, not only promoting public welfare. That is, as large estates are taxed, it is studied that the perpetuation of a few families' multi-generational wealth, which raises the disparity in the distribution of societal resources and negatively impacts social unity takes place (Tang, 2023). Additionally, as the estate tax is levied, wealth management and lifetime charitable donations are activated, further promoting public welfare-related behavior.

In conclusion, property tax and estate tax is not a simple financial issue. More importantly, the two taxes are important means to achieve social equity and economic stability. Reasonable design and proper implementation of the two taxes can help to regulate the redistribution of wealth, so that the redistribution system is always conducive to creation and development, to social harmony and progress.

## 2.2 Worldwide implementation of property tax and estate tax

Property and estate taxes, as two globally used types of wealth taxes, demonstrate a rich diversity in application throughout diverse countries and regions. Beyond diversity in tax rates, bases, and subjects, the diverse views and practices on implementing policy objectives and effects could be seen from these nations.

### 2.2.1 Global practice of property tax

Worldwide, property tax is one of the primary sources of income for local government, which is crucial in supplying public services and constructing infrastructure, as well as in maintaining local finance sustainability. For example, Xu (2023) has already pointed out that in the United States, property tax is the primary source of income for state and local governments, it varies by the location in line with reflecting the principle of local autonomy. In the UK, property tax, or council tax directly relates to public services used by residents, aimed at funding for education, waste collection, road maintenance, and other public services.

Some nations have tailored their systems to better suit specific socio-economic environments. As Xu (2023) notes, Japan, for example, has fashioned a property tax by combining a fixed asset tax and a city planning tax. The dual taxation promotes the efficient use of land and rational urban planning.

### 2.2.2 global practice of estate tax

Differences in tax rates, exemptions, and taxable entities are also seen in the application of estate tax rules, illustrating global diversity. For some nations, estate tax is a key instrument for the redistribution of wealth. The United States, for one, uses higher tax rates for larger estates as a vehicle for redistributing wealth towards moderate estates, minimizing the burden for the modest estates through substantial exemptions. As discussed by Yu, Huang, and Shi (2022), nations such as France and Germany reflect their estate tax not simply as an economic tool guiding wealth but as one that respects the family's legacy and the continued social order. For these nations, different tax rates and exemptions are devised to balance the state morality with a sound state budget.

### 2.2.3 Implications in China

The international practice of property and inheritance taxes contains important experiences and lessons for China. First, the full advancement of property tax must consider the local government's fiscal requirement and characteristics of the real estate market and adopt flexible tax rates and levying methods. The second is that the interpretation and reasoning of inheritance tax should take into account the status of social fairness and economic efficiency in the design of reasonable exemptions and tax rates so as not to over-burden moderate-level estate inheritance. Imposing moderate taxation on high-level estate inheritance will achieve fairer wealth in circulation and redistribution.

Moreover, while China is implementing or reforming these taxes, we should fully consider the country's legal and economic environment, not only having reasonable tax rates and levying methods, but also realizing fair and effective tax system and upgrading tax administration system to receive public understanding and supporting of tax policy.

In consideration of learning from the experience of different countries, through implementing mild reforms of property taxes whereby effective implementation of a scheme in line with the conditions of the Chinese transition, it can give the advantage of equitable wealth distribution and healthy economic development with quality public services improvement.

## 3. Basis and rationality of property tax and estate tax

As a theoretical analytical tool, the tax state is intrinsically and logically linked to the market economy, democracy and the rule of law. It is of great significance to re-examine the relevance of the theory of the tax state to China's reality, and to dig out its reasonable kernel, so as to make it serve the practice of China's estate tax establishment. Served as a tax for the rich, estate tax and property tax are favored by the Chinese government for its unique function in alleviating distribution inequality, encouraging hard work and wealth, and guiding public welfare donations. At present, China is in the process of transitioning to a tax country: economically, it is implementing mixed ownership system; politically, it is reforming with the standard of rule of law and social state, and the ideological concepts are also changing accordingly.

### 3.1 Property tax: Analysis of the role mechanism of property tax in economic influence

On 23 October 2021, the thirty-first session of the Standing Committee of the Thirteenth National People's Congress decided to authorize the State Council to carry out pilot work on real estate tax reform in some areas. The pilot work, finally landed in China, will be carried out for five years before the legislation, involving both residential and non-residential properties. This measure demonstrates the government's determination to regulate the real estate market and curb speculative buying.

The first reason is that property tax can help "narrow the gap between the rich and the poor", mainly benefiting farmers and urban low-income people. The second reason is that property tax plays an important role as a tax lever in “resolving the Government's dependence on land finance”, solving the costs of public expenditures, including the construction and maintenance of towns, and enabling local governments to obtain a long-term tax source.

Property tax revenue is primarily allocated to enhancing the welfare of residents, suggesting that these taxes also play a significant role in influencing population distribution across jurisdictions. Rolling out property tax on a national scale promises to diversify local government revenues, diminish dependence on land sales, and underpin improvements in the fiscal structure and public service offerings. Additionally, a well-administered property tax could ease housing shortages by incentivizing property sales, thereby balancing the real estate market and protecting consumer interests, as Zhang and Fan (2021) indicate.

Still, it is worthwhile noting that property tax reform will inevitably lead to changes in the cash flows of property owners throughout the cycle of acquisition, occupancy and sale. If other things being equal, the increase in property tax will make home buyers realise that the cost of owning a property has risen, and the transaction price will fall by an equivalent amount based on the net present value of future property taxes.

Assume that Xiao Wang and Xiao Zhang intend to purchase a house in a certain neighborhood, and that they are each interested in almost identical houses in terms of location, orientation and house type, each with a transaction price of $1 million. For some reason, Wang is exempted from paying property tax, while Zhang is required to pay 1% of the transaction price of the house each year. Xiao Zhang has reason to feel that it is not cost-effective. Our question is: How much higher is the true cost of purchasing the house to Xiao Zhang than to Xiao Wang?

This is a classic tax capitalisation problem. Theoretically, one should discount future property tax expenditures into capital. Assuming an infinite discounting period, there is the formula:

$$\Delta V = NPV_{\Delta T} = \sum_{n=1}^{\infty} \frac{\Delta T}{(1+r)^n} = \frac{\Delta T}{r}$$

$\Delta T$ is the change in property taxes, and $\Delta V$ is the change in the capital value of the house, r is the discount rate, and n is the tax year. If the tax rate is 1% on the value of the house, Xiao Zhang needs to pay $10,000 per year in property taxes, and assuming a discount rate of 2%, he can get a negative NPV of $500,000 for property taxes. It can be seen that the true cost of Xiao Zhang's house purchase is $1.5 million, which is 50% more expensive than Xiao Wang's house.

This is at the heart of standard capitalisation theory (Oates, 1969): the price of a house is determined by the net present value of the full flow of housing income minus all the expenses of owning a house. Capitalisation theory tells us that the market will reprice after the introduction of property tax, bringing downward pressure on house prices in the short term. Once the property tax system becomes stable and predictable, property tax loses its efficacy in regulating the rise and fall of prices. In the long run, there will be only one remaining purpose for property tax: the fiscal function.

The real estate tax system is a complete system, including both the real estate transaction flow link, also includes the housing retention link. China's current real estate tax "heavy transaction, light retention", with obvious upfront tax characteristics. It can be understood that the buyer pays the future property tax in advance, and the disadvantages of this model are becoming more and more obvious. Especially for the younger generation, this expenditure front model and their income growth pattern mismatch, forcing them to prematurely adopt too much leverage.

Therefore, we authors personally understand that the goal of property tax reform should be to lower the front-end threshold for home ownership by appropriately postponing the real estate tax expenditure and reasonably spreading it over the residential tenure segment, so that more families can own their own homes as soon as possible.

### 3.2 Estate tax: Analysis of the role mechanism of estate tax in promoting common prosperity

The estate tax is viewed by its proponents as a natural method to decrease wealth inequality since it directly affects the wealthy. First, it provides a new direction of wealth inequality: bequest motives and inheritance of ability across generations, along with an earnings process that allows for more earnings risk for the richest. Second, it uses such a kind of framework on balancing aggregate capital accumulation, inequality, and welfare.

Although the role of inheritance in exacerbating wealth inequality and impeding economic mobility may justify its taxation from a normative perspective, determining the specific rate and progressiveness of inheritance taxes necessitates a balance between equity - determining a fair and morally desirable redistribution outcome, and efficiency - minimizing the deadweight losses associated with achieving that outcome.

The discourse on inheritance tax in China has been sustained and intense, as scholars and policymakers deliberate on its role in wealth redistribution and its potential to bridge socio-economic divides. There's a growing consensus that an inheritance tax could be a lever for social equality, curbing the concentration of wealth and facilitating its fair distribution. However, implementing such a tax must be attuned to China's familial and cultural fabric, ensuring that it does not disproportionately burden the middle and lower-income brackets.

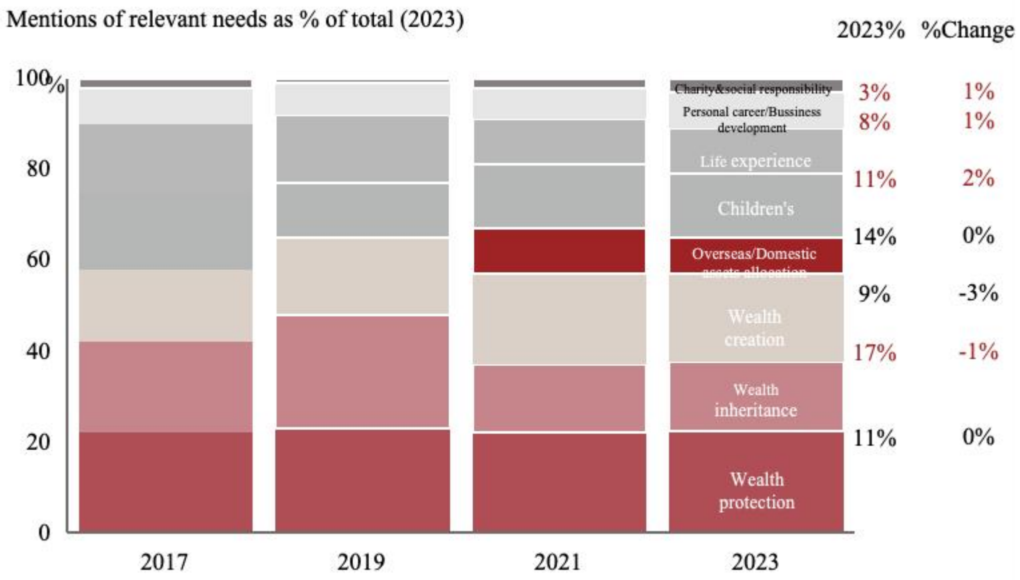
To sum up, an effective inheritance tax regime would require a system grounded in fairness, transparency, and efficiency. This means setting tax rates and exemptions that are sensitive to the socio-economic impact on families and leveraging a tax administration system that guarantees equitable collection and allocation of revenues. As per the insights of Xie and Yao (2023), gaining public endorsement will necessitate transparent dialogues and well-considered policy frameworks.

In conclusion, the integration of property and estate taxes represents a cornerstone reform in China's tax landscape. Thoughtfully architected and executed, these taxes have the potential to facilitate fair wealth distribution and fortify the integrity and effectiveness of the tax system. However, this endeavor demands that the government thoughtfully assess the broader economic and social contexts, carefully calibrating the policies to ensure that the progression of tax reform is seamless and that society evolves in a stable and equitable manner.

## 4. Dialectical discussions on coping strategies for China's high-net-worth individuals

With the process of globalization, more and more high-net-worth groups or individuals will store or access their wealth in multiple regions, and the consequent cross-border taxation issues are of increasing concern (See Figure 2). In this context, the introduction of CRS by governments around the world and the use of FATCA by the US government are also useful tools to combat cross-border tax evasion. So far, 106 countries have publicly committed to join and implement CRS, of which 49 countries have officially started information exchange work since September 2017. Fifty-three other countries will begin automatically exchanging tax-related information on financial accounts in September 2018.

*Figure 2: Needs of Chinese HNWIs in 2017-2023*




*(Source: CMB-Bain HNWI survey & analysis)*

The simultaneous global implementation of CRS is arguably the biggest crisis facing domestic and foreign high net worth individuals - once they inquire about their huge income abroad, they will not only face huge personal income tax, but may even involve criminal liability. Tax loopholes are gradually being closed. How to carry out reasonable legal and effective tax planning is the goal that today's high net worth families compete to achieve.

### 4.1 Attempts to ee exposed to risks

In recent years, China has actively participated in the aforementioned tax-related information exchange and converted some international tax standards into domestic tax laws. China signed the Convention in 2013 and has been implementing it since 2017. In terms of automatic exchange of tax-related information of financial accounts, China issued the Administrative Measures on Due Diligence of Tax-related Information of Non-resident Financial Accounts (Announcement No. 14, 2017 of the State Administration of Taxation), which provides legal basis and operational guidelines for the implementation of CRS in China. The groups affected by CRS in China include oversea emmigrants who immigrate abroad and reside outside of China while possessing assets abroad as follows:

(1) **Offshore trust establishment:** Immigrants residing abroad and holding assets outside the immigration country; immigrants with overseas assets while residing long-term in China; Chinese citizens with assets abroad. Offshore family trusts holding financial assets are not exempt from CRS. Many of China's first-generation wealthy individuals have established family trusts overseas, often in jurisdictions such as the British Virgin Islands, the Cook Islands, Guernsey, Singapore, Hong Kong, New Zealand, and the Cayman Islands, which are signatory countries of CRS. CRS provisions require the disclosure of established family trusts' information, including settlors, protectors, trustees (through trust institutions), and beneficiaries.

(2) **Overseas financial asset allocation:** Immigrants residing abroad and holding assets outside the immigration country; immigrants with overseas assets while residing long-term in China; Chinese citizens with assets abroad. After CRS implementation, any Chinese individual (regardless of immigration status) with financial assets abroad (including in Hong Kong) such as deposit accounts, custody accounts, cash value insurance policies, annuity contracts, securities accounts, futures accounts, and equity/debt interests held at financial institutions will have their held financial assets disclosed to domestic tax

authorities. Subsequently, the legality of fund sources and tax compliance will be monitored and investigated, potentially leading to criminal liability in case of issues.

(3) **Offshore company operations:** Immigrants residing abroad and holding assets outside the immigration country; immigrants with overseas assets while residing long-term in China; Chinese citizens with assets abroad. Simultaneous implementation of CRS domestically and abroad will lead to disclosure of individuals engaged in international trade's personal financial account assets held abroad. If the Chinese tax authorities find that these funds were not exchanged domestically, both parties may face significant back payments, with total tax costs potentially reaching 40%. Many international trade bosses opt to establish an entity company in China for production and export, while simultaneously setting up another company in a tax-favored foreign jurisdiction for overseas trade collection functions, allowing a large amount of foreign exchange income to be directly transferred to the overseas company's account, while enjoying tax exemptions. However, simultaneous domestic and foreign CRS implementation will result in disclosure of personal financial account assets held abroad by these individuals, making it easy for Chinese tax authorities to identify funds not exchanged domestically. According to Article 45 of China's Enterprise Income Tax Law, enterprises controlled by resident enterprises or controlled by Chinese residents established in countries (regions) where the actual tax burden is significantly lower than the tax rate stipulated in Article 4, Paragraph 1 of this Law, if, due to reasonable business needs, they do not distribute profits or reduce profits, the portion of the above profits attributable to resident enterprises shall be included in the current income of resident enterprises. In addition, for tax purposes, the State Administration of Taxation of China considers a portion of the enterprises established abroad by Chinese bosses as resident enterprises of China and requires them to pay 25% of the enterprise income tax to the Chinese government.

(4) **Investment through shell companies:** Immigrants residing abroad and holding assets outside the immigration country; immigrants with overseas assets while residing long-term in China; Chinese citizens with assets abroad. Individuals setting up companies in highly favorable tax jurisdictions and opening accounts in banks or other financial institutions, using the company to hold assets or manage finances or expenses, can be classified as "passive non-financial" under CRS.

According to CRS agreements, undisclosed financial assets in China may be disclosed by the emigration country, potentially leading to back taxes, fines, or even criminal liability. The groups has deliberated a serious of measures to tackle with the tax reforms though may not successful as expected:

### 4.1.1 Emigration to the United States, seeking sanctuary abroad

The premise of CRS is achieving the exchange of financial asset information among participating countries in tax residency. Presently, 101 countries and regions globally have committed to implementing CRS, covering nearly all developed economies and major "offshore tax havens" and "money laundering centers" (such as the British Virgin Islands, the Cayman Islands, and Jersey). However, it's worth noting that the United States is not among the 100 signatory countries and regions. Even after the introduction of CRS, the United States openly declared it would not join, with Time magazine even suggesting that the U.S. could replace Switzerland as the next tax haven. Policies implemented, especially after Trump took office, including numerous tax reductions and exemptions, further encouraged significant capital influx into the United States. This directly led to the collapse of offshore tax havens, while the United States thrived as an onshore haven. With the U.S. not participating in CRS, high net worth individuals found it relatively safe to place their assets in the country. Although the U.S. has not joined CRS, it is still a global taxing authority due to its FATCA (Foreign Account Tax Compliance Act). FATCA, however, primarily targets U.S. taxpayers' financial accounts outside the U.S., thus not impacting assets held by non-U.S. residents.

CRS is based on the model of the U.S. FATCA Act's IGA agreement, thus sharing many of FATCA's main features and operational concepts. However, the U.S., with its own FATCA regulations, emerged as a leader and rule-maker in the global anti-tax evasion movement. While OECD committed countries to bulk exchange and automatic exchange of financial account tax information, the U.S. opted out of CRS, standing alone. Hence, people prefer immigrating to the U.S., entering its one-way declaration disclosure mechanism that does not exchange financial tax-related information with other countries.

### 4.1.2 Account closure

In the OECD's "Standard Operating Procedures for the Automatic Exchange of Financial Account Tax Information," specifically on page 100 of Part 3, guidelines for revoking and closing accounts adopt a similar approach to the U.S. FATCA Act, prioritizing reporting and due diligence on closed accounts, termed the "fleeing list". This does not substantially differ from voluntary self-disclosure.

### 4.1.3 Citizenship acquisition, covert departure

Since 2016, many passport immigration programs have surged in popularity. A significant attraction is obtaining citizenship from countries like Saint Kitts, Antigua, or Vanuatu, where no diplomatic relations with China exist. The rationale is changing immigration status can effectively evade CRS reporting. Similarly, in Part 3, pages 87 and 93 of the OECD's operational manual, direct references and adoptions are made to the U.S. FATCA Act and Section 7701 of the U.S. Federal Tax Code, particularly the revised Section 877 after 2004, targeting provisions to prevent relinquishing U.S. citizenship or green cards for tax evasion purposes, initiating a 10-year expatriation tax investigation. This provision redefined citizenship jurisdiction as residency jurisdiction, accepted by most countries today, becoming a universal rule in international tax law, expanding the scope of traditional principles of citizenship and territorial jurisdiction. Changing immigration status may not necessarily alter previous or current tax residency status.

## 4.2 Other new strategies to be examined

As a matter of fact, the centre of the proposition is to set up specific management teams to take charge of investments and wealth for such groups in order to achieve global asset allocation and reduce the dilemma of double taxation rationally, legally and sensibly. Taking Hong Kong as an example, family offices are serves as the helm of the wealth of rich families, prototyping the occupation of "family chief" in the Spring and Autumn and Warring States Periods. Based on this concept, the following dialectical responses are analyzed:

### 4.2.1 Tax-related identity isolation: Enjoyment of low taxes and tax exemptions

The first strategy points to the tax-related consideration of the choice of immigration status for family members. Tax residency is at the centre of international identity planning and wealth arrangements. Whereas in the past people acquired a second identity because it was simple to obtain and facilitated the global allocation of assets, today they are looking for a place of refuge where they can protect their family and have the freedom to travel. It's not just about survival, it's a "must-have" asset in the current climate. The priority that high net-worth families need to do to switch the tax status is to have a non-global taxable country status. A non-global tax country has a "zero" tax policy on its citizens' foreign earnings.

### 4.2.2 Off-shore trusts: Windbreaks for family wealth inheritance

The important reason that prompts high-net-worth families to set up offshore trusts is not only for reasonable tax avoidance and savings, but also for the purpose of realising the inheritance of family wealth. From the "generation of creators" to the "second generation of the rich", from "creating more wealth" to "wealth inheritance", from "high quality of life" to "attention to children's education", more "generation of creators" has developed the concept of family wealth inheritance.

An offshore trust, as a trust established in an offshore jurisdiction, is similar in operation to a trust, but because the particular dependency has a relatively liberal definition of trust, statute, or is motivated by special policies that enable the interests of the beneficiaries to be more protected. For China's high-net-worth and ultra-high-net-worth individuals, a trust structure is essential and helps the entire family with estate planning. So how does a trust play a role in family asset allocation?

In accordance with the law, when a family decides to transfer assets to a trustee, the first step is to establish the beneficiaries, and the trustee needs to explain how the assets are going to be utilised, and also to ensure that they are utilised in accordance with the family's requirements, which structures the fiduciary relationship.

The trust structure can be simply applied to family asset inheritance. Once family assets are placed in an offshore trust, they fall under the jurisdiction of the trustee, which has the advantage of preventing business assets from being dispersed among different families, thus avoiding family disagreements and achieving the goal of unifying the business. Truthfully, offshore trusts are quite flexible. The settlor of the family business can structure the trust so that those who work in the business are entitled to dividends, and the profits generated by the business can be distributed to the family members in instalments. Clearly, the management of family assets by an offshore trust is more authoritative and recognised by law than the personal management of a family business.

Trust assets can be made available to current beneficiaries and also to the next generation of the family for continued use. By establishing a family trust, in addition to making the next generation the ultimate beneficiary, the integrity of the assets can be maintained rather than just dividing them up. When high net-worth families consider emigrating for various reasons, they are faced with a variety of complex tax issues associated with emigration. The use of trusts can effectively protect wealth and help them start a new life in a new country and adapt to a new tax system. For instance, if the entire family of a family business emigrates to the UK, they can purchase real estate in the UK through an offshore trust structure, and also use the trust to pay for their children's education and living expenses in the UK, which makes the family business members more financially sustainable (i.e. the owner can give the beneficiaries many assets for them to squander, in accordance with the wishes of the trustees, rather than in a lump sum. a lot of assets to squander).

In addition, an offshore trust structure can also make it possible to minimise estate tax overseas for high-net-worth individuals. Taking the United States as an example, the estate tax in the United States is 40%, which is quite high for a billionaire, but can be reasonably avoided through a simple offshore trust plan. Likewise, the Wal-Mart family in the United States has a net worth of US$46.7 billion, and its family members also minimise wealth estate tax through offshore trusts; and the Kwok family of Sun Hung Kai Limited in Hong Kong also carries out inheritance planning through a trust structure, and they have always been upholding the attitude of joining hands with the family business and the trust structure and cooperating with each other when doing family wealth management.

However, financial assets held in offshore family trusts cannot be circumvented by CRS, even though using Virgin Islands, Cook Islands, Guernsey Island, Singapore, Hong Kong, New Zealand, Cayman Islands as the signatories. The content of the CRS agreement stipulates that information about the established family trust shall also be disclosed, including the settlor of the family trust (i.e. the settlor of the property), the protector, the trustee (through the trust institution), and the beneficiary. Since then, the legality of the source of funds and whether it is legal to pay taxes will be monitored and investigated, and once there is a problem, criminal responsibility may be involved.

### 4.2.3 Physical investments represented by real estate

According to the CRS information exchange rules, among assets not subject to CRS regulation, overseas real estate is not only a more operational way than collection and precious metal investment, but also a traditional means to achieve global asset allocation and value preservation and appreciation.

As a result, real estate, aircraft, ships, properties and other configurations have become important means of circumventing CRS. However, the reality of today's world is that when someone offers to use $1 million in cash to buy real estate outright, they immediately go in and initiate AML international anti-money laundering procedures, and few people can bypass bank accounts when allocating real estate and successfully complete the transaction. However, in terms of the current treatment of the principal of overseas assets, investing in overseas real estate is still the most powerful, effective and direct way to avoid CRS.

The selection characteristics of investment properties can be roughly divided into the following categories:

Traditional developed countries, such as Australia, the United Kingdom and Canada, are still the first tier of global investment target countries. The economic strength and stable market of developed countries guarantee the value of their real estate investments, especially the United States, where a strong dollar can withstand the risk of RMB depreciation and the shrinkage of individual non-dollar assets.

Emerging markets such as Japan, Thailand, Malaysia have intensive policy advantages at present, significant economic and real estate growth, low total real estate investment cost and superior return rate, which are the target countries with more short-term investment advantages compared with developed countries.

In Greece, Portugal, Spain and other countries, the total price of real estate is relatively low, and the investment prospects are generally promising in the early stage of economic recovery. It addresses the problem of second identity when investing in real estate. In particular, Greece has just emerged from the economic crisis, the market has rebounded rapidly, there is more room for appreciation, and the investment threshold is low, which is suitable for most people affected by CRS.

Similarly, there are taxpayers who use bank safes to store large amounts of cash, gold, calligraphy and paintings, antiques, antiques and precious metals. Financial assets do not include the following real assets: real estate, jewelry, antiques, calligraphy and painting, sports cars, yachts, gold, etc. That is, real assets do not need to be reported. This is because financial institutions do not have information on individual holdings of these physical assets. Real estate investment can indeed avoid CRS to some extent, while also solving part of the migration problem.

### 4.2.4 Charitable foundations: The calm harbor for the tax

“The family that accumulates goodness is sure to have abundant happiness.” Under the background of common prosperity, high net-wealth families are more concerned about how to maximise the effectiveness of their private wealth and are willing to donate their private wealth or resources for the public good, and the mobility of wealth to the good is leading the new trend of wealth management. Nowadays, modern philanthropic tools represented by charitable foundations and charitable trusts have received widespread attention:

On the one hand, a charitable foundation is a non-profit legal person established for the purpose of engaging in public welfare undertakings by using property donated by natural persons, legal persons or other organisations. As of December 2023, the number of charitable foundations filed nationwide was 1,405, of which 34 were filed in 2023, covering a wide range of fields such as education, poverty alleviation, environmental protection and healthcare. In the field of wealth management, middle- and high-income groups often carry out the family's philanthropy and wealth management undertakings through the establishment of family charitable foundations, which are set up by the family to establish private foundations, funded with family assets, engaged in charitable donation activities, and operated with the participation of family members and professional management personnel, so as to promote the formation of family values, enhance the cohesion of the family, improve the influence of the family and the family enterprise, carry the family's strategic Philanthropy, increase the family's sense of social responsibility, and provide spiritual and cultural support for the family with good intentions and good deeds.

On the other hand, charitable trust belongs to a kind of public welfare trust, which is a kind of trust where the principal entrusts his property to the trustee according to the law based on charitable purposes, and the trustee manages and disposes of the property in the name of the trustee in accordance with the wishes of the principal to carry out charitable activities. As of December 2023, the number of charitable trusts filed nationwide was 1,580, and the total size of the property totaled $6,434,546,400, of which the number filed in 2023 was 437. As a kind of trust, the trust property formed after the establishment of charitable trust is not affected by the change or death of the trustee's assets, and will not be lost due to the bankruptcy of the trustee, which can effectively realise the function of "risk isolation" of the trust; at the same time, the charitable trust is convenient and flexible in its establishment and operation, and it is more respectful of the will of the trustee, which also helps to realise the function of "personalisation" of the charitable cause. At the same time, the establishment and operation of charitable trusts are convenient and flexible, more respectful of the wishes of the trustees, and helpful in realising the "private customisation" of charitable causes.

However, based on the above, if Chinese natural persons transfer their assets outside China through immigration, real estate investment, trust, insurance and other means, the objective facts such as change of nationality, change of residence, transfer of residence, long-term stay abroad may occur, and accordingly constitute tax residents of other countries. Tax residents are normally expected to file taxes on their global income to their jurisdiction and complete an annual personal income filing (depending on national laws).

However, it should be noted that the aforementioned objective facts do not necessarily lead to the loss of natural person's Chinese tax resident status. In the case of being tax residents of both countries, natural persons may be exposed to the risk of double taxation. This is still a valuable subject to be discussed.

## 5. Conclusion

China is at a crossroads with the potential implementation of property and inheritance taxes, a move that is central to the evolution of its tax system. This is a pivotal moment that will influence social equity, the distribution of wealth, and the trajectory of sustainable economic development.

Although China's tax law may not yet have mature rules and regulations on asset transfer, especially at the level of individual income tax law, as well as actual implementation, with the construction of smart tax in China, especially the upcoming implementation of the "fourth phase of gold tax", the traditional "Internet + information technology system" will be empowered through artificial intelligence and cloud processing technology. Enhanced tax administration through digital technology, which will significantly improve the efficiency of tax collection and administration, especially the accuracy of tax regulation for high-net-worth individuals. When making cross-border asset allocation, individuals should comprehensively consider the tax environment in which they are located, including the tax substantive law treatment of China and the investee country, as well as bilateral or even multilateral tax regulatory systems, and should also involve the overall business environment, so as to better control the tax-related risks of cross-border asset allocation and improve the economic benefits of cross-border investment.

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## Conflicts of Interest

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