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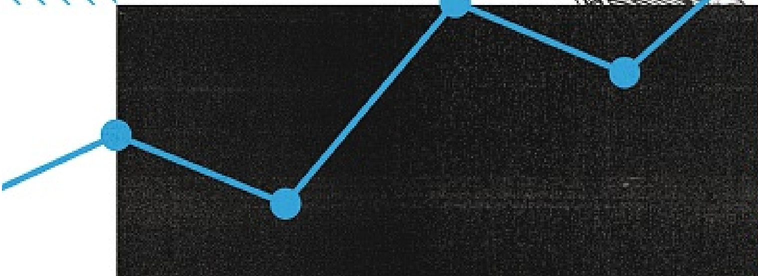
FT wealth

ENGINEERING A HEALTHY FUTURE

WHY BIOTECH IS THE PERFECT FAMILY INVESTMENT



HONG KONG RULES
After a rocky period Hong Kong's economy bounces back

MURKY WATERS
Why tax rules for yachts are not as simple as you think

PRICED OUT
Rising German interest rates stall luxury property sales

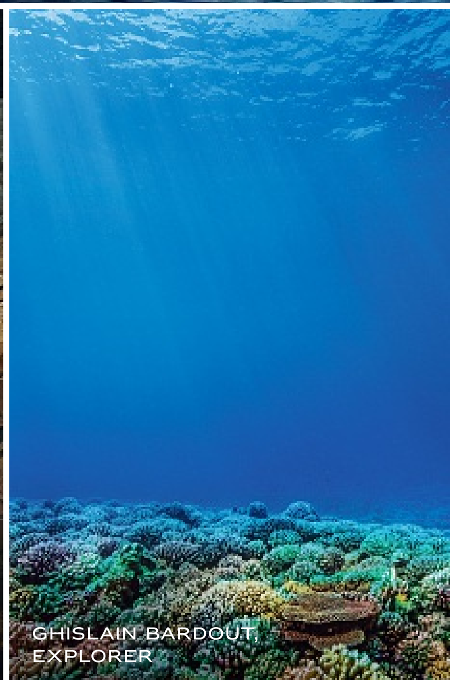
TAX HAVENS
From Monaco to Necker Island — what is life really like?

NATIONAL GEOGRAPHIC AND ROLEX PERPETUAL PLANET TUPUNGATO VOLCANO EXPEDITION TEAM

TOPHER WHITE, CONSERVATION TECHNOLOGIST

CRISTIAN DONOSO, EXPLORER

FRANCESCO SAURO, EXPLORER


GHISLAIN BARDOUT, EXPLORER

WHAT DO THEY SEEK?

Explorers, adventurers, scientists. Men and women who always broadened the horizons, for all humankind to share. Rolex was at their side when they reached the deepest point in the oceans, the highest summits of the Earth, the deepest jungles and both poles. But now that we know, more than ever, that our world has its limits, why do they continue to venture out there, again and again? Certainly not for kudos, accolades, or an ephemeral record. What they truly seek is to understand more intimately how complex and delicate our planet is, to document its change and how together, we can affect it for the better. So as long as they need it, we will be at their side. Because today, the real discovery is not so much about finding new lands. It's about looking with new eyes at the marvels of our planet, rekindling our sense of wonder, and acting to preserve our pale blue dot in the universe…
Doing our very best for a Perpetual Planet.

#Perpetual

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Cover illustration: Rory Griffiths

EDITOR'S LETTER

WHY THE UK IS ATTRACTIVE TO SKILLED MIGRANT WORKERS

UK migration policies have rarely won much praise in recent times. The dramatic arrivals of migrants in small boats have generated plenty of headlines but little support for the government, with critics on both sides of the migration argument launching attacks.

Meanwhile, Brexit opponents complain how restrictions on movement to and from the EU have burdened people and businesses — and even Brexit supporters struggle to identify the benefits of the new controls.

So it comes as something of a surprise to find the OECD, the developed countries' club, lauding the UK over immigration policy — specifically the approach to highly skilled workers. It writes in a regular migration policy review of its 38 member states, published this year, that Britain has seen "the largest improvement in the ranking" since the last report in 2019. That's due, it says, mainly to abolishing quotas for highly skilled workers and for migrants' success in getting jobs in the UK. That puts Britain in the top 10, a pack led by New Zealand, Sweden, Switzerland and Australia.

However, the value of the OECD's survey lies not in the ammunition supplied for political battles but in the focus it brings to particular types of economically valuable migrants: entrepreneurs, startup founders and students as well as highly skilled workers. The report ranks countries by what it calls "attractiveness to newcomers", looking at different dimensions ranging from quality of life and work opportunities to tax and spousal immigration rules, mostly represented via measurable data sets, such as migrant unemployment rates or visa refusal percentages.

There is as much art as science in putting together these rankings, but the results bear food for thought. In broad terms, there are few shocks. The Nordic countries do well, as do Australia, New Zealand and Canada. The US is less good for skilled workers than might be expected given its economic potential because it has tough visa rules. But it is top for university students and second (behind Canada) for startups.

Low tax rates, which many well-paid workers and entrepreneurs might find appealing, do not alone result in high rankings in the OECD table if other factors such as education standards and infrastructure are poor.

Health quality matters, too, in the OECD's view. The Nordic countries, Austria, Belgium, German, Italy and the Netherlands all do well on this score. Estonia, Hungary, Latvia and Portugal are otherwise attractive countries for workers, students and entrepreneurs alike, but are held back by their low health scores. So, notably, is the US.

It is striking how the countries that appeal to migrants entering via official routes as highly skilled workers, students and entrepreneurs are also those that draw large numbers of undocumented migrants, including refugees from war and oppression.

As the OECD argues, migration policies are choices. Japan and South Korea are economically successful states offering a good quality of life. Yet both have opted for restrictive immigration strategies that not only limit access to foreigners, they also hold back domestic development by controlling labour supply. Other countries low down the migration tables have a host of problems to tackle beyond immigration policies per se: Turkey, for example, and Mexico.

The world doesn't stand still, though. Countries are in competition with each other for skilled workers, students and entrepreneurs. Over time, some of today's leaders will lose ground and laggards catch up, as the former Communist states of eastern Europe have done.

For potential migrants, the best approach is to keep an eye on changes in everything from the political environment to details of migration law. And spread your bets, if you can, by living, studying and working in different countries so that you're well placed to move again, if you have to or want to. ●

Stefan Wagstyl
Editor, FT Wealth
and FT Money

@stefanwagstyl

'THE COVID-19 PANDEMIC HAD PROFOUND EFFECTS ON LABOUR MARKETS GLOBALLY, SHIFTING WORK AND MIGRATION PATTERNS'

OECD Talent Attractiveness report 2023

'GO WEST, YOUNG MAN'

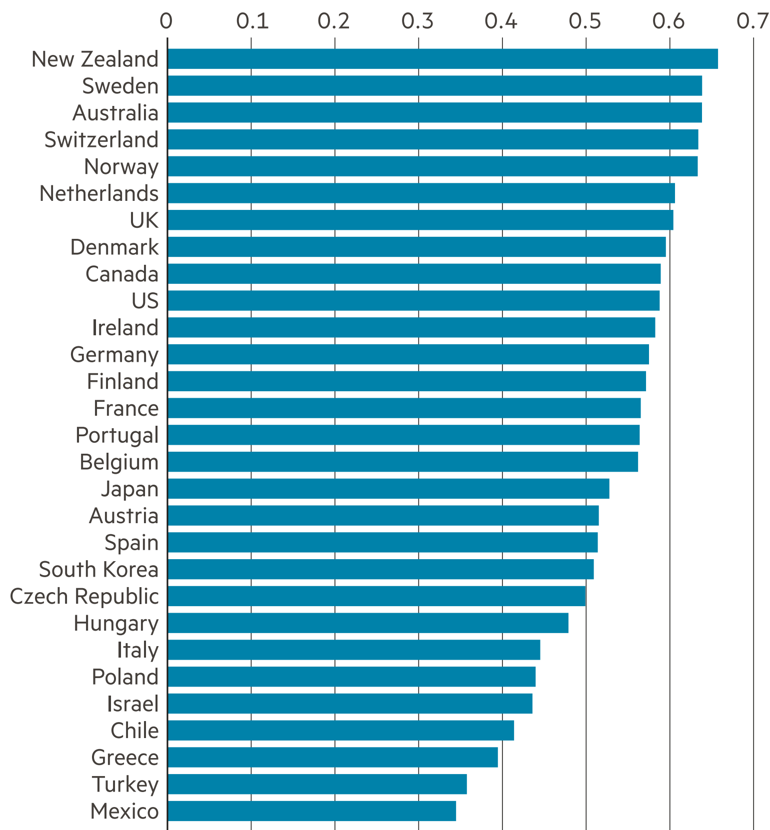
Attributed to Horace Greeley (mid-19th century)

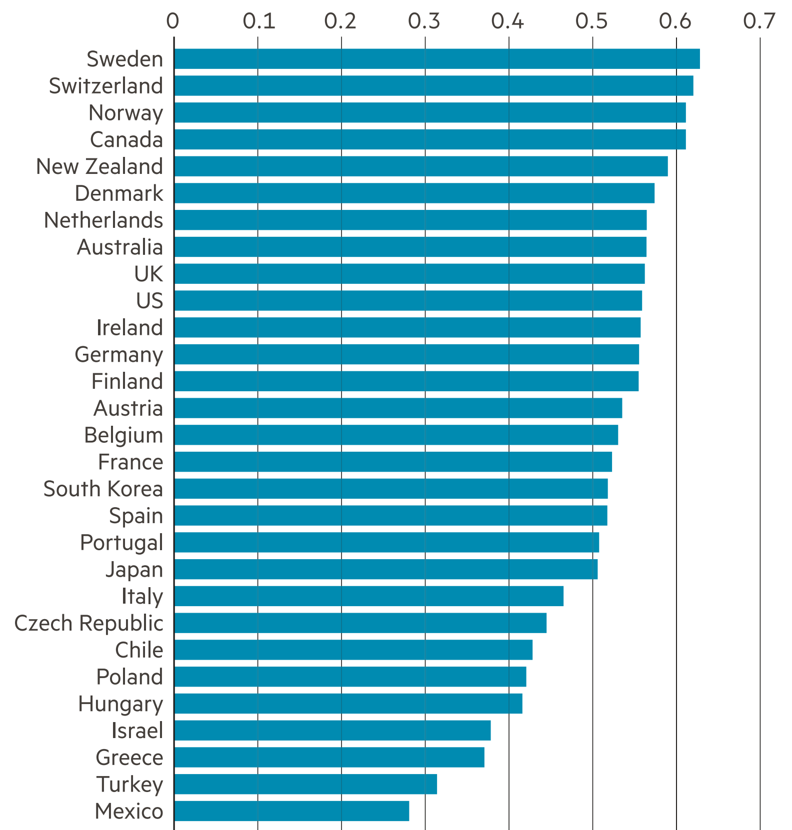
'[MIGRATION] POWERS ECONOMIC GROWTH, REDUCES INEQUALITIES, CONNECTS DIVERSE SOCIETIES AND HELPS RIDE THE DEMOGRAPHIC WAVES OF POPULATION GROWTH AND DECLINE.'

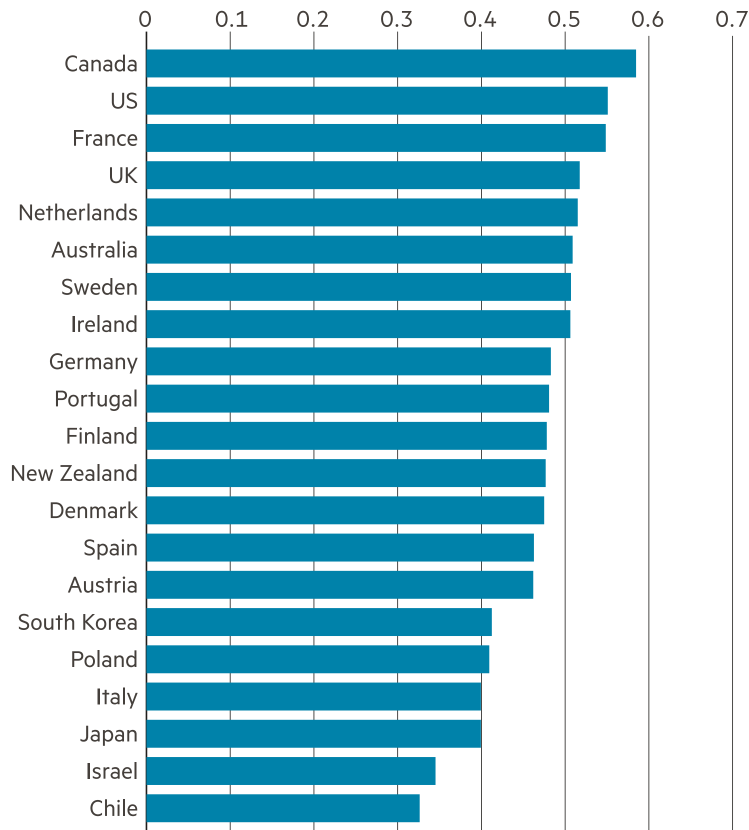
UN secretary-general António Guterres 2018

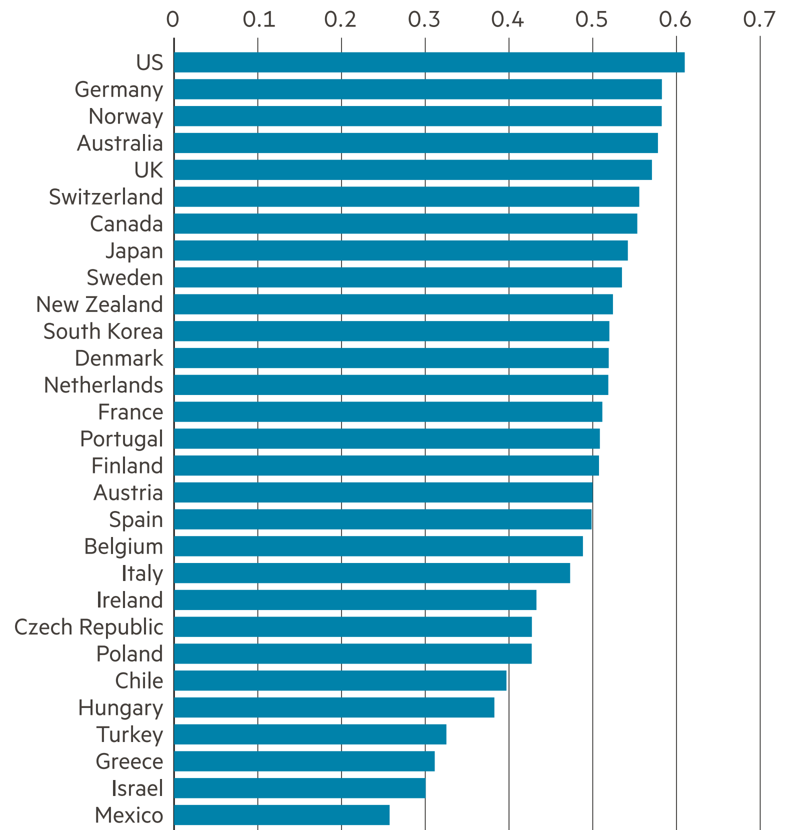
Migration: New Zealand top for skilled workers and entrepreneurs, Canada for start-ups, US for students

Selected OECD destination countries ranked by attractiveness to newcomers









Source: OECD

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PSYCHOLOGY OF WEALTH

WHAT IS LIVING IN A TAX HAVEN ACTUALLY LIKE — AND IS IT WORTH IT?

BY RHYMER RIGBY

Keeping his head above water
Sir Richard Branson has held residency on Necker, in the British Virgin Islands, since 2011

In recent months, there's been a lot of noise about rich Norwegians fleeing the country as the centre-left government's wealth tax rises kick in. According to the newspaper *Dagens Naeringsliv*, more wealthy people left Norway in 2022 than in the preceding 13 years. Notable are businessman Kjell Inge Røkke, once Norway's richest person, and Fredrik Haga, co-founder of the cryptocurrency data business Dune. Both have gone to Switzerland.

Of course, the rich have long decamped to more tax-efficient climes. Celebrated tax exiles range from playwright Noël Coward to actors Sean Connery and Gérard Depardieu. Guy Hands, the financier, moved to the Channel Island of Guernsey, retail tycoon Philip Green spends a lot of time in Monaco, and Richard Branson is resident on Necker (which he owns) in the British Virgin Islands.

Leaving aside the ethics of this — and the arguments over whether wealth flight means tax rises actually reduce overall receipts — the question I find myself asking is: what is living in a tax haven actually like? Is it worth it? And which tax haven is best? The last of these is a tougher question than it might seem. Tax haven rankings (whether pejorative or positive) tend to score jurisdictions on how little tax you can pay, not on great restaurants, natural beauty or cultural amenities.

There's a good reason for this. Many tax havens are rather strange places to live full-time. I have a bit of insight to offer here, myself. My mother's family are from Guernsey (for ancestral, not high net worth reasons, alas) and I have taken many family holidays there. It is a beautiful, peaceful place; I love the rugged cliffs, granite houses, crab sandwiches and half-French vibe. But I'd struggle to base myself there, especially after living in London. The island measures just under 24 square miles and can feel like a picturesque medium-sized town that you can only leave by boat or plane.

Indeed, when Hands moved there in 2009, in protest at rising UK rates, much was made of limitations such as this, and that he had moved away from his family in order to avoid tax. He didn't gain any sympathy by explaining that his (then) school-age children had to travel to Guernsey to see him and, "I do not visit my parents in the United Kingdom and would not do so except in an emergency."

Tim Walford-Fitzgerald, private client partner at the accountancy firm HW Fisher, says that considerations like these put many off, even if they dislike paying tax: "Few people are willing to limit their social and family commitments to the extent that can be needed, unless the tax saved is very significant."

And even if family and friends aren't an issue, tax havens often impose considerable lifestyle restraints. The European ones are relatively convenient, but tend to be small (Monaco is less than a square mile), expensive and cold for part of the year. Conversely, sunny, easygoing tax havens can be very inconvenient. Bermuda, Cayman Islands and the Bahamas regularly top tax haven rankings. The first two are a fair distance from anywhere. The Bahamas are pretty convenient for Miami but, while the US city scores highly on many business metrics, some do not count it as a true global hub. According to the GaWC think-tank at Loughborough University, it is a "beta+" city like Auckland and Dallas (London and New York are alpha++).

Walford-Fitzgerald says: "There is rarely one 'go-to' location that suits everyone."

For those who really go off-piste with tax havens, there can be other problems to deal with. Depardieu famously became a Russian citizen in 2013 after a row with French authorities over a proposed supertax on millionaires. Then, last year, he criticised Vladimir Putin's invasion of Ukraine. He now appears to be a UAE citizen.

Perhaps the best places are countries such as Switzerland, which have tax regimes that are favourable to wealthy foreigners but are nonetheless sizeable, well-connected and have proper cities (and great skiing). Norway's Røkke moved to the Swiss city of Lugano, which is close to the Italian border and handy for Lake Como and Milan.

Walford-Fitzgerald points out less obvious options: although the Middle East is well known as a tax-friendly region, "it isn't just the classic Arab states. Many Jewish clients think about Israel, which offers a 10-year tax holiday for Jews 'returning'." Or, he says: "For those seeking a middle ground, there are countries that have preferential regimes in respect of overseas income, allowing immigrants to shelter certain sources for a period of time."

Even so, it can seem a lot of hassle just to avoid paying tax. As writer Malcolm Gladwell mused about Hands in an FT interview, "He is incredibly rich and what is the first thing he does? He takes a step that negates the benefit of being rich." Gladwell concluded that once you'd reached a certain level of wealth, changing your home country or otherwise restricting your freedom of movement to save money was pointless. ●

Rhymer is reading… *City on Fire,* the first part of Don Winslow's 'City' trilogy. It's a sprawling mob epic, set in Rhode Island, reminiscent of *The Godfather* or *Narcos* in its scope — and also a gripping read.

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BIOTECH AND THE FAMILY OFFICE
INVESTORS SEE A LONG-TERM FUTURE IN HEALTHCARE

BY DENISE ROLAND
PHOTOGRAPH BY WRAY SINCLAIR

The Lauber family built its wealth in real estate, and that's where it stayed for decades. But, lately, some of the family money has a buzzy new destination: biotech.

"I'm kind of like a hypochondriac," says Robin Lauber, the third-generation heir who is diversifying the Swiss family's wealth, mainly into companies working in cutting-edge biology. Lauber, 30, is particularly interested in longevity medicine, a nascent strand of research that aims to slow down the ageing process.

"I want to continue living as long as possible," he says, pointing out that there are other animal species that have a lifespan of as long as 200 years.

Lauber is hardly alone among rich people seeking to use science to extend their lives. US tech billionaires are also pouring money into longevity projects, not least the Amazon founder Jeff Bezos.

And old age is only one focus in a wider movement of rich families' money into healthcare. Around a fifth of single family offices have invested in healthcare or biotech in the past two to three years, according to Alastair Graham, who tracks the investments of some 2,145 single family offices through his database, Highworth Research. The vast majority of those investing in healthcare are in North America and Europe.

"There is a tremendous movement into conversations about the healthcare space," says Eric Casaburi, who chairs a Florida-based group of Tiger 21, a membership network of around 1,200 wealthy individuals who advise one another on investments and philanthropy. A survey of Tiger 21 members, who are based in the US, Britain, Canada, Switzerland and Portugal, found that nearly a quarter planned to invest in healthcare this year.

The emphasis on healthcare is reflected in the flow of family office money into venture capital — a fast-growing

'It was personal'
Paul Kessler, with his wife, Diana Derycz-Kessler, was a long-time investor in biotech even before he got a melanoma diagnosis

investment channel for young companies. A report in January by Campden Wealth and Silicon Valley Bank, the Californian lender that was rescued from collapse in March, found that, while overall family office investment in venture capital fell back in last year's market turmoil, from a record $136.9bn in 2021 to $65bn, healthcare investment has remained robust.

The report, which surveyed 139 ultra-high net worth families or family offices, identified popular healthcare themes including the use of artificial intelligence and machine learning for drug discovery and advances in cancer treatment.

Max Kunkel, chief investment officer for global family and institutional wealth in the global wealth management arm of UBS, the Swiss bank, says that healthcare appeals to family offices because three significant trends are driving growth and innovation in the sector: demographics; technological progress; and the unsustainable trajectory of healthcare costs.

"Family offices, especially the more established ones, have a very long term time horizon, and they look at broad trends," he says. They are also willing to undertake the longer-term investments that are often needed in early-stage biotech because "they don't fear illiquidity."

The recent increase in healthcare investment by family offices comes despite the sector's difficulties in the public markets, where it has suffered from the general move out of growth stocks. The Nasdaq biotechnology index is trading more than 20 per cent lower than its 2021 peak, compared with a decline of about 10 per cent in the wider S&P 500 for the same period.

Lauber's investment comes from a family fortune built by his grandparents, from property across Switzerland, mainly affordable housing. For two decades the family drew on the income generated by that portfolio without investing it more widely. Then, in 2015, Lauber set up a family office to put the money to work and made his first biotech investments in 2018.

The Lauber family office, Infinitas capital, still invests in real estate. But about half of the family-office investment now goes into venture capital through two funds, Prediction Capital, which invests in consumer tech and fintech, and Korify Capital, a healthcare-focused fund. About 70 per cent of Korify's investments are in biotech, and Lauber intends to increase that proportion over time. As well as longevity medicine, Korify focuses on mental health.

Meanwhile, Lauber says almost all his personal wealth — which comes separately from his own entrepreneurial activities, including bringing the US chain Dunkin' Donuts to Switzerland — goes into biotech investment.

Among Korify's holdings is New York-based Gameto, which is applying cell-based therapies to areas such as fertility treatment and menopause-linked health problems. Another is Cambrian Bio, also based in New York, which is developing various drugs to target the biological drivers of ageing.

Lauber's enthusiasm for biotech has proven contagious. He says he has brought about 30 other family offices and wealthy individuals, from Switzerland and further afield, including the UK and US, into Korify Capital. For most of them, he adds, this was their first foray into biotech.

Biotech comes with more risk than many other sectors. Scientific breakthroughs that show promise in test tubes and animals sometimes hit barriers when confronted with the complexities and quirks of the human body. ▶

1
Zvi and Raphael Noé are expanding their family's real estate portfolio
2
Robin Lauber

Sometimes, innovations that seem to work when tested on a small group of people fall down when they move into larger, more robust trials.

In 2014, Oxford-based Circassia Pharmaceuticals, an allergy specialist, launched a £581mn initial public offering, a record at the time for a London-listed biotech. But it crashed two years later, after a large trial found its cat allergy treatment was no more effective than a placebo.

While well-connected wealthy investors can play a role in influencing the success or failure of companies in sectors such as real estate or finance — for example, through business contacts — have no levers to pull if the science says the treatment does not work.

Still, the rewards in healthcare can be substantial. The biggest shareholder in BioNTech, the German vaccine maker which partnered with Pfizer to produce one of the world's most widely used Covid-19 shots, is the family office of twin brothers Thomas and Andreas Strüngmann, who, in 1986, founded generic drug maker Hexal and later sold it to Novartis for about $7bn.

In 2008, the Strüngmann brothers supported BioNTech with a €136.5mn seed investment in a €150mn round that enabled the founding of the company, according to Highworth Research.

They own 43.5 per cent of BioNTech through an investment vehicle called AT Impf, according to a recent SEC filing, making their stake worth around $14bn. "It's a great example of the capacity of a single family office to deploy patient capital," says Highworth's Graham.

Examples such as this have helped Lauber to make the case to other family offices for investing in the sector. "Covid has shown them that biotech investing can be super rewarding," he says. "Biotech is the ultimate impact investment."

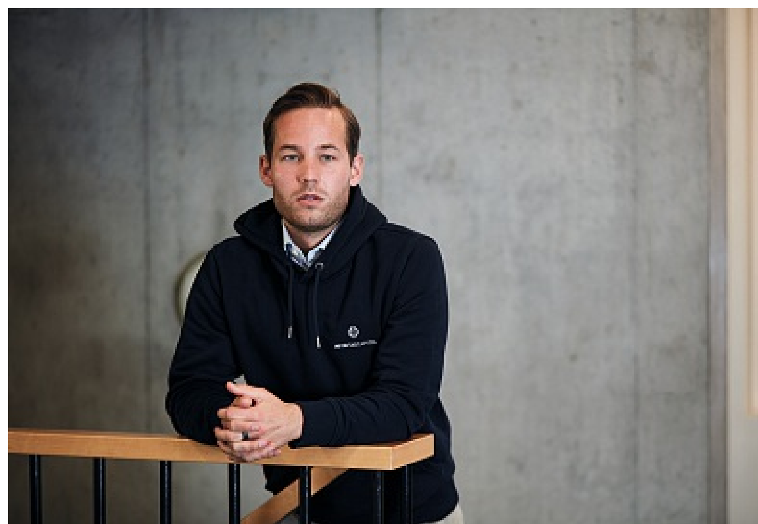
As family offices embrace biotech, they are getting smarter about it. Over the past 10 years, family offices have become more professional in how they assess potential investments in healthcare, says Masha Strømme, a former investment banker and research scientist whose Oslo-based family office funds and mentors early-stage biotechs. Her family office's holdings include Exact Therapeutics, which is developing the use of ultrasound to deliver cancer therapy more effectively.

"PhDs in microbiology and biochemistry as well as medical doctors are now running investments for some of these family offices," she says. "People are gearing up to know what they invest in," she says. In the past, many family-office investments into biotech were made "with the heart" into diseases that affected a member of the family, or its close associates, she notes.

Biotech itself may be a relatively risky proposition, but there are ways of reducing risk. The buildings used by the sector, for example, could be a safer bet. That is the view of the Noé Group, the family office of the UK-based Noé family, which made its money in property and is now headed by Leo Noé, son of the founder, Salomon.

In 2020, the Noé Group invested in a large campus in Eindhoven in the Netherlands that brings together

Life science has fast-growing space requirements … so the Noé Group has invested in campuses



laboratories, clean rooms and manufacturing facilities alongside spaces for offices and university lectures. The campus aims to attract a broad range of tenants, from universities to start-ups and larger companies, in order to create a scientific ecosystem.

Noé's sons, Zvi and Raphael, first visited the site in 2018 and were ready to make an investment in early 2020. The pandemic delayed the investment by a few months, but it also helped to reinforce the case. While people stayed away from offices and retail spaces, laboratories and manufacturing sites were still humming.

Earlier this year, the Noé Group invested €30mn in three buildings with laboratory space in Madrid, Spain, and the brothers say they intend to further expand their portfolio of life science real estate.

Life science is a sector with fast-growing space requirements, says David Bloom, Leo Noé's son-in-law. That's in part because biological research increasingly depends on sifting through enormous datasets produced by advances such as large scale genomic sequencing, and those data centres need space. "From a real estate perspective, that's a good thing," he says. Bloom's arm of the Noé Group invests in data centres. Its portfolio includes the Kao Data Campus, in Harlow, which houses Cambridge-1, one of the most powerful computers in the UK.

The Covid-19 pandemic put life sciences under a spotlight, accelerating a growing interest in healthcare that was already underway among family offices, says Nooman Haque, a life sciences investor based in the UK. He says family offices have risen in prominence as sources of capital for venture funding rounds. "It's not unusual now, even in the UK, for a company when on a fundraising trail to identify a handful of family offices," he says. "That door has been opened a little bit."

For some family offices, investment in healthcare is deeply personal, says Los Angeles-based Greg Suess, an adviser to Forbes 400 families for Activist Artists Management, a talent management and advisory group. A few years ago, Suess set up a fund whose key investment themes include the therapeutic applications of cannabis after several of his clients asked about it. Many had personal reasons for their interest, such as a relative with arthritis or anxiety. He says about 20 families are involved in the Activist Green Fund, which manages $2.2mn.

"I got the life-science bug early on," says veteran tech entrepreneur Hermann Hauser, who co-founded Acorn Computers in 1978, then the chipmaker Arm in 1990. His first meaningful foray into biotech was an early investment

Breaking bad
Fidji Simo, chief executive officer of the delivery company Instacart

in Cambridge-based genome sequencing company Solexa, which was founded in 1998 and later acquired by San Diego-based Illumina for $600mn.

Hauser was impressed by the rate of progress: the cost of sequencing the human genome fell from $10mn to $1,000 — or a factor of 10,000 — between 2007 and 2014. By comparison, the cost of semiconductors took a decade to reduce by a factor of 30, he says. His conclusion: “Computing is incredibly slow compared to life sciences.”

Since then, Hauser has been a key investor in life sciences, both through his family office and the venture capital firm that he co-founded, Amadeus Capital Partners. He says his personal portfolio is split equally between bioscience and tech.

Many figures from the tech world are putting their money into healthcare. Bezos is reported to be a key investor in Altos Labs, a start-up with sites in San Francisco, San Diego and Cambridge, UK, which says its mission is to use “cellular rejuvenation programming to reverse disease, injury and the disabilities that can occur throughout life”. In 2021, Paypal founder and billionaire, Peter Thiel invested heavily in Utah-based Blackrock Neurotech, which aims to help neurologically impaired patients regain lost skills.

Fidji Simo, chief executive of the delivery company Instacart, has co-founded a new medical and research centre in Salt Lake City, Utah, focusing on diseases that involve both the immune and nervous systems.

Simo has co-founded a new medical and research centre in Salt Lake City, Utah

Paul Kessler and Diana Derycz-Kessler, a husband-and-wife team who are long-time investors in biotech and also founded the Los Angeles Film School, prefer to invest in later-stage public companies via private investment in public equities, or Pipe. During the 1990s, Kessler was one of the pioneers of this investment style, where companies issue shares to private investors directly, rather than through the stock market, although those shares may subsequently be traded publicly. Kessler says Pipe investing allows him to get closer to the management teams and better understand the science.

He says the majority of the couple’s investments are in biotech, although they also invest in energy and tech. “What fascinated me about biotechnology and drug development was how it could extend, improve and create happier lives for people who’ve been afflicted by a horrible disease,” he says. “How many can say they don’t know someone afflicted by cancer?”

Sometimes, the personal aspect comes later. A few years ago, the Kesslers invested in Iovance Biotherapeutics, a cancer immunotherapy company whose most advanced experimental treatment is for melanoma. They were impressed by the science behind the company, which arose from research conducted at the National Cancer Institute in the US under top scientist Steven Rosenberg.

After investing in Iovance, Kessler received a melanoma diagnosis, which has since been treated successfully by surgery. He says: “Because of my melanoma diagnosis — and thereafter surgery — that became very personal.” ●

PHOTOS: AYESHA KAZIM; GABRIEL HILL, FOR THE FT; DAVID PAUL MORRIS/BLOOMBERG

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RENEWED OPTIMISM

PRIVATE BANKER AMY LO BELIEVES HONG KONG STILL REMAINS A HOTBED FOR CHINESE CLIENTS

BY CHAN HO-HIM
PORTRAIT BY ANTHONY KWAN

Amy Lo has just returned from a business trip to the Chinese commercial hub of Shenzhen and is full of optimism. The Hong Kong-based private banker has enjoyed her first outing to mainland China in three years, after tough Covid-19 restrictions left the territory isolated and sent its economy into recession.

"Now that the [border] is open…I have a lot of requests for meetings," says Lo, who co-runs Asia Pacific wealth management at UBS, one of the most profitable arms at the Swiss bank.

Lo — who is also head of UBS Hong Kong and has more than 30 years of experience in the private banking sector — says that, apart from allowing work trips to restart, the lifting of restrictions permits wealthy clients from mainland China, south-east Asia, US, and Europe to return to the territory.

Hong Kong, which was forced to follow a version of Beijing's zero-Covid policies involving one of the world's longest border closures, suffered a 3.5 per cent economic contraction last year as the territory battled its most serious Covid outbreak.

It resumed quarantine-free travel with the rest of the world only late last year and did not reopen its borders with mainland China until February, after Beijing's abrupt U-turn on Covid curbs.

But, as well as giving Hong Kong a boost, the return to normal business life has revived competition with the city's biggest regional rival — Singapore — to be Asia's financial hub.

The south-east Asian nation stole a march on Hong Kong by reopening its doors to the world months earlier and reported 3.6 per cent growth in its gross domestic product in 2022.

Other numbers tell a similar story. Singapore's airport ▶

Safe pair of hands
Amy Lo is head of UBS Hong Kong and has more than 30 years of experience in the private banking sector

1

arrivals are back up 70 per cent of their pre-pandemic levels, while Hong Kong's are little over half the 2019 figure. Many Chinese billionaires migrated to Singapore during the pandemic and some foreign banks moved to relocate staff from Hong Kong to the city-state.

Yet, when it comes to wealth management, Lo says Hong Kong still has a significant competitive edge through its geographical closeness to mainland China — as well as a bigger capital market than many of its regional peers. Hurun, a research group that tracks the wealth of China's richest individuals, identified nearly 138,000 families with a net worth of more than 100mn yuan ($14.5mn) as of 2022, in a report earlier this year.

Hong Kong is also ahead in stock exchange terms: the city's bourse has a market capitalisation of more than $4.5tn, and hosted 89 initial public offerings last year, compared with Singapore's total market value of about $650bn with just 15 new listings in 2022.

In terms of the wealth pool, Singapore is well behind. Hong Kong had 67 billionaires — individuals with a net worth of at least $1bn — with cumulative wealth of $383bn last year, according to a UBS global billionaires report released in December. That compares with Singapore's 26 billionaires, with $107bn. Both saw a dip in the number of billionaires, and in total billionaire wealth, year on year.

The "past few years were tough" for the wealth management sector in Hong Kong due to Covid and the border closure, acknowledges Lo, who is married to Hong Kong's health secretary Lo Chung-mau — author of the city's Covid policies. But, with all travel restrictions and a 945-day mask mandate now scrapped, she maintains "Hong Kong is back".

Lo, who began her banking career in Hong Kong at a private bank in the 1980s, before working in wealth management at UBS from the mid-1990s, has held various senior positions in the Asia Pacific region — such as head of global family office and head of ultra-high net worth.

"A question I asked every one of the clients when they came back here was: Did you see anything different?" she says. "They said: 'Oh, [Hong Kong] is very busy!' They are also surprised…They said: 'Wow, it is very normal, back to normal now'."

John Lee, who was appointed Hong Kong's chief executive by Beijing in July last year, has recently been pushing for new incentives to resuscitate the city's economy. Fresh measures for family offices with assets under management of more than $31mn — including a profits tax exemption — plus a new investment migration scheme to lure rich individuals are on the table. And a promotional campaign called "Hello Hong Kong" gave cash vouchers to visitors and 500,000 free air tickets to travellers, in an attempt to entice tourists back.

3

1
Local food markets in Hong Kong are now bustling
2
Hong Kong welcomed more than a million visitors in February
3
Hong Kong's chief executive John Lee

Some of those incentives have proven effective. The city welcomed more than a million visitors in February, for the first time in a single month since 2020 — although that is only a quarter of pre-pandemic levels. Last week, Hong Kong also attracted dozens of top family offices from mainland China, the Middle East, the US and Europe in an "invite only" summit — all part of a government push to have them set up their regional headquarters in the territory.

It is a push that is needed to help the city catch up. Singapore had an estimated 1,500 family offices by the end of 2022 with a relatively loose tax incentive threshold of at least $7.5mn in fund size. Hong Kong's goal is to attract "no less than 200 family offices" to expand or set up in the city by 2025.

Lo insists both Hong Kong and Singapore are "important hubs in Asia", and that growth does not have to come "at the expense of one another". She adds: "Hong Kong still appeals, especially to some Chinese families, because it is close to the mainland.."

Hong Kong still appeals, especially to some Chinese families, because it is close to the mainland

As both places reopen to the world, Lo says "it becomes a level playing field": Hong Kong being the gateway into mainland China, while Singapore opens the door to south-east Asia investment opportunities.

Roughly 40 per cent of the assets under management in Hong Kong's private wealth management industry now come from mainland China — up from about 35 per cent in 2019 — according to a report by KPMG and the Private Wealth Management Association in Hong Kong, last year. It surveyed 36 financial institutions and more than 200 wealthy clients in the city.

That suggests a future competitive edge over Singapore, as the mainland Chinese market has been "the biggest growth opportunity for the industry", Lo says.

However, some high-net-worth individuals are becoming concerned about the geopolitical tensions in the region, Lo acknowledges. Hong Kong, following Beijing's imposition of a national security law prompted by the 2019 protests, has cracked down on dissidents. Financial services industry executives are alarmed that opposition leaders have been jailed or have fled the city, and business figures — such as media tycoon and vocal Chinese Communist party critic Jimmy Lai — have been arrested.

All smiles
Tourists on Hong Kong's harbour front. The city recently ran a campaign called 'Hello Hong Kong' to attract visitors back

PHOTOS: LI ZHIHUA; PETER PARSK/GETTY IMAGES; FILIPE LOPES/SHUTTERSTOCK; LAM YIK/BLOOMBERG

"With the national security law and all that, it's causing a lot of anxiety. But I don't think any of them are giving up on Hong Kong," noted entrepreneur Yenn Wong, speaking to the FT a few months ago. She added that, among the rich people that she knew, "everyone might be setting up second bases, or everyone may be having back-up plans".

Unease around the Taiwan Strait amid ongoing US-China political tensions have also created uncertainties over the stability of the city's financial system.

Singapore, in contrast, presents a more stable environment, as the city-state maintains a low-profile stance on the geopolitical situation. Lo acknowledges that challenges, including the US-China tensions, and admits that "in the short term, the geopolitical volatility will not go away". But she adds: "If you look at it, this is not just a regional issue. You have also the Ukraine situation, right?"

"Looking back on Hong Kong history, Hong Kong has been very resilient," she argues. "We had the 1997 [handover of the city from Britain to China], the Sars [epidemic] and also, in the past, similar kinds of [geopolitical] tensions."

On top of this has come the global banking turmoil stemming from the collapse of Silicon Valley Bank and UBS's emergency takeover of Credit Suisse.

Faced with these challenges, Lo has one key piece of advice for wealthy clients: always diversify geographically and by asset class. Alternative investments, such as hedge funds and commodities, have been of growing interest among family offices, she says.

Lo also says that interest in virtual assets among younger clients "will not go away" despite the collapse of crypto exchange FTX. Overall, though, asset allocation to cryptocurrencies is limited.

Meanwhile, more clients, in particular younger people in wealthy families, have been increasingly interested in allocating more of their funds to ESG investments and contributing to philanthropy, post-Covid.

Competition for talent is another challenge, says Lo. According to government data, Singapore's workforce grew by about 230,000 people in 2022, while Hong Kong has lost some 140,000 workers in the past two years — a talent exodus prompted by the pandemic and Beijing's tightening political control of the city.

At UBS's Hong Kong branch, a "small number of colleagues" did relocate to places including Singapore during the pandemic, says Lo. But the branch saw a small net expansion in its team last year, including in wealth management. Lo says the bank has been "selectively hiring".

Recruiting experienced staff in sustainable finance in the region is hard work, according to Lo. "We don't have enough ESG talent," she says.

Lo would like to attract people from the large pool of talent in Europe, where ESG has a much longer history, but acknowledges that this could prove difficult.

Still, she believes that the growth of business in Asia, including in wealth management, will create opportunities to entice colleagues and new recruits from Europe and elsewhere in the long run. She says: "When the soil is fertile, people will come here to farm." ●

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MURKY WATERS

BUYERS OF SUPERYACHTS CAN BE VULNERABLE TO NASTY TAX SURPRISES IF THEY ARE NOT WELL ADVISED

BY FAITH GLASGOW

Port of call
The pretty village of Portofino, in Italy, is popular with yacht owners

he purchase of a luxury item — whether it's a diamond, a Gauguin, a superyacht or a private jet — is a pretty exhilarating prospect for most people, so it is not difficult to imagine how the duller aspects of due diligence and tax considerations might be overshadowed by the excitement of the moment.

But, as the transactions necessarily involve very large sums, they can prove unexpectedly costly in tax or customs terms if the right questions — and there are a lot of those — are not asked at the right time. Not checking the VAT status of a £100mn yacht before it re-enters European waters is a big mistake when the tax rate is 20 per cent.

Buyers of superyachts, which typically travel between jurisdictions but may remain in them for extended periods, can be particularly vulnerable to nasty surprises if they are not well-advised, warns John Leonida, a former specialist superyacht lawyer and now an independent consultant.

"I tell people to think of a yacht as floating real estate, as if they were buying a house or chalet, where they would expect a whole process of funding, ownership structure, tax considerations and so on," he says. "But, over the years, I was involved in many cases where people were so keen to buy, and so caught up in the euphoria of becoming a yacht owner, that they didn't tick all the boxes."

Where tax is concerned, that can spring out of a very human willingness to hear and run with the headline good news, without ensuring the necessarily robust due diligence is carried out.

"There is often a narrative in this world that 'tax is optional' or 'the yacht is owned by an offshore company, so it doesn't really have any tax implications'," continues

SUPERYACHTS: THE KEY QUESTIONS

John Leonida advises prospective superyacht owners to seek answers to the following questions:

- What is the presumed tax status of the yacht — is it VAT-paid or not?

If it is said to be VAT-paid:
- How was it used previously in its lifetime? Was it chartered or used privately?
- Did it spend significant time outside the EU?
- If so, how did it leave the EU? Were the appropriate declarations made on its departure and return?
- How were the VAT returns dealt with? Was VAT at any point paid and then reclaimed?

If no tax has been paid on the yacht:
- Who will be on board — will friends or family be using her?
- Will she be chartered?
- Where will she be at all times?
- How will you fund the upkeep?

Where the boat is flagged is generally less important than where it is used, although if you are British, with a British flag, and are not based in the EU, you can take advantage of the temporary importation regime. "It's all about how you're going to use the boat, and that determines the budget as well," says Leonida.

Leonida. "People don't realise that tax, from all sorts of angles, arises from where the ultimate beneficial owner lives, how the yacht is used, where it's moored."

Nic Arnold, UK head of JTC Private Office, says that the tax considerations involved for the purchasers of superyachts revolve, in part, around the tax regime where the owner is resident. "We have to stand back and look at it from the perspective of the owner, and consider the tax system they are embedded in," she says. "That will drive the right answer for the ownership structure — and it absolutely won't be a case of one size fits all."

Issues around indirect taxes and levies such as VAT and customs duties on the asset itself can be even more variable, complex and easily misinterpreted, depending on how the asset is bought or sold and moved around.

VAT is a particularly slippery fish for prospective buyers. A superyacht may be labelled as VAT-paid, which is an attractive proposition if you are otherwise looking at 20 per cent tax on yachts often valued at anything between £5mn and £100mn plus. But that is not a reason to bypass due diligence into the history of its tax profile.

''Owners fundamentally need to understand the tax status of a vessel they are about to buy," says Arnold. Its VAT-paid label means that, at some point in the past, someone paid EU VAT on it. But it's a misleading term, as yachts enter and leave the EU, and can also switch between commercial and private use — events that could cause them to change or lose their VAT status.

"Has this yacht historically ever done anything other than be imported once into the EU, then sailed around the Mediterranean as a private vessel? Most don't have this straightforward profile," she explains. "If the one you're looking at doesn't, then you need to be clear whether any of its history has changed its tax status such that it no longer actually has a simple VAT-paid position and, in fact, requires its VAT status to be renewed."

Brexit has imposed new obstacles for British citizens, creating the risk that movable assets will be hit by VAT. But there is a useful EU tax relief that has become available to British residents wanting to sail their yacht in the Mediterranean — or possibly bring art or luxury items into the EU — in the shape of 'temporary admission'. This basically allows non-EU owners to take a holiday cruise, or bring in art for a temporary exhibition, for example, without having to pay import duty on the asset. It's simple, bona fide — and becoming increasingly popular, says Arnold. However, there are strict parameters to be observed, which owners should not take for granted.

"Private yachts cannot stay longer than 18 months, so temporary must mean temporary," Arnold continues. "And this is a concession to non-EU holidaymakers, so you can't charter out your yacht or lend it to European friends under this rule. The customs authorities won't be happy if they come on board — as they will — and find a load of EU nationals in residence without the UK owner on board." ▶

Owners fundamentally need to understand the tax status of a vessel they are about to buy

1
'One size doesn't fit all': Nic Arnold, UK head of JTC Private Office
2
'I tell people to think of a yacht as floating real estate': former superyacht lawyer John Leonida, now an independent consultant

Wherever you're sailing, it's also important to be aware of added complexities if works of art are housed on board. As Leonida points out: "It's often the case that art on yachts is not owned by the entity that owns the yacht. It may be owned by an individual, or perhaps another trust."

Again, that means standing back and considering how a customs official might view the situation. If the art has a different owner from the yacht, then that needs to be clearly proven and you should be able to show who has given permission for that art to be on board.

"It may sound like overkill, but customs officials will want to see that evidence, and also evidence of its tax status, which is likely to be completely different from that of the yacht," warns Arnold.

She gives the example of an occasion where her clients were completely convinced that there was no tax issue in keeping an artwork on their yacht because it was flagged out of the Cayman Islands and therefore the art remained in the jurisdiction of the Caymans rather than the EU. "This proposition was put forward with such confidence that I had to phone a colleague to double-check [it]," Arnold says. "The clients' story wasn't true, of course, but it shows the degree to which people need to cross-check the information they're given and consider where it has come from when relying on it: those clients could have lost their art — or at least be paying a lot of tax on it."

'Whether it's art, or yachts or planes, it all comes down to having the right paperwork'

As well as raising tax complexities, art on yachts may also spark potentially contentious issues around authorisations and export licence requirements. Arnold points, for example, to a regulation introduced by the EU in 2019 in an effort to combat looting from war-torn regions of the Middle East and elsewhere, requiring proof of the provenance of imported antiquities and sculptures.

"Whether it's art, or yachts or planes, it all comes down to having the right paperwork — and that paperwork needs to align with the tax rules, regulatory rules and any industry-specific rules you're trying to meet," she says.

This is where high-quality and reliable advisers can come into their own. Ben Santamaria, a partner of owners' representative business Tyburn Partners, deals with successful business people who want to become superyacht and private jet owners.

"They don't necessarily know the right questions to ask, if it's around an asset class that isn't within their area of expertise — but they know the right people who will know and ask those questions on their behalf," he says.

Arnold agrees. "Owners and their family offices need to raise the governance bar by knowing what questions need to be asked," she says.

"There is not high transparency around the rules on moving these assets around the globe or operating them commercially, and they are detailed and complicated — so the owner may not be fully au fait with the tax sensitivities that go along with owning their yacht."

But, even when they know the rules, the extent to which they worry about them can vary.

"Some clients are very cautious and take a lot of advice around how movement and use of the boat might affect their tax considerations," says Santamaria. "Others just want to use the asset and — if there is a tax due — they will pay it." ●

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MORE MONEY MORE PROBLEMS

SOARING INTEREST RATES SEE PRIME PROPERTY SALES DWINDLE AS SELLERS REFUSE TO BUDGE ON PRICE

BY HUGO COX

n January 2022, Berlin-based estate agent Peter Rabitz, who specialises in selling expensive homes, took on a smartly decorated three-bedroom penthouse apartment in Kreuzberg, a fashionable Berlin suburb.

Initially, the vendor insisted that it be marketed at €2.945mn. But, by November, there had been so little interest that Rabitz persuaded her to drop the price to €2.495mn. He would like to price it even lower: once he has interest from several prospective buyers, he will be able to play them off against each other to negotiate a higher price. But, in recent months, buyer interest has been hard to find.

"When I put the home on the market at the start of 2022, properties like this were selling at those prices," he says. "But now that interest rates have gone up, there's just no way. Buyers know they have power, but too many owners are still asking crazy prices."

Across Germany's large cities, higher mortgage rates have reduced what people can afford to pay for homes, but sellers remain reluctant to drop their prices. The result is a stand-off and a slump in housing market sales, as many luxury homes languish unsold on the market.

In November, the number of homes for sale for more than €500,000 on Germany's top property portals that had been listed for more than 60 days was double the level of a year earlier, according to Homeday, a large German estate agent. Only 2,260 homes were sold in Berlin between October and December, down from 4,013 a year earlier, according to government data.

During that time, the average 10-year fixed mortgage rate increased significantly. It had been 1 per cent at the start of 2022, but stood at 3.96 per cent at the start of March, according to Interhyp, a German mortgage broker. House prices were already falling: down 2.5 per cent in the second half of 2022 — the biggest six-month drop in more than 20 years, according to the Association of German Pfandbrief Banks (VDP). Between the first quarter of ▶

Priced out
Prospective buyers are being put off by the price of top-tier properties, such as this villa on Lake Wannsee, Berlin

1
Rising interest rates have put a strain on Peter Rabitz's ability to move on once desirable properties

2
Homes along the river Spree in Berlin's Charlottenburg district

2010 and the second quarter of 2022 home prices had increased by 107 per cent.

And recent numbers underestimate the size of price falls, according to Thomas Zabel, co-founder of the German residential business of Savills, the property agency. "For homes that are actually selling, you're talking about 20 per cent to 25 per cent off the initial listed price," he says. "It's the same story in every big city — even in the best, most expensive locations in Munich, our most prestigious luxury market."

In Munich's central Ludwigsvorstadt-Isarvorstadt district — an area perched below the city's historic Old Town, taking in the desirable quarters of Glockenbachviertel and Schlachthofviertel, that are well stocked with large villas — average listing prices fell 11.5 per cent in the last three months of the year, compared with three months earlier, according to Homeday.

Further from the city centre, Germany's richest buyers have long been drawn to Bogenhausen, Munich's quiet north-easterly borough — where high stone walls conceal sprawling private gardens belonging to large detached homes, costing €5mn and more.

In Hamburg's upscale Rotherbaum district, where Tudor-style detached homes look out on to Außenalster, the larger of the city's two artificial lakes, listing prices fell 9.9 per cent in the last three months of the year, compared with the three months earlier, according to Homeday.

The city's luxury home market is small, with few homes selling, even in good years. A long history of dynastic family businesses, with fortunes built over generations by merchants connected with the port, means price falls here have been lower than in other cities, according to Zabel. "Hamburg is dominated by old money and this makes it more resilient: the most expensive homes have been in family ownership for many generations," he points out.

But, in Berlin, some prices have been cut drastically. Many of the city's luxury homes — which had an average listing price of €3.45mn in the last three months of 2022, according to real estate group Engel & Völkers — are located in Mitte, the city's historical centre, or jostle for space between the stylish restaurants and celebrated museums of Charlottenburg. Sales of these have slowed to a trickle, though and the few that are selling are going for discounts of up to 30 per cent on the initial listing price, according to Rabitz.

Germany's luxury estate agents and mortgage brokers describe a market that has seized, with buyers pulling out

For homes that are actually selling, you're talking about 20% to 25% off the initial listed price

1

2

PHOTOS: CHARLOTT COBLER, FOR THE FT; ALAMY; DAVID CHIPPERFIELD

as higher mortgage rates make purchases unaffordable, or delaying transactions, believing prices have further to fall.

"Mortgage rates are going up but banks are also requiring larger deposits," explains Ozan Yaprak, chief executive of local mortgage broker Moya Baufinanz Berlin, which — he says — arranges 100 mortgages per year between €1mn and €3.5mn. "For many customers considering a high-end apartment purchase, the requirement for a larger deposit now is enough for them to change their mind."

In recent years, much of Berlin's luxury market had been driven by those minted from the city's thriving start-up scene or working in finance, media or law. Today, these affluent working professionals are pulling back from purchases, meaning Yaprak relies much more on family offices and very rich families for business. "Last year, business was difficult: those who work in start-ups, finance or real estate are much less confident about buying homes."

Foreign buyers in Germany remain rare, since international investors favour other cities, such as London, Paris and Lisbon, for their European home purchases.

Meanwhile, predictions that workers would relocate en masse from London to Frankfurt as financial groups shifted operations following the UK's exit from the European Union, have not come true. "Brexit just wasn't a factor," says Till-Fabian Zalewski, CEO of Germany, Austria and Switzerland for Engel & Völkers. "And those in the sector moving back and forth [between London and Frankfurt] tend to rent rather than buy."

Buyers who remain committed to a purchase have become more discerning, keen to drive a hard bargain with sellers, avoiding all but the best homes, and expecting significant price discounts.

"They know that they are in a strong position, so they are holding back and watching for a few months," says Rabitz. "Those buying with cash, in particular, know they can get a good price."

In the luxury apartment market, unless homes are the best of the best, they will be ignored, according to Zabel.

"Even if the building is super prime and the area is outstanding, it needs something special… the penthouse, an elevator into the apartment, or access to a rooftop, for example — a normal unit just won't sell," he says.

Agents are working hard to persuade sellers to drop their prices. But those in no rush to sell have been resisting, or taking their homes off the market entirely, waiting for prices to recover.

"There are so few homes available: I'm reaching out all the time to past clients, asking them if they would even entertain the idea of selling," says Rabitz.

Roughly a third of his sales are off market, he says, with sellers favouring the privacy it affords, or keen to avoid leaving a digital record of a long, unsuccessful sale attempt. ▶

Bright lights, bright city
The Glockenbachviertel quarter in Munich is well stocked with large villas

Other sellers have taken homes off the market, preferring to keep their money in bricks and mortar at a time when global economic prospects look poor.

A year ago, Georg Bruederl, 49, who owns an electrical engineering business, had found a reliable looking buyer for his three-bedroom family house in Munich, and agreed an acceptable price of about €5mn.

But, following Russia's invasion of Ukraine, he pulled out of the sale and took his property off the market. "I was nervous about the state of the global economy and, with inflation rising, I did not want to have such a large amount of money in cash," he says (in the autumn, he returned the home to the market and is currently in the process of selling it).

For luxury home buyers, large mortgages have become more difficult to secure — as well as being more expensive. Yaprak says that banks have reduced maximum loan-to-value ratios and the number of large mortgages they are prepared to grant, and are taking longer to approve most mortgages. Their lending policies have become more conservative as fears over the war in Ukraine, inflation and borrower default have intensified.

"For all mortgages, banks are asking more questions," he says. "Those above €2mn are particularly difficult. Most customers want LTVs between 80 per cent and 90 per cent. But, in 2021, I got a customer a 100 per cent loan to buy a €2.4mn home in the middle of Berlin without difficulty. The same application would be rejected now. You need a minimum of 10 per cent deposit."

A year ago, for a €1.5mn mortgage at 80 per cent LTV, banks offered fast-lane approvals as quickly as one week; now it takes between four and five weeks, according to Yaprak.

"Banks' due diligence takes more time, the banks are asking for more documents, every property is being checked with more detail," says Peter Guthmann, of Guthmann Estate, a local agent which produces regular data on Berlin's housing market. "Surveyors [employed by the bank] are extremely conservative in their valuations," he adds.

Delays in securing mortgages has created an unease amongst buyers, leading to cash buyers swooping in and securing favourable deals. "At least five times recently I've seen that happen," says Yaprak.

With mortgage rates set to stay high for some time yet, prospects for a recovery in Germany's luxury housing market seem remote.

Dmitri Uvarovski, head of research at Homeday says that prices must fall another 10 to 15 per cent for German home buyers to afford what they could have done a year ago, when mortgage rates were lower.

"Interest rates will not decrease any time soon, so the market really needs lower prices to recalibrate," argues Zabel, adding that he does not expect the shift to happen for many months.

That suggests no early end to the stand off between sellers and buyers of Germany's top homes — whether in Munich's Bogenhausen and Grünwald, along the tranquil banks of Hamburg's upscale Rotherbaum, or on the roomy boulevards of Berlin's Mitte. ●

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AMBITIOUS WEALTH

IN THE CAT-AND-MOUSE GAME OF TAX COLLECTING, THE CAT LOOKS SET TO POUNCE

BY STEPHEN FOLEY

PHOTO: AL DRAGO/BLOOMBERG

In 2010, Forbes magazine counted 403 billionaires in the US on its annual rich list. This year, there were 735, a four-fifths increase. Yet the number of inspectors employed by the Internal Revenue Service to audit complex tax returns — the kind filed by the ultra-wealthy and corporations — has fallen by almost half over the same period to around 2,600. In the cat-and-mouse game of US tax compliance, the mice have had the run of the place.

The "defund the IRS" strategy pursued by Republicans in Congress over more than a decade has had damaging effects on two fronts: most obviously, on the agency's customer service, which accountants during tax season will tell you is appalling, but also on its ability to conduct complex audits.

However this ought to change with an infusion of new funding for the IRS, totalling $80bn over the next decade, thanks to the Inflation Reduction Act signed by President Joe Biden last year. That compares with an annual $14.3bn annual budget last year. The cat just got a lot of cream.

More than half the money has been earmarked for enforcement and, if there was any doubt about the agency's game plan, it was dispelled with the publication in April of a new operating strategy and the installation of a feisty new commissioner, Danny Werfel— a high-flying bureaucrat under previous administrations who has been called back from the private sector after a stint as a management consultant.

"We will focus the IRA enforcement resources on hiring the accountants, attorneys, engineers, economists and data scientists needed to pursue high-income and high-wealth individuals, complex partnerships, and large corporations that are not paying the taxes they owe," Werfel said on publication of the new strategy.

In 2019, the IRS said, just 0.7 per cent of taxpayers earning $1mn or more were subject to an audit, a figure that had slumped from 7.2 per cent in 2011. It simply hasn't had enough people with the level of expertise required to go in and root out dubious tax accounting, let alone to fight with the battalion of advisers and attorneys that the rich inevitably bring to bear when they are challenged.

And the quantity and length of tax returns has only increased while the cat has been sleeping. The ballooning number of partnerships, used by small and not-so-small business owners and investors to avoid the double taxation associated with traditional corporations, is one area where the IRS has fallen far behind.

Audits matter. They extract more money to fund the federal government, limiting the need to increase taxes on everyone. In the fiscal year ended September 2022, the 708,309 audits that the IRS did finish resulted in $30.2bn in recommended additional tax. The $80bn in the Inflation Reduction Act for the IRS is not spending, it is investment. It will result in an extra $180bn in tax income over the decade, the Congressional Budget Office has forecast, defraying the cost of the green energy subsidies that were the centrepiece of the legislation.

Werfel signalled that audit rates will bounce back closer to historical levels, and the approach this time round will be significantly more sophisticated. His list of hiring targets hints at why. The engineers and data scientists that he wants to bring into the agency — and the $12.4bn of the $80bn allocated specifically to IT — should lift an effort to use machine learning and AI to detect patterns of tax evasion and fraud.

The IRS has built tools to link the different participants in business deals, for example, to see if they were used to

Stephen Foley is the US accounting editor

Strong stance
Danny Werfel, the new commissioner of the Internal Revenue Service, speaking to the Senate last month

dodge taxes, but it has previously had to lean on expensive outside vendors — such as Palantir — for assistance in fraud detection. Better centralised tools should also help focus audits on cases where recoveries of unpaid taxes are likely to be highest, rather than letting local offices do their own sampling.

The step change in audit rates won't happen overnight. Hiring and training the required numbers of inspectors will take several years. And while, all else being equal, the Inflation Reduction Act may end up doubling the IRS's workforce, it is hardly the last word on money matters.

Defunding the IRS has always been a way of defunding the government by stealth, which is why Republicans look set to continue to try to trim the agency's sails. There continues to be haggling over the rest of the IRS budget: Republicans who control the House of Representatives want to hold annual increases below the rate of inflation, at the very least.

But this is more likely to curtail customer service improvements for everyone than deter the IRS leadership from targeting tax avoidance by the wealthy.

The agency says that audit rates have "declined to levels that erode voluntary compliance", which is a polite way of saying that wealthy taxpayers and their accountants have been playing fast and loose with the tax code, because they know they have little chance of being caught. That no longer looks a safe bet. The cat is no longer away, and the mice would be wise to play nice. ●

BOOK REVIEW
THRIVING IN A VIBRANT IF MESSY DEMOCRACY

BY STEFAN WAGSTYL

Before Steve Jobs, there was Bill Gates. Before Gates, there was Henry Ford, and before Ford were Thomas Edison, John D Rockefeller, Cornelius Vanderbilt and a host of other groundbreaking entrepreneurs, all the way back to the Founding Fathers.

Most of them became very rich, and together they built America. This is the theme of *Launchpad Republic* by the entrepreneur-investor Howard Wolk and business historian John Landry.

The book argues that the US has developed a uniquely effective form of capitalism thanks to a dynamic balance between economic freedom and selective regulation, which encourages competition and the emergence of new companies and technologies without losing sight of the consumer interest.

The rules provide enough space for upstarts to set up and for big corporations to conquer global markets. Regulations safeguard legitimate business interests — such as intellectual property — without over-protecting incumbents, say the authors. And all this is only possible because of America's vibrant, if sometimes "messy and difficult", democracy.

"Few countries around the world have shown an ability to replicate this spirit and energy, and it is why our political system is the most durable and our economic progress the most sustained," write Wolk and Landry.

They argue that America was founded on dissent — by largely Protestant emigrants who left Europe determined to find religious freedom and give rein to their energies in a new land of endless possibilities. A combination of immigration and restless westward expansion fuelled a dynamic economy that mastered a succession of industrial revolutions, in cotton, steel, railways, motor cars, electricity, chemicals, atomic energy and finally digital transformation.

It's an old argument, with plenty of adherents in the US and around the world. And it has a lot of truth to it. But Wolk and Landry overstate their case, and fail to pay enough regard to the

Economic drivers Henry Ford is just one in a long line of groundbreaking American entrepreneurs

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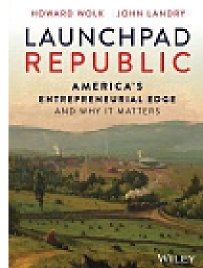

flaws in the system, especially its deep inequalities. While the authors write "America must address the social issues more effectively", they don't analyse the roots of the large wealth gaps between rich and poor, and between black and white Americans. The fact that the US has the lowest life expectancy of any leading industrialised country while spending most per head on healthcare is an economic issue as well as a social and political one.

They also underplay the weaknesses in American politics, not least the threat from populism generated from the directly elected presidency. They barely mention Donald Trump, naming him only once and saying nothing about one of the most dramatic political events of the past decade — the attack on the US Capitol building. Yes, this is a book focusing on entrepreneurs and entrepreneurialism, but its argument is that politics has a big role to play in providing the conditions for business people to succeed.

Looking at the history of capitalism, the authors rather shortsightedly look for the origins of US capitalism in northwest Europe, from where the earliest immigrants came. This is understandable, but it exaggerates the uniqueness of this transatlantic experience. Before flourishing in the British Isles and the Low Countries, capitalism did pretty well in the city states of what is today northern Italy, where, among other things, double-entry bookkeeping was invented.

That all said, there is a solid account here of the way the Founding Fathers consciously shaped the young republic's laws for the needs of business, and how checks and balances evolved from the conflict between supporters of states' rights and a strong federal government.

Later, the evolution of competition rules and antitrust legislation is elegantly woven into the story of successive business moguls, the disruptive role of new technologies and the endless creativity of entrepreneurs. Take, for example, Rockefeller, who saw his already huge net wealth rise following the compulsory breakup of his Standard Oil group into 34 companies — because the pieces were worth more than the whole.

The long historical sweep allows the writers to make interesting comparisons between the giants of today's digital age and those of the past. The attention that competition authorities pay to the dominant market positions of Google, Amazon and others echoes concerns in the past in the oil, steel and telecoms industries. Not surprisingly, the authors favour the US's light-touch approach to excessively powerful incumbents over the EU's more aggressive attitude, as manifested in cases involving Microsoft.

Wolk and Landry argue that the best way to challenge the behemoths and keep them delivering benefits to consumers is by encouraging competition, including from newcomers. Who would have thought that so soon after achieving dominance as a social media platform, Facebook would face big new rivals, including a Chinese competitor, TikTok.

This book is best seen as a succinct defence of American capitalism, all done in a pithy 256 pages. Readers who desire a more balanced picture of a complex and nuanced question will supplement this slender tome with other works. ●

Launchpad Republic: America's Entrepreneurial Edge and Why It Matters by Howard Wolk & John Landry (Wiley $29.95)

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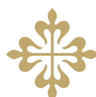

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