CHARTA LEARNING · LESSON NOTES

Citizenship, family and working clients

Private Wealth

1 A story: the second passport

- Peter, 34: wife Nora and two children
- He wants travel, schools and safety
- He also hopes a second passport cuts tax
- Tax follows residence, a different test

IN THE LESSON

- Peter Varga is thirty four.
- He lives with his wife Nora and their two children in Country A.
- At a dinner he hears that a small island state grants citizenship in return for an investment.
- The children could study abroad, and the family could travel almost anywhere.
- Peter adds, quietly, that surely it will cut their tax.
- Imogen Hale starts by separating what a status does from what the family hopes it does.
- Citizenship means membership of a state, with a passport.
- Residence is permission to live somewhere.
- Tax is a third thing, and it follows a different test.

2 Four ties to a country

What each tie gives, or decides

Tie to a country	What it gives or decides
Citizenship	Membership, a passport
Legal residence	The right to live there
Tax residence	Where income is taxed
Domicile	Some systems; estates too

IN THE LESSON

- Here are four ties a person can have to a country.
- Citizenship, or nationality, is membership of the state and brings a passport.
- It is usually a lasting tie.
- Legal residence is permission to live there, which may come with conditions such as a minimum stay.
- Tax residence is the test a tax authority applies.
- It typically depends on days present or on personal ties, such as a home and family, and it decides where income is taxed.
- Domicile appears in some legal systems as a lasting idea of home, and it can reach estates and succession.
- Notice what the tax tests typically leave out.
- The passport itself is not in them.

3 How the adviser frames the choice

Start with the family

Motives: travel, schooling, safety →
Costs and days needed →
Is dual citizenship allowed?

Then the consequences

Reporting duties →
Departure tax and succession →
Specialist advice in each country

IN THE LESSON

- Before recommending anything, Imogen follows a fixed order, shown here in two rows.
- On the top row she begins with the family's real motives, such as travel, schooling, safety, business access or lifestyle.
- Then she counts the cost and the time the programme demands, including any days that must be spent there.
- Then she asks whether the home country allows dual citizenship at all, because some do not.
- The bottom row holds the consequences.
- There are reporting duties, a possible departure tax if the family really leaves, and effects on succession.
- The last box is specialist legal and tax advice in each country.
- The adviser frames the choice, and the lawyers confirm it.

4 Example 1: what the programme costs

Illustration: 7 days a year needed; family wealth 12m

Capital locked for 5 years		**500,000**
Fees, simply spent		**100,000**
Growth given up	500k × (1.04^5 − 1)	**108k**
Cost to the family	100k + 108k	**208k**
Share of family wealth	208k ÷ 12m	**1.7%**

IN THE LESSON

- Example one puts a price on the programme.
- The investment is five hundred thousand, and the fees are one hundred thousand.
- The fees are simply spent.
- The five hundred thousand is locked up for five years, and the programme asks for only seven days a year in the country.
- Suppose the family could have earned four per cent a year on that money elsewhere.
- Over five years the growth given up is five hundred thousand times one point zero four to the fifth, minus five hundred thousand, about one hundred and eight thousand.
- The real cost is about two hundred and eight thousand.
- Against family wealth of twelve million, that is one point seven per cent.
- A fair price for travel and schooling, but not a tax saving.

5 What actually moves tax residence

- Passport by investment
- Permit, 7 days a year
- Over the day limit
- Home and family moved

IN THE LESSON

- Here is a line from ties that leave tax alone to ties that change it.
- On the far left is the passport alone, bought through an investment.
- Moving right, a residence permit that asks for just seven days a year is still a paper tie, because the family lives elsewhere.
- Further right is spending more days than a country's limit, which typically makes a person tax resident there.
- At the far right is moving the home and the family, which almost always does.
- The line measures where you live, not what you hold.
- Peter's plan sits on the left, so his tax would stay exactly where it is.

6 Example 2: three countries, one passport

Illustrative rules: over 183 days; A also counts a home kept

A: 110 days, home kept	home available test	**Resident**
B: 190 days	190 > 183	**Resident**
C: 65 days, passport only	65 < 183	**Not resident**
The passport of C	creates no residence	**No effect**
Peter is tax resident in		**A and B**

IN THE LESSON

- Example two tests a different plan.
- Peter takes a work year in Country B, keeping his home in Country A, and he will hold the new passport of Country C.
- In this illustration each country treats a person as resident who is present more than one hundred and eighty three days.
- Country A also counts a person with a permanent home available there.
- Peter spends one hundred and ten days in A, one hundred and ninety in B, and sixty five in C.
- Country A catches him through the home.
- Country B catches him on days.
- Country C does not, because sixty five is under the limit and a passport alone creates nothing.
- So he is resident in two countries, and the passport changed nothing.

7 Example 3: the price of really leaving

Illustration: departure tax 25% of gains on shares

Portfolio value		**1,600,000**
Cost of the shares		**1,000,000**
Unrealised gain	1.6m − 1.0m	**600,000**
Departure tax	25% × 600,000	**150,000**
With the programme cost	150k + 208k	**358k**

IN THE LESSON

- Example three prices a real move.
- Suppose the whole family leaves Country A for good.
- In this illustration Country A charges a departure tax of twenty five per cent of the unrealised gains on shares when someone stops being resident.
- Peter's share portfolio is worth one point six million, and it cost one million.
- The gain is six hundred thousand, so the tax is one hundred and fifty thousand.
- Add the programme cost of two hundred and eight thousand, and the move costs three hundred and fifty eight thousand in all.
- Notice that the tax came from leaving, not from the passport.
- Hiding the move or the assets would be evasion, which is unlawful, and a plan must never rely on it.

8 What Imogen proposes to Peter

- Do it for travel and schooling, not for tax
- Check that dual citizenship is allowed
- Plan around tax residence, not the passport
- Report everything the law requires
- Take specialist advice in each country

IN THE LESSON

- Here is what Imogen puts to Peter, in five points.
- First, go ahead with a second citizenship only if travel and schooling justify the cost, because those are the real benefits.
- Second, check that Country A allows dual citizenship, so the family does not lose its first passport.
- Third, plan around tax residence, not the passport.
- If the family stays, tax stays, and if it moves, the departure tax must be planned for.
- Fourth, report everything the law requires.
- Fifth, take specialist legal and tax advice in each country before anything is signed.
- The trap is treating a new passport as a tax solution, and hiding assets is evasion, not planning.

9 A story: three children, two marriages

- Katalin, 59: two marriages, three children
- Dora, Marcus, and Sofia (20), the youngest
- Marcus has a disability and needs support
- Her will and forms pre-date the second marriage
- Default rules assume a simple family

IN THE LESSON

- Now meet Katalin Varga, Zoltan's sister, aged fifty nine.
- She has two children from her first marriage, Dora and Marcus.
- Marcus has a disability and receives public support that depends on his own assets.
- She has remarried, and she and her second husband Henrik have a daughter, Sofia, aged twenty.
- Her will was written before the second marriage, and her pension form still names the wrong person.
- Default inheritance rules were built for a simple family.
- Hers is not simple.
- Imogen's aim is to protect the family's total economic net worth, and to share it fairly, the way Katalin intends.

10 Complex families and the tools

Four situations, four tools

Situation	Tool
Blended or remarried	Trusts, updated papers
Dependant with needs	Supplemental trust
Incapacity, ageing	Attorney, guardianship
Family in two countries	Check each regime

IN THE LESSON

- Complex situations include blended families, divorce or remarriage, unmarried partners, dependants with special needs, elderly parents, incapacity, and members living in different countries.
- Each calls for a tool.
- For blended or remarried families, use trusts to keep assets for the right children, a marital agreement, and fresh wills and beneficiary forms.
- For a dependant with special needs, a supplemental trust provides extra support without putting public support at risk.
- For incapacity, a power of attorney names who may act, and guardianship covers those who cannot decide for themselves.
- For a family in two countries, identify which legal regime governs each person's claim, because the answers can differ.

11 Example 4: Katalin's economic net worth

Katalin, 59: human plus financial capital, less obligations

Human capital	90k, +2% a year, 6 yrs, 5%	**479,000**
Financial capital	3.0m building + 4.5m other	**7,500,000**
Less her mother's care	25k a year, 8 yrs, 3%	**−175,000**
Economic net worth		**7,804,000**
Human share of the total	479k ÷ 7,804k	**6%**

IN THE LESSON

- Before choosing tools, Imogen counts what the family has.
- Economic net worth is human capital plus financial capital, less all obligations.
- Katalin expects to earn ninety thousand next year, growing two per cent a year for six years to retirement.
- Discounted at five per cent, that human capital is about four hundred and seventy nine thousand.
- Her financial capital is seven and a half million: a rental building of three million and four and a half million of other assets.
- Against that she funds her mother's care, twenty five thousand a year for eight years, worth about one hundred and seventy five thousand at three per cent.
- Economic net worth is seven million, eight hundred and four thousand.
- Almost all of it is financial.

12 Equalising with life cover

Cover = (n − 1) × fixed asset − other assets

Children	Number of children
Fixed asset	Value going to one child
Other assets	Left for the others
Cover needed	Life cover to buy

IN THE LESSON

- Katalin wants her children to receive equal value, though her rental building must go to Dora, who manages it.
- The other assets pass to Marcus and Sofia.
- To equalise, the extra life cover equals the number of children minus one, times the value of the fixed asset, less the other assets.
- Think of it as a chain.
- Dora's share sets the target.
- Each of the other children needs that much.
- The other assets provide part of it, and the policy fills the gap.
- The cover is paid on Katalin's death, so the money arrives when it is needed.

13 Example 5: the gap and the cover

Building 3.0m to Dora; other assets 4.5m for Marcus and Sofia

The other two need together	(3 − 1) × 3.0m	**6.0m**
Other assets provide		**4.5m**
Life cover needed	6.0m − 4.5m	**1.5m**
Marcus or Sofia, with cover	2.25m + 0.75m	**3.0m**
Each, without cover	4.5m ÷ 2	**2.25m**

IN THE LESSON

- Apply it.
- Three children, so n minus one is two.
- The fixed share is three million.
- Two times three is six million that the other two children need between them.
- The other assets are four and a half million, so the policy must supply one point five million.
- Check the result.
- Dora receives three million.
- Marcus and Sofia each get two point two five million from the other assets, plus point seven five from the policy, which is three million each.
- Without the policy, the two would have only two point two five million apiece.
- That is how a plan stays fair when an asset cannot be split.

14 The plan Imogen proposes

At Katalin's death

Building 3.0m to Dora →
Other 4.5m: Sofia and a trust for Marcus →
Cover 1.5m: each child gets 3.0m

Before then

New will and pension form →
Marital agreement with Henrik →
Powers of attorney

IN THE LESSON

- Here is the plan as a picture.
- The top row is what happens at Katalin's death.
- The rental building goes to Dora.
- The other assets go to Sofia and into a trust for Marcus.
- The life cover of one point five million is shared between those two, so each of the three children ends with three million.
- The bottom row is the housekeeping that must happen first.
- Update the will and the pension beneficiary form, because a form usually overrides the will.
- Sign a marital agreement so that Henrik's claims are clear.
- And put powers of attorney in place, so someone can act if Katalin loses capacity.
- Each person's claim is named, and the law that governs it is checked.

15 Example 6: a trust for Marcus

Illustration: support stops while his own assets are over the limit

Public support a year		**30,000**
Worth today	30k, 50 yrs, 2% real	**943k**
Outright gift of 3.0m	assets over the limit	**Support stops**
Trust holding 3.0m	assets not counted	**Support kept**
Marcus has in all		**943k + 3.0m**

IN THE LESSON

- Now Marcus.
- His public support is worth thirty thousand a year in today's money, for the next fifty years.
- At a real rate of two per cent, that stream is worth about nine hundred and forty three thousand.
- In this illustration the support stops while his own assets are over a small limit.
- A gift of three million outright would break that limit, and the support would stop.
- A discretionary trust, whose assets typically do not count as his own, can pay for extras while the support continues.
- So the trust keeps the support worth nine hundred and forty three thousand and adds three million on top.
- Rules differ by country, so a local specialist must draft it.

16 Mistakes to avoid so far

- Treating a new passport as a tax fix
- Forgetting the departure tax when leaving
- Calling concealment planning
- Relying on an old will or default rules
- Forgetting forms that override the will

IN THE LESSON

- Let us collect the common mistakes from the first two topics.
- One: treating a new passport as a tax fix, when tax follows residence.
- Two: forgetting that leaving a country can trigger a departure tax.
- Three: calling concealment planning.
- Hiding income or assets is evasion, and a good adviser reports what the law requires.
- Four: relying on an old will or on default rules that no longer fit the family.
- Five: forgetting that a beneficiary form on a pension or policy usually overrides the will, so a form naming a former spouse can undo a careful plan.
- Each of these looks small, and each can be costly.

17 A story: one firm, many hats

- Zoltan, 62, owns 60% of Varga Precision
- Pay, savings and retirement all hang on it
- The firm cannot be sold quickly
- He holds rival shares; calls himself aggressive

IN THE LESSON

- Now Zoltan Varga, aged sixty two.
- He owns sixty per cent of Varga Precision, a factory he built.
- His partner, Dobos, owns the rest.
- The factory pays his salary, holds most of his savings, and will fund his retirement when it is sold.
- So his human capital and his financial capital hang on the same single asset, and the asset is hard to sell quickly.
- One bad year could hurt his pay and his wealth together.
- He also owns shares in listed engineering companies, because he says he understands the industry.
- And he calls himself an aggressive investor.
- Imogen's job is to build wealth outside the business, and to prepare the exit.

18 Example 7: how much hangs on one industry

Zoltan, 62: financial wealth by holding

Business stake	60% of the company	**6.0m**
Engineering shares	same industry	**0.8m**
Cash	outside the industry	**0.4m**
Financial wealth	6.0 + 0.8 + 0.4	**7.2m**
Tied to his industry	(6.0 + 0.8) ÷ 7.2	**94%**

IN THE LESSON

- Count it.
- Zoltan's financial wealth is seven point two million.
- That is the business stake of six million, engineering shares of point eight million and cash of point four million.
- The engineering shares would fall in the same downturn as the factory, so add them to the business.
- That makes six point eight million out of seven point two, or ninety four per cent of his financial wealth tied to one industry.
- Only the cash is outside it.
- His stated appetite is aggressive, but his ability to take risk is low, because nearly everything is one illiquid asset that also pays his salary.
- Imogen therefore proposes a more conservative stance than he asks for.

19 Pricing a buy-sell agreement

Price = ownership % × (enterprise value − net debt)

Ownership	Share of the company
Enterprise value	Whole business, debt included
Net debt	Debt owed to lenders
Price and cover	Buy-sell price, cover

IN THE LESSON

- A buy-sell agreement says that if one partner dies, the survivor buys the deceased partner's shares at an agreed price, and life insurance provides the cash.
- The price is the ownership percentage times equity value.
- Equity value is enterprise value less net debt, because the debt is owed to lenders, not to the owners.
- The insurance on each partner's life should equal the value of that partner's stake.
- If the agreement used enterprise value by mistake, it would insure for debt that the shares do not own, and the estate would be paid too much.

20 Example 8: funding the buy-sell

Operating earnings 2.5m; sector multiple 6.0; net debt 5.0m

Enterprise value	2.5m × 6.0	**15.0m**
Equity value	15.0m − 5.0m net debt	**10.0m**
Zoltan's 60%: cover on him	60% × 10.0m	**6.0m**
Dobos's 40%: cover on him	40% × 10.0m	**4.0m**
Wrong way: 60% of EV	60% × 15.0m	**9.0m**

IN THE LESSON

- The factory earns two and a half million in operating earnings, and similar businesses sell for six times that.
- Enterprise value is fifteen million.
- Net debt is five million, so equity value is ten million.
- Zoltan's sixty per cent is six million, and Dobos's forty per cent is four million.
- So Dobos should hold six million of insurance on Zoltan's life, and Zoltan should hold four million on Dobos's.
- Using sixty per cent of enterprise value would give nine million, which is three million too much.
- With cover in place, the family receives fair cash, the survivor keeps control, and nobody is forced into a rushed sale.

21 Example 9: a sale, and what is kept

Illustration: sells his stake in year 3; tax 20% of the gain

Sale price of his stake		**6.0m**
Gain over cost of 0.5m	6.0m − 0.5m	**5.5m**
Tax at 20%	20% × 5.5m	**1.1m**
Kept after tax	6.0m − 1.1m	**4.9m**
Outside the business	4.9 + 0.8 + 0.4, diversified	**6.1m**

IN THE LESSON

- A liquidity event is a sale, a recapitalisation, a listing or an employee buyout that turns the business into cash.
- Suppose that in three years Zoltan sells his whole stake for six million, the figure we just found.
- His cost was point five million, so the gain is five and a half.
- Tax at twenty per cent, an illustration, is one point one million, and he keeps four point nine.
- Add the cash, and the rival shares once they have been sold and reinvested in a diversified portfolio, and he would hold six point one million outside the business.
- Real tax depends on how and where he sells, which is why the planning starts years ahead.

22 Wealth outside his industry

Wealth outside his industry (millions)

Today	**0.4**
Rival shares sold	**1.2**
After the sale	**6.1**

Share tied to the industry: 94%, then 83%, then none

IN THE LESSON

- Here are the steps as bars.
- The vertical axis is wealth outside his industry, in millions.
- The first bar is today: only the cash, point four.
- The second bar is after he sells the engineering shares and reinvests in a diversified portfolio, which lifts it to one point two.
- That also cuts the share of his wealth tied to his industry from ninety four per cent to eighty three, because the business stake is still there.
- The third bar is after the sale of the business, tax paid: six point one.
- The order matters.
- The first step costs little and can start today, while the last needs years of preparation.

23 Preparing a liquidity event

Years before

Value the business → Plan the tax → Set the estate structure

At the exit

Choose the route → Name a successor or buyer → Plan life after exit

IN THE LESSON

- A sale should be prepared years ahead, not when a crisis forces it.
- Look at the two rows.
- The top row is the work to do early.
- Value the business, so the owner knows what it is worth and what drives that value.
- Plan the tax, because the structure of a sale can change what is kept.
- And set up the estate structure, including who will own the shares in future.
- The bottom row is the exit itself.
- Choose the route, whether a sale, a listing, a recapitalisation or an employee buyout.
- Name the successor or buyer.
- And plan life after the exit, because an owner who has no purpose or income plan often drifts into a poor decision.

24 What Imogen proposes to Zoltan

- Sell the rival shares; diversify away from his industry
- Run outside wealth more conservatively than he asks
- Separate personal assets from business assets
- Sign the insured buy-sell; insure the key person
- Start the exit plan years ahead

IN THE LESSON

- Here is the proposal, in five points.
- First, sell the rival engineering shares and invest outside his industry, in a diversified portfolio with low correlation to the factory.
- Second, run outside wealth more conservatively than his appetite suggests, because his ability to bear a loss is low.
- Third, separate personal and business assets, so a business problem cannot reach the family home or savings.
- Fourth, sign the insured buy-sell agreement, and insure the key person, whose loss could hurt the firm.
- Fifth, start the exit plan years ahead.
- The trap is investing outside wealth in the owner's own industry, or waiting until a crisis forces a sale on poor terms.

25 A story: the loyal executive

- Nina, 41: pay, job and shares tie to one firm
- She may trade only in open windows
- Competitors' shares carry the same industry risk
- Aim: cut the concentration, within the rules

IN THE LESSON

- Now Nina Varga, aged forty one, a senior executive at a listed company.
- Part of her pay comes as company shares and options.
- She says she knows the firm better than anyone, so she wants to keep everything and perhaps add shares in its competitors.
- But look at what already rides on that one company: her salary, her bonus, her career, and her shares.
- They all depend on the same share price.
- As an insider she may also trade only in set windows, and the rules on inside information limit what she can do and when.
- A good plan reduces the concentration, and stays inside those rules.

26 Different clients, different weak spots

Match the first move to the weak spot

Client type	First move
Executive	Staged selling, hedge
Doctor or lawyer	Insure income and liability
Athlete, entertainer	Save a large share
All of them	Diversify away from work

IN THE LESSON

- Different careers have different weak spots, so a good plan targets the one in front of you.
- The executive's weak spot is concentration in the employer, answered by staged selling, hedging where the employer permits it, and diversifying away from the sector.
- A doctor or lawyer often starts earning late, carries education debt and faces liability claims, so disability insurance, liability cover and asset protection structures matter.
- An athlete or entertainer earns heavily over a short and uncertain period, and must save a large share of it.
- For all of them, the common thread is to build wealth away from the work that earns the income.
- Rules and products vary by country and employer, so the adviser checks what is allowed before proposing anything.

27 Example 10: how much rides on one employer

Nina, 41: financial wealth 4.0m

Shares	30,000 × 80	**2.4m**
Options, gain over strike	10,000 × (80 − 50)	**0.3m**
Employer-linked	2.4m + 0.3m	**2.7m**
Financial wealth		**4.0m**
Share tied to her employer	2.7m ÷ 4.0m	**67.5%**

IN THE LESSON

- Count Nina's exposure.
- Her financial wealth is four million.
- She holds thirty thousand shares at eighty each, which is two point four million.
- She also holds ten thousand vested options with a strike price of fifty, so each is worth thirty and the gain is three hundred thousand.
- Together that is two point seven million, or sixty seven and a half per cent of her wealth.
- Her salary comes from the same firm, so if the share price collapsed, her job could be at risk at the same moment.
- That is the pattern the adviser wants to break.
- Holding on out of loyalty or overconfidence is the trap.

28 Example 11: a pre-arranged selling plan

Illustration: 4,000 shares a quarter for a year, price 80

Shares sold	4,000 × 4 quarters	**16,000**
Proceeds at 80	16,000 × 80	**1.28m**
Shares kept	30,000 − 16,000	**14,000**
Employer-linked after	2.7m − 1.28m	**1.42m**
Share of her wealth	1.42m ÷ 4.0m	**35.5%**

IN THE LESSON

- The first tool is a pre-arranged selling plan.
- It is adopted in an open window, when Nina holds no inside information, and then it sells on a schedule without any further decision.
- That protects her from questions about insider dealing, and from her own nerves.
- She sells four thousand shares each quarter for four quarters.
- That is sixteen thousand shares, which at eighty is one million, two hundred and eighty thousand.
- She keeps fourteen thousand shares.
- Employer-linked wealth falls from two point seven million to one point four two million, which is thirty five and a half per cent.
- The proceeds go to a portfolio diversified away from her employer's sector, with tax ignored in this illustration.

29 A collar puts a floor and a cap

Chart: Value of 14,000 shares vs Share price (0 to 140)

- Unhedged
- Floor, put 72: 1.008m
- Cap, call 96: 1.344m
- Today: 80, 1.12m

IN THE LESSON

- Here is a collar as a picture.
- Share price runs along the bottom, from zero to one hundred and forty, and the value of Nina's fourteen thousand remaining shares is up the side.
- Start with the red diagonal.
- That is the unhedged holding, and every move in the price moves her wealth one for one.
- At today's price of eighty, it is worth one million, one hundred and twenty thousand.
- Now the green line.
- She buys a put at seventy two, which lets her sell at that price whatever happens, and sells a call at ninety six, which obliges her to sell at that price.
- So the value is flat at one million and eight thousand on the left, flat at one million, three hundred and forty four thousand on the right, and moves with the shares in between.
- Selling the call helps to pay for the put.

30 Example 12: testing the collar

14,000 shares; put at 72 bought, call at 96 sold

Price falls to 40, unhedged	14,000 × 40	**560k**
Price falls to 40, collared	14,000 × 72	**1,008k**
Loss saved by the collar	1,008k − 560k	**448k**
Price rises to 110, unhedged	14,000 × 110	**1,540k**
Upside given up	1,540k − 1,344k	**196k**

IN THE LESSON

- Test the collar with two prices.
- Suppose the share price falls to forty.
- Unhedged, the fourteen thousand shares are worth five hundred and sixty thousand.
- With the collar she can still sell at seventy two, so the shares are effectively worth one million and eight thousand.
- The collar has saved her four hundred and forty eight thousand.
- Now suppose the price rises to one hundred and ten.
- Unhedged, the shares are worth one million, five hundred and forty thousand.
- The collar caps her at one million, three hundred and forty four thousand, so she gives up one hundred and ninety six thousand of the gain.
- She has paid for safety with some of the upside, and her employer must permit the structure.

31 Example 13: the athlete who must save

Imre, 22: 500k a year for 8 years, then uncertain pay

Capital needed at 30	80k a year, 40 yrs, 2% real	**2.188m**
Growth factor, 8 years	(1.02^8 − 1) ÷ 0.02	**8.583**
Saving each year	2.188m ÷ 8.583	**255k**
Share of his earnings	255k ÷ 500k	**51%**

Also insure against injury; invest outside the sport

IN THE LESSON

- One more client.
- Imre Varga is twenty two, a professional cyclist.
- He expects to earn five hundred thousand a year after tax for eight years, then a lower and uncertain income.
- Plan for the worst.
- Suppose he needs eighty thousand a year of extra spending, in today's prices, for forty years after he stops racing.
- At a real return of two per cent, that stream is worth about two million, one hundred and eighty eight thousand on the day he stops.
- To build it in eight years, he must save about two hundred and fifty five thousand a year, which is fifty one per cent of his earnings.
- Saving half of a short career feels hard, which is why the adviser says it early.
- He should also insure against injury and invest outside his sport.

32 Recap: the lesson in five lines

- A passport is not tax residence; plan for both
- Complex families: current papers, trusts, equalising cover
- Owners: diversify outside, insure the buy-sell, plan the exit
- Executives: staged selling and collars, not loyalty
- Professionals and athletes: insure income, save more

IN THE LESSON

- Let us pull the lesson together.
- First, a passport is membership of a state, while tax follows residence, so a second citizenship may help travel and schooling but rarely cuts tax by itself.
- Second, a complex family needs current papers, trusts, a marital agreement and life cover to equalise, with care for a dependant's public support.
- Third, a business owner holds pay, savings and retirement in one illiquid asset, so diversify outside, insure the buy-sell, and plan the exit early.
- Fourth, an executive should sell on a plan, hedge where permitted, and never hold out of loyalty.
- Fifth, professionals and athletes insure their income and save a large share.

33 Try three quick questions

1. Citizen of Z; 200 days in Y, 165 in Z; 183-day test. Tax resident where?
   Answer: Y alone: 200 is over 183; under this test citizenship does not decide.
2. 25% owner; enterprise value 8.0m, net debt 2.0m. Buy-sell cover?
   Answer: 25% × (8.0m − 2.0m) = 1.5m.
3. 20,000 shares at 50; put 45, call 60. Value range?
   Answer: From 900,000 (20,000 × 45) to 1,200,000 (20,000 × 60).

IN THE LESSON

- Now try three quick questions yourself.
- Pause after each one.
- Question one.
- A client holds the citizenship of Country Z, spends two hundred days in Country Y and one hundred and sixty five in Z, and every country uses a one hundred and eighty three day test, in this illustration.
- Where is she tax resident?
- In Y alone.
- Two hundred is over the limit, one hundred and sixty five is not, and under this test citizenship does not decide.
- Question two.
- A partner owns twenty five per cent of a firm with enterprise value eight million and net debt two million.
- What buy-sell cover is needed?
- Equity is six million, and a quarter of that is one point five million.
- Question three.
- An executive holds twenty thousand shares at fifty, with a put at forty five and a call at sixty.
- What range of value does the collar give?
- Nine hundred thousand to one million, two hundred thousand.
- Remember the plain rules.