



OPINION

# THE SURGING FOUNDATIONS WAVE: A GAME-CHANGER IN WEALTH MANAGEMENT

APRIL 2024

## THE SURGING FOUNDATIONS WAVE: A GAME-CHANGER IN WEALTH MANAGEMENT



As the United Arab Emirates' ("UAE") investment scenery is completing a decade-long transformative shift, the nation's stature as a premier global destination for wealth management, asset protection and legacy planning is increasingly fortified.

Moreover, the rising trend of domestic Foundation adoption is reshaping the traditional rules of wealth structuring.

### Foundation Milestones

Foundations are reshaping the UAE framework for family wealth management. Earlier this year, the nation's total passed a significant milestone with the establishment of 1,071 Foundations. As of writing (13 March 2024), the Dubai International Financial Centre ("DIFC") is fast approaching 535 Foundations under administration. Both the Abu Dhabi Global Market ("ADGM") and Ras Al Khaimah International Corporate Centre ("RAK ICC") have crossed the 260 Foundations mark. 2023 marked a record-breaking year, with 333 Foundations established.

Looking ahead to 2024, the projection is set at 430 Foundations, bringing the nation's total to an impressive 1,500 by the end of the year. These figures highlight a remarkable trend in Foundation establishment over the past few years – for good reasons!

### Evolving purposes

Beyond numerical growth, the surge in Foundations is driven by their diverse range of purposes. While Foundations serve various functions including wealth management, legacy planning, asset protection and philanthropy, it is paramount to recognize their

**primary utility as a tool for private wealth management and real estate structuring.** This adaptability and versatility have fueled a notable shift away from conventional instruments like companies or trusts, facilitating the consolidation of a wider array of asset classes within the UAE.

Foundations offer **significant advantages in terms of tax efficiency**, providing strategic opportunities to optimize financial positions of the assets through the Foundation structure while ensuring compliance with relevant regulations. This aspect further enhances the appeal of Foundations as a preferred vehicle for wealth management and asset protection in the UAE, making Foundations an attractive option for Ultra-High Net Worth ("UHNW") individuals and family businesses seeking to maximize their financial benefits while adhering to legal requirements.

A pioneering move was made by the M/HQ within the DIFC jurisdiction. M/HQ made a groundbreaking stride by successfully registering the **first Purpose Foundation**. The primary function – and distinctive feature – of a Purpose Foundation is to act as a Trustee of a DIFC registered Trust rather than holding and managing assets for the benefit of persons or class of persons. The approval of this unique arrangement by the DIFC sets a remarkable precedent, paving the way for future replication and expansion of Purpose Foundations serving as Trustees of Trusts.





## Wide range of users

The diverse population of the UAE is reflected in the users of Foundations, encompassing both Founders and Beneficiaries from various nationalities. With representation from 33 different countries, the user base is truly multicultural. Emirati nationals dominate the demographic, closely trailed by Indian nationals. Notably, citizens from GCC regions constitute a significant one-third of the total users, showcasing the broad appeal and utilization of Foundations across the GCC region<sup>1</sup>.

The specific users of Foundations in the UAE are diverse, catering to a wide range of needs and interests. Here are some common examples:

**UHNW individuals and their families:** These individuals establish Foundations to formalize their personal or business endeavors all over the world, aiming to achieve a variety of objectives. Foundations created by UHNW individuals often serve as vehicles for holding personal assets, life insurance, art collections and other liabilities, safeguarding all types of assets, and planning for legacy. These Foundations play a crucial role in protecting shareholdings across various entities, managing real estate assets, and overseeing diverse financial and investment portfolios. Through strategic structuring, UHNW individuals leverage Foundations to optimize their wealth management strategies and ensure long-term business management and growth.

**Businesses [and their owners!]:** Companies, especially large corporations, may establish Foundations as part of their corporate social responsibility initiatives and employee motivational programs. These Foundations often support initiatives that align with the company's values and mission as well as apprising and granting bonuses in a way of financial grants.

**Philanthropists:** Wealthy individuals and families establish Foundations to support, and corporatize, charitable and humanitarian causes in the UAE and abroad. They may fund projects related to education, healthcare, poverty alleviation, and more, aiming to make a positive difference in society.

**The choice is simple:** Foundations offer unique benefits that companies and trusts do not provide while sharing similarities of functions and mechanisms with both tools. It serves as an instrument that allows families to consolidate and curate high value assets under one a common family-driven management, using one/several umbrella/s, based on their wishes, creativity, and guidance to their future generations.

<sup>1</sup> Source: M/HQ database of 30 May 2021. Foundations: who is using them?  
<https://www.m-hq.com/wp-content/uploads/2021/05/OPED-foundations-who-is-using-them-30.05.21.pdf>



**Trends to watch:**

- 1. Real Estate Optimization:** There's a noticeable shift towards maximizing Foundations for real estate revenue, with a significant portion—over 70%—of assets held in Foundations comprising real estate holdings. Families are actively seeking strategies to generate income from these assets while also safeguarding against potential risks such as creditors' claims and probate proceedings.
- 2. Introduction of Corporate Tax:** In January 2022, the Ministry of Finance announced the implementation of Federal Corporate Tax ("CT") on businesses' net profits. CT came into effect on 1 June 2023 across all Emirates. Under the CT legislation, **properly structured Foundations can qualify for tax transparency, further enhancing their appeal.** For more insights on UAE CT and its implications for UAE foundations, please refer to our podcast series, specifically the [forty-third episode](#).
- 3. Asset Diversification and Growth:** The trend of diversifying and expanding assets within Foundations is expected to persist. Foundations can accommodate a broad spectrum of asset classes, ranging from conventional investments to more unconventional ones like art, cryptocurrencies, and luxury goods. Additionally, philanthropy, though currently declared as a purpose in less than 10% of Foundations, is anticipated to gain traction as families integrate social responsibility into their wealth management strategies.

**Ecosystem development**

While Foundations are booming, knowledge needs to expand beyond ADGM, RAKICC and DIFC. Everyone stands to gain from a better understanding – of what Foundations are, how they are regulated and how they operate. The momentum of change is faster than at any time in history and the UAE is spearheading a lot of developments particularly in the wealth structuring space. No one should be left behind. **Lenders, local authorities, the land department should all be equipped with guidelines and processes to accommodate the increasing needs of Foundations.** This cannot wait, the wave of demand has already arrived.

A recent M/HQ x GSB Survey "*Lending to UAE Foundations*" revealed fascinating results. There is unquestionable appetite to lend but there are gaps that need to be addressed before Founders can be satiated by lending products that match the sophistication of Foundation structures. There is work to be done.

**Conclusion**

As their numbers grow by day and purposes diversify, Foundations are emerging as the transformative force the region has long awaited and needed. Looking ahead, we envision an era where families can navigate wealth protection and intergenerational legacy planning with unparalleled efficiency and control. This trajectory firmly solidifies the UAE's position as a powerhouse in the global wealth management arena.

## CONTRIBUTIONS



### Narjes Zhumak

Relationship Manager - Private Clients  
M/HQ  
[zhumak@m-hq.com](mailto:zhumak@m-hq.com)



### Yann Mrazek

Managing Partner  
M/HQ  
[mrazek@m-hq.com](mailto:mrazek@m-hq.com)



### Who we are

**M/HQ** is a multi-services platform catering to successful individuals and entrepreneurial families. Our one-stop-shop offering is unique in the Middle East: a holistic and cross-disciplinary combination of a market-leading corporate services firm, a private client specialist team and a regulatory & compliance services practice, all through one single platform.

We have extensive experience advising on a broad range of wealth structuring and legacy planning issues. We particularly assist in establishing and servicing **Family- and Group- Holdings, Single- and Multi- Family offices, Foundations** and other asset consolidation/ protection and intergenerational wealth management structures.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.

#### DIFC

Office 116, DAMAC Park Tower B  
Dubai International Financial Centre  
Dubai, UAE

#### DIFC

Office 11, Level 1  
Al Fattan Currency House – Tower 2  
Dubai International Financial Centre  
Dubai, UAE

#### Dubai (Mainland)

Office 08, Al Gurg Tower 3  
Baniyas Road, Rigga Al Buteen  
Dubai, UAE

#### ADGM

Office 203, Floor 11, Al Sarab Tower  
Abu Dhabi Global Market Square  
Al Maryah Island,  
Abu Dhabi, UAE

#### DMCC

Office 28, Armada Tower 2  
Cluster P, Jumeirah Lake Towers  
Dubai Multi Commodities Centre  
Dubai, UAE