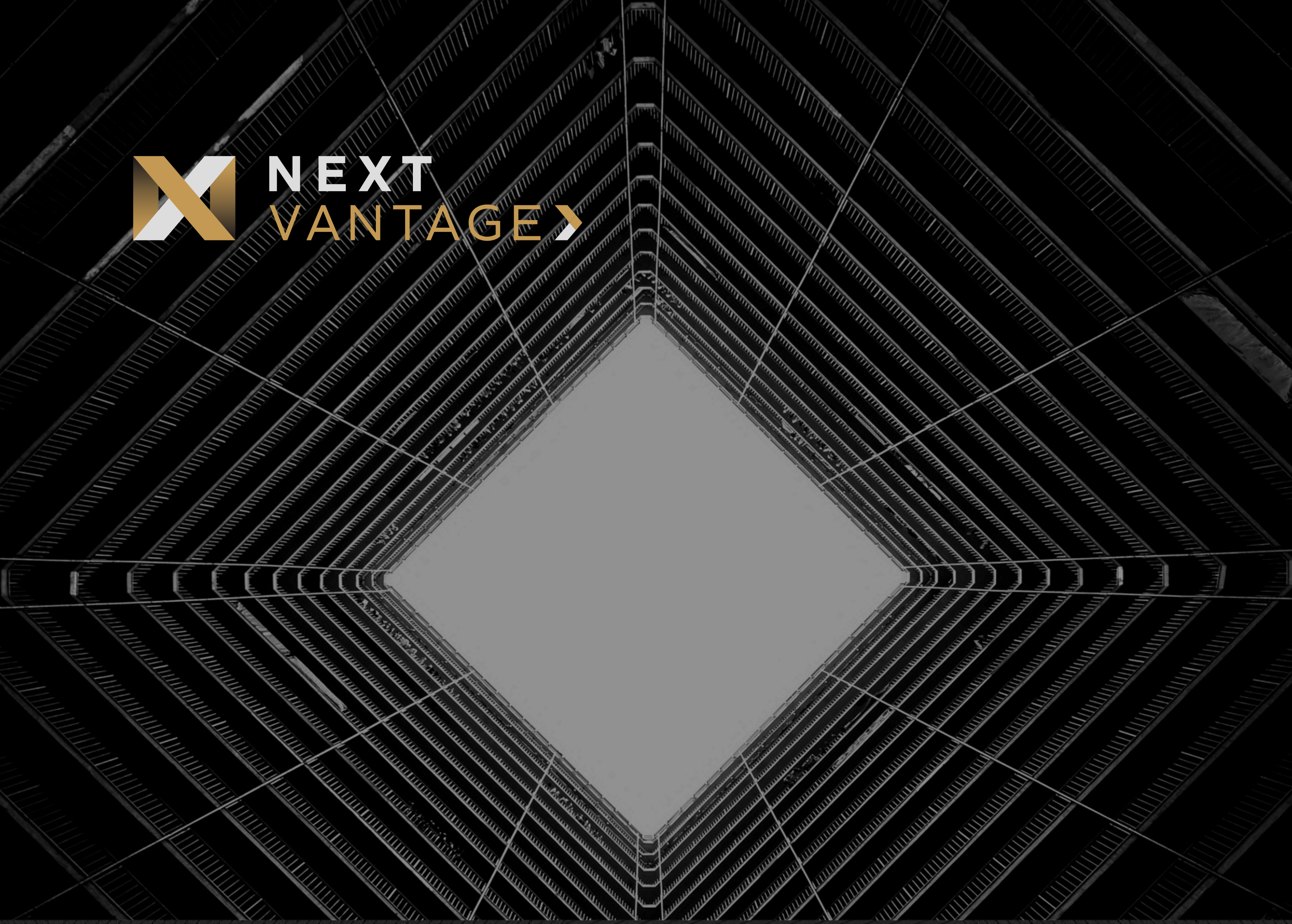

NEXT VANTAGE

BEFORE YOU BUILD A FAMILY OFFICE

A framework for evaluating whether the structure fits the complexity

BEFORE YOU BUILD A FAMILY OFFICE

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INTRODUCTION

The Architecture of Complexity

The advisory fragmentation that drives families toward a family office rarely announces itself. It accumulates. One attorney for the estate plan, another for the business, a separate accountant for the partnership returns, an investment manager who doesn't speak to any of them regularly. Add a liquidity event or a generational transition and the coordination burden gradually becomes a second job.

At some point, the question shifts from whether this is sustainable to what, structurally, should be done about it.

A family office is the answer many families eventually consider, and it deserves serious evaluation. But it's a business decision rather than a status symbol, and the bar for it to make sense is higher than most people expect. Running a properly staffed office typically costs over $1 million a year, which means the economics require honest scrutiny before anything gets built.

This guide works through that decision in full. It begins with the complexity audit: the questions that clarify whether your situation actually calls for a dedicated structure. From there, it covers the tax architecture that determines whether your office's costs are deductible—a question that carries substantially more weight since the OBBBA permanently changed the rules in 2025. It closes with the governance and operational framework that separates a family office that outlasts its founders from one that doesn't.

Our goal is to provide the objective framework you need to decide whether a family office is a strategic necessity or an unnecessary complication.

CHAPTER 1

The Complexity Audit

Most discussions about family offices start with a number. Understandable, given that the economics of running one require real scale. But wealth alone rarely explains why families build them.

Complexity is what forces the question. A family managing businesses across multiple jurisdictions, real estate in different markets, global investments, and layered tax structures often reaches a point where a loose network of advisors can no longer hold everything together. When no single professional sees the full picture, decisions made in one area eventually create problems in another. Legal work, tax strategy, and investment management proceed on separate tracks, with the family member at the center coordinating the work no one else is doing.

When the family itself has become the de facto project manager for its own advisors, something structural has gone wrong.

Identifying the Tipping Point

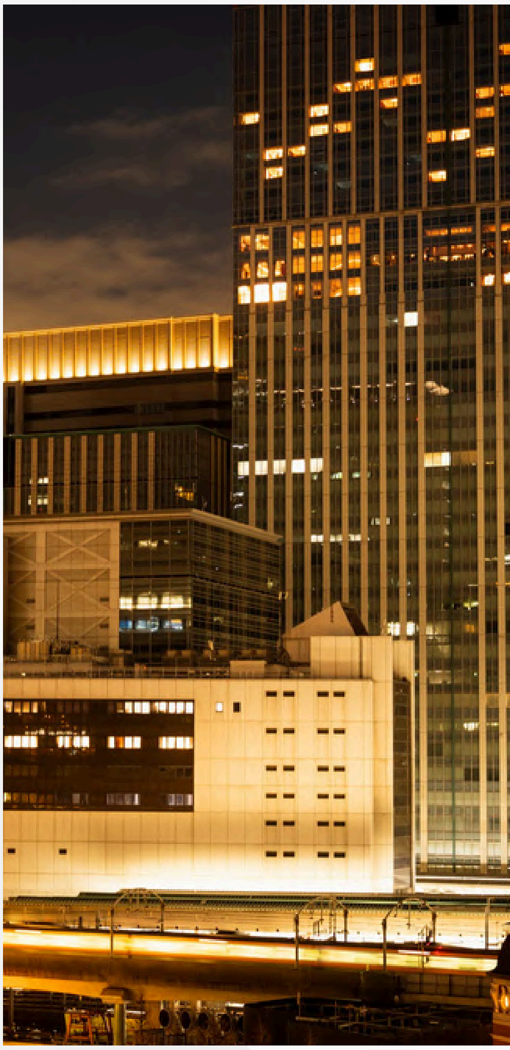
The clearest signal isn't a dollar figure, it's time. Fragmentation tends to reveal itself when the administrative burden of managing a financial life has become a full-time responsibility. When details fall through the gaps between professionals, it's rarely because any one advisor is failing. It's because no one has a view of the whole picture.

The warning signs tend to look like this:

- Legal filings, entity management, and tax reporting have become a burden you're personally tracking.
- Important decisions have been delayed because no single advisor had the full picture.
- A significant financial event (a liquidity event, an inheritance, a business acquisition) exposes gaps in how your advisors communicate.
- You spend more time coordinating between professionals than making decisions with them.

If several of those feel familiar, the structure isn't working.

Evaluating the Economics



A properly staffed family office costs in excess of $1 million per year when you account for professionals, technology, and operational infrastructure. That is the floor, not an estimate to be refined downward.

For families with financial footprints under $200 million, that overhead is rarely justified. A useful benchmark is whether an office projected to run around $800,000 to $1 million annually is a figure the family's wealth can comfortably absorb. Below that threshold, a more targeted approach, one that strengthens the existing advisory model with a coordinated framework rather than building a standalone company, typically delivers more value at a lower cost.

The decision deserves a proper analysis: long-term office costs modeled against current advisor spend. That comparison often clarifies the path faster than most conversations about structure do.

Three Models of Coordination

Families that determine a more formal structure is warranted generally choose between three paths:

1

Single-Family Office
A private company built and staffed exclusively for one family, it offers the highest degree of privacy and customization but incurs the highest operational cost.

2

Multi-Family Office
A shared structure where professional resources and infrastructure are split across several families, it reduces individual overhead while preserving meaningful coordination.

3

Hybrid Model
This looks like a small internal team that orchestrates a network of specialized outside partners rather than hiring every function in-house.

The right choice depends on how much independence and control the family requires, how distinctive their situation is, and whether the economics support standalone infrastructure. For many families, the honest answer is that a well-coordinated advisory arrangement delivers most of what they're looking for, without the operational complexity of building and managing a private company.

CHAPTER 2

The Path to Tax Deductibility

Running a family office is expensive. Professional salaries, technology, legal and compliance costs, and investment management expenses add up quickly, and families naturally want those costs to be deductible. Whether they are depends almost entirely on how the office is structured from the start.

That question carries more weight now than it did even a few years ago.

What the OBBBA Changed

For years, many investment-related expenses for wealthy families were deductible as miscellaneous itemized deductions under Section 212 of the tax code. The One Big Beautiful Bill Act, passed in 2025, permanently eliminated those deductions. The only remaining path to deductibility runs through Section 162, which covers ordinary and necessary expenses of a genuine trade or business.

To qualify, the family office can't simply manage the family's own wealth. It must be operating as a legitimate investment-management business. The Supreme Court established long ago, in cases like Higgins and Whipple, that managing your own investments, regardless of scale or sophistication, does not constitute a trade or business. Size and complexity don't change the analysis. What matters is whether the office is providing genuine services to others and being compensated for those services, rather than overseeing its own portfolio.

The Case That Set the Standard

The most instructive precedent is Lender Management, where the tax court found that a multigenerational family office qualified as a legitimate investment management business and could deduct its expenses under Section 162.

Several features of that structure drove the outcome:

- The office served multiple branches of one extended family, each with distinct investment objectives, risk tolerances, and cash-flow needs.
- It employed full-time professionals who provided individualized research, asset allocation, and financial planning.
- The services it delivered looked, in both substance and appearance, like those of an outside investment advisor managing a roster of separate clients.
- The management company was compensated through a profits interest tied to performance, not simply through the same passive returns received by investors.

That combination of individualized service, professional infrastructure, and compensation reflecting genuine entrepreneurial risk led the court to treat the office as a real business. Many family offices now use this structure as the template for defensible Section 162 treatment.

Where Structures Break Down

Not every family office arrangement holds up under scrutiny. A structure built around a single economic unit is particularly vulnerable. In the Hellmann matter, four family members owned both the management company and the underlying investment entities in identical proportions. They operated collectively, their interests were entirely aligned, and there was no meaningful separation between the people managing the wealth and the people whose wealth was being managed. The court questioned whether real services were being provided to separate clients at all, or whether the structure was simply a formal arrangement among people who functioned as one.

The pattern is consistent. When the same people own the management company and the investment entities in the same ratios, the argument that a genuine service business is operating becomes difficult to sustain.

Building a Structure That Holds

Defensibility requires economic and operational separation between the management company and the entities it manages. In practice, that means:

- Most investors should not hold ownership stakes in the management company.
- The entity running the office should have a clearly distinct ownership interest from the underlying investors.
- Investors should be able to act independently, with individual accounts, withdrawal rights, and the practical ability to make decisions without being treated as a single unified group.
- Compensation should reflect genuine service income: a management fee for services rendered, combined with a performance-based profits interest clearly distinguishable from ordinary investor returns.

Getting these details right at the outset is considerably easier than trying to retrofit them after the fact.

CHAPTER 3

The Operational Spine (Governance & People)

A family office can have a sound investment strategy and a valid tax structure and still fail. The reason is almost always governance—the part families most consistently underestimate when building one.

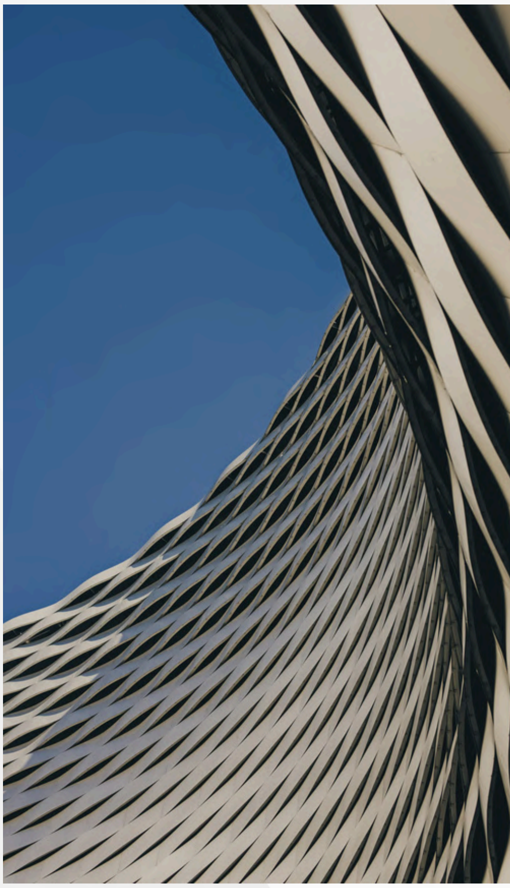
Rather than a formality, governance is the set of rules that determines how a family interacts with its wealth, how decisions get made, and who has the authority to make them. Without it, even a well-resourced office becomes difficult to run through the inevitable transitions and disagreements in any multigenerational structure.

Define the Purpose Before Building the Structure

The most common and costly mistake in building a family office is starting with the entity rather than the mission. Before a single professional is hired or a lease is signed, the family needs to agree on what the office is actually meant to do.

A family office can carry a wide mandate or a narrow one:

- Investment management and asset allocation
- Tax and legal coordination across entities and jurisdictions
- Financial reporting and bill payment
- Philanthropy and charitable giving strategy
- Next-generation financial education and governance



Neither a broad mandate nor a narrow one is inherently better. What creates problems is building something without a clearly defined purpose, only to discover months later that the structure is solving the wrong problems. The most durable offices tend to be built around a mission that reflects the family's actual values: multigenerational stewardship, entrepreneurial legacy, charitable purpose, or some combination. Those values become the reference point when decisions get difficult. And in a structure designed to last across generations, they will.

The Accounting Spine

Investment strategy tends to get the most attention when families think about building an office. The operational infrastructure that supports it gets far less attention, which is where many offices run into trouble.

At the foundation of any functional family office is a bookkeeping and reporting infrastructure capable of handling the constant flow of capital across a complex financial life: tracking capital calls for private equity, reconciling dozens of entities and bank accounts, and meeting reporting deadlines that don't move. Without that foundation, even a sophisticated investment operation will struggle with disorganized data and missed obligations. The accounting spine isn't the most interesting part of building an office; it's the part that holds everything else up.

Governance As a Risk Management Tool

Written governing documents, defined roles, and a structured process for leadership transitions are the tools that keep a family office functional through the moments that test it most. A dispute between family branches, an unexpected leadership vacancy, a generational shift in priorities—none of these are hypothetical risks for a multigenerational structure. They're predictable events.

The families that navigate them well are almost always those that resolved the framework questions before a specific conflict made them urgent. Those questions include:

- How will disagreements between family lines be handled?
- Who has the authority to make investment decisions, and under what circumstances does that authority transfer?
- What does a leadership transition look like in practice?
- How are new family members, whether by birth or marriage, incorporated into the governance structure?

These aren't conversations to defer.

Staffing for Orchestration

A functional office requires skilled professionals, typically led by a trusted senior hire with the authority and time to build the infrastructure from the ground up. That person needs to function as a genuine chief operating officer, not simply a coordinator.

Supporting that role, the office generally needs:

- A finance director and operations support to manage daily administration
- Investment staff to oversee portfolio management and manager relationships
- External legal and tax partners covering specialized functions that don't require a full-time in-house presence

The team's goal isn't to replicate every professional function internally. It's orchestration: pulling the various parts of a family's financial life into a coherent framework so that legal decisions, tax strategy, and investment management are aligned.

Building that kind of coordination takes intention, and maintaining it takes the right people.

Building for Resilience

Families that work through these questions honestly tend to arrive at the same place. Their financial lives have grown complex enough that the absence of a central framework feels more disorganized and more exposed than the effort of creating one. The office stops being a luxury and starts being a logical response to scale.

But the decision to build is only the beginning. Families that come out of this process well are those that get the structure right from the start: the tax architecture that determines whether operating costs are deductible, the governance framework that keeps the office functional across generations, and the technical oversight that prevents a single administrative gap from becoming a permanent and costly mistake.

The gaps that open between siloed advisors are rarely obvious until something goes wrong. When they involve tax elections, equity eligibility, or filing deadlines, the cost is permanent. That kind of exposure is preventable, but only when someone is responsible for seeing the full picture.

Where Next Vantage Fits

A standalone family office makes sense above a certain scale and complexity threshold. Below it, the more practical answer is a coordinated framework that delivers the same central oversight without the full operational burden of a private company. That gap is where most families live, and it's the problem Next Vantage was built to solve.

We bring together the legal, tax, investment, and estate planning picture into one coordinated framework, serving as the central point of accountability that keeps specialized advisors aligned and technical requirements from falling through the gaps.

If the challenges in this guide feel familiar, we'd welcome the conversation.

NEXT VANTAGE

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