

## Substance and Effective Management in International Family Structures

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By **Christine Breitler**, 16th February 2026

International families often hold assets through companies and investment structures spread across multiple jurisdictions. As tax authorities have sharpened their focus in recent years, one concept has become increasingly pivotal: where an entity is truly managed and controlled. In many cases, this now determines not only tax residence, but also treaty access and the robustness of a structure as a whole.

For family offices and globally diversified arrangements, this shift means governance and substance can no longer be treated as secondary considerations.

### **The Evolving Focus of Tax Authorities**

Traditionally, international structuring focused on incorporation, treaty access, and applicable tax rates. While these remain relevant, authorities now look beyond surface-level indicators. Their attention tends to focus on:

- Where strategic decisions are actually made
- Who exercises effective control and real decision-making authority
- How and where risks are understood and controlled
- Whether governance accurately reflects operational reality

As a result, a company's residence is increasingly linked to its effective management, not simply its registered address. Many challenges arise not from international tax planning, but from governance frameworks that have not kept pace with evolving international standards.

### **Understanding Effective Management**

Across numerous jurisdictions, corporate residence is determined either by the place of incorporation or the place of effective management. In practice, effective management is generally understood as the location where key decisions are shaped and approved,

such as:

- Investment strategy and policies
- Financing arrangements
- Where significant transactions (acquisitions and disposals) are authorised
- The overall direction and oversight of the entity

Authorities now expect more than formal board minutes; they examine whether directors meaningfully engage with decisions and whether those decisions are genuinely made where claimed. Problems often arise when the formalities of decision-making do not align with reality.

### **International Standards and the Role of Substance**

The international tax framework has evolved significantly following the OECD BEPS initiative, raising expectations. Particular attention is now given to:

- The introduction and wider application of the Principal Purpose Test (PPT)
- Greater scrutiny of who controls risk and decision-making capacity, and where they operate
- Transfer pricing principles requiring functional consistency

An entity cannot meaningfully assume risk if it lacks the capacity to control it. Substance, therefore, is not simply a question of staff numbers or office space - it encompasses governance quality, the expertise of board members, and the documentation of strategic oversight. Well-structured documentation is now regarded as part of the overall risk management framework rather than a procedural formality.

### **Family Offices and Concentrated Decision-Making**

Family offices often operate efficiently through a small number of trusted individuals. While this structure offers flexibility and many advantages, it can also create tax uncertainty if strategic decisions relating to entities in multiple jurisdictions are effectively made from a single location. This can create potential exposure, including:

- Dual tax residence claims
- Permanent establishment issues
- Challenges to treaty benefits
- Transfer pricing adjustments or disputes

The decisive factor is frequently not where administration occurs, but where strategic authority is exercised in reality. In cross-border family structures, careful alignment between governance, documentation and operational practice is essential.

### **Governance as a Protective Mechanism**

In an era defined by transparency and exchange of information, consistency across jurisdictions and aligned, credible governance, has become essential. Effective governance should ensure:

- Appropriately qualified and engaged directors
- Decisions reflect genuine deliberation and independent judgment
- Clear documentation of strategic decisions
- Alignment between economic activity and tax reporting

When done well, governance not only protects the structure, but provides stability and predictability across jurisdictions.

### **A Sustainable Approach to International Structuring**

International structuring today must be designed with long-term defensibility in mind.

Attention to effective management and control can:

- Reduce the likelihood of residence disputes
- Support access to treaty benefits
- Strengthen transfer pricing positions
- Provide greater certainty over time

Sustainable structures are those where legal form, economic substance, and actual governance practice all point in the same direction.

In the current international tax environment, effective management is not a secondary consideration. It is central to the integrity and longevity of international family structures.

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