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The Family Office Before the Fortune: It's a Habit, Not a Dollar Amount

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A family office is a habit, not a dollar amount. Holding-company tax traps, a one-page investment policy, and how to check an adviser's fiduciary status, plus a habits checklist.

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Say "family office" and most people picture a staff of analysts and a fortune with a lot of zeros. That picture keeps many business owners from doing what family offices actually do, because they assume it comes after the money arrives.

The law doesn't see it that way. A family office is a function: keeping the money, records, entities and advisers organized, on purpose, for the long run. You can start with one operating company, one reserve account and a short list of professionals you've checked out.

Four habits matter here: understanding what a holding structure can and can't do (including two taxes that catch closely held corporations), writing an investment policy, knowing what standard your financial professional owes you, and checking your advisers.

1. What a "family office" actually is under the law

The term has a precise meaning in one place: a Securities and Exchange Commission rule. Under that rule, a family office "shall not be considered to be an investment adviser" for purposes of the Investment Advisers Act. To qualify, the office must have "no clients other than family clients," must be "wholly owned by family clients and... exclusively controlled" by family members or family entities, and must not "hold itself out to the public as an investment adviser." Family members are defined as lineal descendants of a common ancestor up to 10 generations removed, plus their spouses or spousal equivalents. 1

Notice what's missing: **there is no asset or size test in the rule's text.**1 The rule is a carve-out from adviser registration for an office that advises only family clients, defined by who the clients are, who owns it and who controls it. Family offices are associated with very wealthy families in practice, and you may hear that you "need" $100 million or more before you have one. We found no primary source for any such figure, and the rule sets no legal minimum.

Most small business owners will never need this rule, but its logic applies: "family office" describes how money is managed, not how much. So borrow the habits now:

- **A written policy** for money the business or your household doesn't need right away (Section 4).
- **A vetted bench** of professionals whose status you've checked (Sections 5 and 6).
- **Clean entity lines**, so each company's money, records and obligations stay its own (Sections 2 and 7).

2. Holding companies: what the structure does, and what it doesn't

A "holding company" usually means an entity that owns other entities, such as a parent that owns an operating business and a separate company holding investments or property. Some owners use this setup. Whether it fits depends on liability, taxes, lenders, state law and cost, so it's a conversation for your attorney and CPA, not a default.

Start with the entity type, because the tax rules change completely. Many small-business holding structures are LLCs taxed as partnerships or as disregarded entities. The federal corporate rules in this section and the next generally apply to **C corporations**. Ask your CPA how each piece of your structure is taxed before you act on anything you read about holding companies.

For C corporations, two federal rules are often cited as reasons to use a parent-subsidiary structure:

- **Consolidated returns.** An affiliated group of corporations has "the privilege of making a consolidated return," filing one federal return for the group. 2 The ownership test requires the parent to hold stock with at least 80 percent of the total voting power and at least 80 percent of the total value of the subsidiary. 3
- **The dividends-received deduction.** When one corporation receives dividends from another domestic corporation, it can generally deduct 50 percent of them, 65 percent if it owns at least 20 percent of the payer, and 100 percent for qualifying dividends within an affiliated group, as of November 16, 2026. 4

Those rules are real but narrow. They don't apply to LLCs taxed as partnerships, and they don't make a structure "tax-free." Have your CPA model whether they matter for you at all.

A holding company is not a force field. The claim that a holding company "protects all your assets" isn't supported. Separate entities can limit some risks, but only if they're actually kept separate (our Insight Build to Keep or Build to Sell covers the veil-piercing factors courts weigh), and they don't protect you from debts you personally guarantee. Our loan-file Insight shows how common those guarantees are among

Black-owned firms. Ask your attorney what your structure can and can't protect.

3. Two 20% taxes that catch closely held corporations

If any entity in your structure is a C corporation that mostly holds investments or keeps piling up cash, two federal penalty taxes deserve a direct conversation with your CPA.

Trap 1: the personal holding company tax. The tax code imposes "a tax equal to 20 percent of the undistributed personal holding company income." 5 A corporation is a personal holding company when two tests are both met:

1. **An income test:** at least 60 percent of its adjusted ordinary gross income is "personal holding company income."

2. **An ownership test:** at any time during the last half of the tax year, more than 50 percent in value of its stock is owned, directly or indirectly, by or for not more than five individuals. 6

A small corporation with one or a few owners will often meet the ownership test without trying, so the question becomes the income test. In general terms, the concern is a corporation whose income is mostly passive and which keeps it rather than distributing it. Which types of income count is defined in a separate code section, so have your CPA do the classification.

Trap 2: the accumulated earnings tax. The code also imposes "an accumulated earnings tax equal to 20 percent of the accumulated taxable income" of a corporation "formed or availed of for the purpose of avoiding the income tax with respect to its shareholders... by permitting earnings and profits to accumulate instead of being divided or distributed." 7 There's a minimum credit: generally $250,000 of accumulated earnings and profits, or $150,000 for service corporations in fields such as health, law, engineering, architecture, accounting, actuarial science, performing arts and consulting. For "a mere holding or investment company," the credit is limited to the amount by which $250,000 exceeds accumulated earnings and profits. 8

A C corporation that piles up cash without a documented business reason can face an extra 20% tax. The tax generally turns on purpose, which is why a written policy explaining why money is held (Section 4) matters. Ask your CPA to assess your reserves before the balance gets large.

A hypothetical. A fictional owner forms a second C corporation to hold a brokerage account, planning to let investment income build up for years. One person owns it, so the ownership test is met on day one. If nearly all its income is investment income and little is paid out, the personal holding company tax could be in play, and a company formed to hold investments has a smaller accumulated-earnings cushion. That doesn't make the structure wrong, but the CPA conversation belongs before formation.

4. Write an investment policy before you invest a dollar

An **investment policy statement (IPS)** is a written document that sets the rules before any money moves. There's no regulator-issued IPS template for individuals or small businesses. The most useful framework comes from the CFA Institute, a professional body for investment analysts. **What follows is industry guidance, not law.**

The CFA Institute describes an IPS as "a strategic guide to the planning and implementation of an investment program," organized under four headings. 9 Here's how a business owner might adapt each one:

1. **Scope and purpose.** Define the context and the investor. Is this the operating company's reserve, a holding company's investment account, or household money? Keep them separate; each one gets its own policy.

2. **Governance.** Who decides policy, carries it out and monitors it? Who can hire or fire an outside adviser, and who reports on results? For a small business, this may be two names on a page, as long as it's in writing.

3. **Investment, return and risk objectives.** The CFA framework includes return, distribution and risk requirements, risk tolerance and constraints. 9 For a business, the most important constraint is usually **liquidity**: how much must stay available for payroll, rent, taxes and debt payments. Write that floor first, and leave out return targets. A number like "aim for 7%" reads as a promise no policy can keep.

4. **Risk management.** How will performance be measured and reported? What risk measures will you watch? When will you rebalance toward your target mix? 9

The CFA paper doesn't set a fixed review interval; it says to describe the review process. 9 So write down how often you'll review the policy and what events would trigger an early review: a big contract won or lost, a new loan, a change in ownership.

Even federal retirement-plan rules assume fiduciaries work from a written policy: a plan fiduciary "must assess whether the investment manager's investment policy statement" is consistent with federal law before hiring that manager. 10 That rule covers employee benefit plans, not your company's own money.

Draft your policy with your CPA, and have your attorney review the governance section if more than one owner is involved.

5. Fiduciary, best interest, or neither? Ask before you sign

"Financial adviser" isn't a single job with a single standard. The obligations owed to you depend on how the person is registered and, in some cases, on what kind of account you have.

Registered investment advisers are fiduciaries. In the SEC's words: "Under federal law, an investment adviser is a fiduciary," and that duty "comprises a duty of care and a duty of loyalty." The adviser "must, at all times, serve the best interest of its client and not subordinate its client's interest to its own." Disclosure

alone doesn't cure a conflict: disclosure and consent "do not themselves satisfy the adviser's duty to act in the client's best interest." The duty "follows the contours of the relationship," which the adviser and client can shape by agreement with full and fair disclosure and informed consent, 11 so read the advisory agreement to see what it covers.

Brokers follow a different standard, applied per recommendation. Under Regulation Best Interest (Reg BI), effective since 2019 with compliance required from June 30, 2020, a broker-dealer making a recommendation to a retail customer must "act in the best interest of the retail customer at the time the recommendation is made," without putting its own interests ahead of the customer's. 12 The scope differs: an adviser's fiduciary duty covers the whole relationship, while Reg BI attaches to each recommendation when it's made.

The business-account gap. Reg BI protects "retail customers," defined as natural persons (or their legal representatives) who use a recommendation "primarily for personal, family, or household purposes." It doesn't cover recommendations to people "seeking these services for commercial or business purposes." 13 Our reading, not a legal conclusion: an account held by your company or holding entity, or used for business purposes, may fall outside Reg BI's protections. The adviser's fiduciary duty under the Advisers Act isn't described as limited to retail clients. 11 Whether a specific entity account is covered by Reg BI is a question for a securities lawyer. So **ask, in writing, whether the professional is acting as a fiduciary for your company's account, and under what standard.**

Read the Form CRS. Registered brokers and advisers must give retail investors a short "relationship summary," called Form CRS, covering services, "the fees and costs you will have to pay," conflicts and disciplinary history. The SEC notes that each firm's summary uses similar headings in the same order "to make it easy for you to compare firms." 14 Ask every firm you're considering for one and compare them.

Ask how they're paid. The SEC's investor education site explains that brokers may charge "a commission or markup every time you buy or sell," while advisers may charge "an ongoing asset-based fee based on the total value of your account." It adds that "an asset-based fee may cost more than a transaction-based fee, but you may prefer an asset-based fee if you want ongoing advice," and that you "should always feel free to ask questions about how and how much your adviser is being paid." 15

Credentials carry their own standards. The CFP Board's Code of Ethics says a CFP® professional "must act as a fiduciary" at all times when providing financial advice to a client, and it restricts use of the term "fee-only." 16 That's a certification-body standard, enforced by the CFP Board rather than a regulator, so treat it as useful information, not a legal guarantee.

You'll hear that "fee-only advisers are always fiduciaries and brokers never are." That's an oversimplification. Ask three questions instead: How are you paid? Are you registered as an adviser, a broker, or both? Will you confirm in writing that you'll act as a fiduciary for this account?

6. Vet your bench in 15 minutes

The tools are free and public.

• **Investment advisers and brokers.** The SEC's Investment Adviser Public Disclosure (IAPD) site lets you "find out if your investment professional and his/her firm is licensed with the SEC, with a state(s), and/or with FINRA," and "learn about any disciplinary history." FINRA's BrokerCheck is "a website run by FINRA specifically for broker-dealers." 17 Search the person and the firm.

• **Tax preparers.** The IRS notes that preparers include CPAs, enrolled agents, attorneys and "many others who don't have a professional credential," and that "anyone can be a paid tax return preparer as long as they have" a Preparer Tax Identification Number (PTIN). The IRS's Directory of Federal Tax Return Preparers with Credentials and Select Qualifications can help you find preparers who "currently hold professional credentials recognized by the IRS." 18 To verify an enrolled agent, the IRS directs you to its Office of Enrollment contact form. 19

• **CPAs.** NASBA runs CPAverify, a public search of CPA licenses. 20 We couldn't confirm which states participate, so if your CPA doesn't appear, check your state's board of accountancy, which is the authoritative source.

• **Attorneys.** Every state bar has a public lookup; California's attorney search is one example. 21

Run these checks before you sign an engagement letter, repeat them yearly, and note the date you checked.

7. Clean lines between entities

If you build more than one entity, the most basic family-office habit is the one the IRS gives every new business: "open a business checking account" and "keep your business account separate from your personal checking account." The IRS also says to note "the source of the deposit" (business income, personal funds or loans) and to "write checks payable to yourself only when making withdrawals from your business for personal use." 22

In a holding structure, apply that rule **per entity**. Each LLC or corporation gets its own bank account and its own books. When money moves between entities, it should move for a stated reason and be recorded as what it is: a loan, a capital contribution, rent or a distribution. Each of those carries tax and legal consequences, so set the terms with your attorney and CPA rather than moving money "for now" and sorting it out at tax time.

A hypothetical first year

Picture a fictional owner of a profitable single-location business with no holding company yet.

Early in the year, the owner meets with a CPA and an attorney about whether a second entity is worth its cost, and they decide to wait. Instead, the owner opens a separate reserve account and writes a one-page policy: purpose, who approves moves, a liquidity floor for payroll and taxes, no return target, and a yearly review. Before interviewing advisers, the owner checks each one on IAPD and BrokerCheck, compares their Form CRS documents, and asks in writing how they're paid and whether they'd act as a fiduciary for a

business account. At year-end, the owner re-runs the checks and revisits the holding-company question with the CPA, including the two 20% taxes if a C corporation is on the table.

None of that required a fortune.

The bottom line

A family office comes down to knowing what you own, why you hold it, who advises you and what they owe you. Start with a written policy, a checked bench and clean entity lines. If a holding company comes up, treat it as a tool with real tax traps. And make every one of these decisions **with your attorney and CPA.**

Companion: Family-Office Habits Checklist (Before the Fortune)

General education, not legal, tax, financial or investment advice. Work through this with your attorney and CPA.

Structure

1. **Map what you own.** List every entity, account and property, who owns each, and how each entity is taxed (C corp, S corp, partnership, disregarded). Have your CPA confirm the tax classification.

2. **Decide whether a holding company is worth it.** Ask your attorney and CPA what it would protect, what it would cost each year, and whether consolidated returns or the dividends-received deduction even apply to you (they generally require C corporations).

3. **Screen for the two 20% taxes.** If any entity is a C corporation, ask your CPA whether the personal holding company tax or the accumulated earnings tax could apply, and document the business reasons for any reserves it keeps.

4. **List your personal guarantees.** Write down every loan or lease you've signed personally. A holding structure doesn't remove them.

Policy

1. **Write a one-page investment policy for each pool of money,** using the four CFA Institute headings (industry guidance, not law): scope and purpose, governance, objectives and constraints, and risk management.

2. **Set the liquidity floor first.** Decide with your CPA how much stays available for payroll, rent, taxes and debt payments.

3. **Leave out return targets.** Describe objectives and constraints, not promised outcomes.

4. **Write the review rule.** State how often you'll review the policy and what events trigger an early review.

Advisers

1. **Ask every financial professional three questions in writing:** How are you paid? Are you registered as an adviser, a broker, or both? Will you act as a fiduciary for this account, including a business or entity account, and under what standard?

2. **Collect and compare Form CRS** from each firm.

3. **For entity accounts, ask a securities lawyer** whether Reg BI applies, if the answer matters to your decision.

Vetting

1. **Check advisers and brokers** on IAPD and BrokerCheck (person and firm).

2. **Check your tax preparer** in the IRS directory, and verify any enrolled agent through the IRS Office of Enrollment.

3. **Check your CPA** on CPAverify or your state board of accountancy, and your attorney on your state bar's lookup.

4. **Record the date of each check** and repeat yearly.

Entity lines

1. **One bank account and one set of books per entity.**

2. **Record every intercompany transfer** as a loan, capital contribution, rent or distribution, with terms set by your attorney and CPA.

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