August 2023



Hartsfield Planning

Intergenerational wealth planning: Your options when passing on wealth to the next generation

Ensuring your family is financially secure for the long term is a common goal. If it's one of your priorities, intergenerational wealth planning could help you create a plan that suits you and your loved ones.

Intergenerational planning can be complex. Depending on your circumstances, you may need to think about how your family could change, and you may even want to consider future generations. There are other challenges you might need to take into account too, from how passing on wealth could affect your lifestyle to potential tax charges.

It's never too soon to start thinking about how you want to pass on wealth or who you want to benefit from your assets. Read on to discover some of the ways you could pass on assets and key issues that may affect your decision.

If you'd like to discuss intergenerational wealth planning, please get in touch.

A report from the Resolution Foundation found that wealth transfers, including gifts and inheritances, often improve the lives of beneficiaries.

In total, 55% of people said a wealth transfer had already had a significant impact on their life or they expect it to once they receive it. In contrast, 33% of beneficiaries said a wealth transfer did not have a significant impact on their life.



What are your options when you want to pass on wealth?

While you may know who you want to pass on wealth to, deciding how you'll do so is just as important.

There's more than one way to pass on wealth to your family. Each option has advantages and drawbacks that you need to weigh up to understand what's right for you and your beneficiaries.

For many families, mixing different options could allow them to pass on wealth at several points in a way that suits them. Here are three options you may want to consider.

Gifting assets during your lifetime

Gifting is slowly becoming a popular way to transfer assets.

Passing on wealth during your lifetime could mean you're able to help your family overcome obstacles they are facing now. Receiving a financial boost earlier in life might set them up for greater financial security over the long term.

It also means you'll be able to see the benefits of the wealth you've passed on and could ensure they use the assets in a way that aligns with your wishes.

According to a report from the Institute for Fiscal Studies (IFS), over two years, around 5% of adults will receive a "substantial" gift. Over eight years, around 30% of adults in their 20s and early 30s receive at least one wealth transfer.

Helping loved ones get on the property ladder is a common reason to provide a gift. The IFS analysis found someone purchasing their first home is two-and-a-half times more likely to receive a gift than their peers.

There are plenty of other reasons you may want to gift assets too. Perhaps you want to pay for your grandchild's education, support day-to-day costs, or fund a once-in-a-lifetime holiday?

If you want to gift assets during your lifetime, it's important to consider how it could affect your lifestyle.

It may also change how you'd like to pass on other assets. For instance, if you've provided a gift to one child now, would they receive less through an inheritance?

Passing on wealth during your lifetime may also be useful if your estate could be liable for Inheritance Tax (IHT) when you pass away.

Not all gifts are considered immediately outside of your estate for IHT purposes. So, if reducing tax liability is a key reason for gifting, it's important to understand your options. Please contact us to discuss what steps you could take to reduce a potential IHT bill.

Balancing gifts with your financial security

Before gifting assets, assessing the potential effect it could have on your goals and long-term financial security could provide peace of mind.

For instance, would gifting your grandchild a deposit to buy their first home mean you could run out of money in your later years? If you faced a financial shock, would you be more financially vulnerable due to the gift?

The Resolution Foundation report found that uncertainty when deciding how much to gift is common. 45% of over-65s worry about gifting too much in case they need to pay for social care costs in the future. Similarly, 37% of 45–54-year-olds said they were concerned because they didn't know how much they would need in retirement.

Financial planning can help you understand the possible implications of gifting so you can identify potential issues. It could mean you feel more confident when passing on assets during your lifetime.

Using a trust to pass on wealth

Placing assets in a trust often means removing them from your estate during your lifetime, although you could also choose for assets to be transferred to a trust after you pass away. One of the benefits of using a trust is that it could provide you with more control when compared to gifting.

In simple terms, a trust is a legal arrangement for managing assets. You'd place assets in the trust for your beneficiary. A trustee would then manage the assets on behalf of the beneficiary.

A trust can have multiple beneficiaries or trustees if you choose.

You can set out how you want the assets held in a trust to be used, which the trustee must follow.

For instance, you may state that beneficiaries receive a regular income from the assets held in the trust but cannot sell the assets themselves. As a result, trusts can be useful if you have a clear idea about how you want beneficiaries to use the wealth.

You could also give the trustee the discretion to make decisions. For example, if you want to set money aside for a grandchild, you may make their parent the trustee to manage the assets until the child reaches adulthood. During that time, you may allow the parent to make withdrawals so they could cover costs like school fees or sports clubs.





Trusts can be useful for many reasons, including if:

- You want to pass on wealth to children or vulnerable adults
- You have a clear idea about when or how the assets should be used
- You want to ensure assets remain within the family
- You want to create a legacy for future generations
- Your estate could be liable for IHT.

Trusts can be complex. Once you've added assets to a trust it can be difficult or, in some cases, impossible to reverse the decision. So, it's often useful to seek professional legal and financial advice first.

How will the value of your assets change?

When you create a long-term plan, considering how the value of assets may change is important.

The value of your assets could decline as you or others use them to create an income. There are instances when the value could rise too. For example, the value of your home or investments could increase.

While some factors affecting your wealth are outside of your control and you can't guarantee how they'll affect your wealth, considering different scenarios could help you create a robust plan.

Leaving assets in your will

Writing a will to state who you want to benefit from your wealth when you pass away is the traditional way to transfer assets.

In fact, a report from the Resolution Foundation suggests that the total value of inheritances will double over the next 20 years.

If you're worried about providing gifts because they could affect your lifestyle and financial security in the future, leaving an inheritance could provide a solution. Yet, it could still be beneficial to consider how the value of your estate may change during your lifetime – it may affect how you want to pass on assets to loved ones and other beneficiaries, such as charities.

There are several ways you can distribute assets through a will. Such as:

- Naming specific assets you'd like to go to an individual
- Leaving a proportion of your total estate to an individual
- Splitting your estate evenly between several beneficiaries.

An intergenerational wealth plan can help you better understand the value of your estate and how you'd like to divide it.

Remember, you must write a will to state who you'd like to benefit from your estate. If you die without a will, your assets would be distributed according to intestacy rules, which could be very different from your wishes. Despite how important a will is, a Canada Life survey found 1 in 3 adults aged over 55 hasn't tackled the task yet.

You can write your will yourself. However, seeking legal advice may be valuable to avoid mistakes, particularly if your estate or wishes are complex.



What are the potential tax implications of passing on wealth?

Transferring assets to loved ones isn't always straightforward. You may need to consider potential tax charges.

If the entire value of your estate exceeds certain thresholds, your estate could be liable for IHT when you pass away. If you die within seven years of gifting assets, they may be included when calculating an IHT bill, and some assets placed in a trust could be considered for up to 14 years.

So, understanding whether IHT could affect your estate may help you reduce a potential bill and ensure more goes to your loved ones.

Depending on your and your family's circumstances there may be other taxes you need to consider too. For instance, if you plan to pass on assets in a way that would provide an income, could your loved one be pushed into a higher Income Tax bracket?

If you'd like to talk about how to reduce tax liability with your situation in mind, please get in touch.



4 valuable advantages of involving your family in the financial planning process

You can create a wealth transfer plan independently, but involving your family or other beneficiaries in the process could be worthwhile.

Research from M&G Wealth suggests a third of families share a financial adviser. Most commonly, survey respondents said they shared with their grandparents (65%) or parents (57%). Around a third said they shared a financial planner with their in-laws.

Here are four potential benefits of making your family part of the process when you're creating an intergenerational wealth plan.

> You don't need to involve your family in your entire financial plan if you choose not to. You are in control of what is discussed and the information that is shared.

1. It could facilitate important money conversations

Money is still something of a taboo subject in some families. While conversations about finances are important, they can be difficult to have. Scheduled meetings with a financial planner may help you understand your family's attitude to money.

As an effective legacy plan will involve considering several generations, there may be very different views about money and how to use it.

This may be due to them being at different stages of their life or generations facing distinct challenges.

According to Unbiased, Generation X (born between 1965 and 1980) are more likely to face financial hardship in retirement, while a key concern for Generation Y (born between 1981 and 1996) is home ownership.

Working with a financial planner alongside your family may provide a space for you to communicate and help everyone get on the same page. As well as acting as an independent party, a financial planner will also be on hand to answer questions and could help avoid miscommunication.

2. It could provide a chance to better understand their aspirations and challenges

If you want your wealth to improve the financial wellbeing and lifestyle of your loved ones, understanding their priorities is important. What are their life goals and the obstacles that could stand in the way of reaching them?

Their response could affect how you pass on wealth. For instance, if they're struggling to manage their finances day-to-day, passing on wealth in a way that provides a reliable income could make more sense than a lump sum. Or if they want to buy their first home now, a gift could have a far greater benefit than an inheritance later in life.

By talking about aspirations and challenges, you could create a wealth plan that suits not only you but those that will benefit from your assets too.

3. It could provide an opportunity to improve tax efficiency

Some tax allowances could reduce your family's overall tax bill and mean your wealth goes further.

By planning as a family, you have a chance to understand how your children or grandchildren are using allowances, and whether there's an opportunity to improve tax efficiency. For example:

- Are your loved ones using their annual ISA allowance?
- How much of their pension Annual Allowance are they using?
- Do they utilise their Dividend Allowance each year?

If you want to pass on some of your wealth now, contributing to your beneficiary's pension or ISA could make financial sense if they're not already using their full allowance. Of course, you also need to consider other factors, such as how they'd like to use the money.

Allowances can vary depending on individual circumstances. Working with a financial planner could help you identify how to make use of tax allowances in a way that reflects your and your loved ones' goals.

4. It could demonstrate the benefits of long-term financial planning to your loved ones

Involving family in your plan may be a good way to introduce them to the benefits of financial planning.

Seeking financial advice that's tailored to their life could improve their long-term financial wellbeing. It may encourage them to make savvier choices and use the wealth you leave them wisely.





Contact us to create a tailored intergenerational wealth plan

Whether you'd like to gift assets now or want to understand if a trust is right for you, please contact us. We can work with you to create an intergenerational wealth plan that's aligned with your goals.

0800 612 6633

enquiries@hartsfield.co.uk

Please note: This blog is for general information only and does not constitute advice. The information is aimed at retail clients only.

The Financial Conduct Authority does not regulate estate planning, tax planning, or will writing.

The value of your investment can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.



Bristol Office

One Temple Quay
Temple Back East
Bristol, BS1 6DZ

01173 634 700

bristol@hartsfield.co.uk

Wiltshire Office

The Coach House,
Box House, Bath Road,
Box, Wiltshire, SN13 8AA

01249 591 530

wiltshire@hartsfield.co.uk

Cheltenham Office

Harley House
29 Cambray Place
Cheltenham, GL50 1JN

01242 388 000

cheltenham@hartsfield.co.uk

Hartsfield Planning is a trading style of Hartsfield Financial Services Ltd, which is authorised and regulated by the Financial Conduct Authority (FCA) and is entered on the FCA register under reference 615731. Registered in England number 07115377. Registered Office: The Coach House, Box House, Bath Road, Box, Wiltshire, SN13 8AA

Hartsfield Planning