thrive
FINANCIAL PLANNING

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INTERGENERATIONAL WEALTH PLANNING

Intergenerational wealth planning is the strategic process of managing and transferring wealth from one generation to the next. This planning ensures that assets are passed on efficiently; preserving wealth and reducing potential tax liabilities. Given the complex nature of tax laws and inheritance regulations in the UK, a well-thought-out plan is crucial.

This booklet provides an overview of key considerations, strategies and tools to help you navigate this complex subject.

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THE IMPORTANCE OF INTERGENERATIONAL WEALTH PLANNING

The primary goal of intergenerational wealth planning is to secure financial stability for your family's future.

This process involves more than just writing a will; it includes managing investments, trusts, tax implications and even education on financial affairs for beneficiaries.

Preserving Wealth

The main concerns for many families is preserving wealth across generations. Seeking financial advice and planning can help protect significant portions of an estate becoming lost to tax and other inefficiencies.

"Someone is sitting in the shade today because a tree was planted a long time ago" (Warren Buffet, 2020).

Minimising Tax

Inheritance Tax (IHT) can significantly reduce the value of an estate passed to beneficiaries.

As of 2023, the standard IHT rate for an individual is 40% on the value of an estate above the £325,000 threshold. Proper planning can help mitigate this impact through various strategies such as gifting, setting up trusts, and utilizing available reliefs and allowances.

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KEY STRATEGIES

Wills & Estate Planning

Creating a comprehensive will is the foundation of any intergenerational wealth plan. A will ensures that your assets are distributed according to your wishes and can help avoid disputes among beneficiaries. Additionally, it can stipulate provisions for dependents.

Trusts

Trusts are powerful tools in wealth planning, offering control over how and when beneficiaries receive their inheritance. There are several types of trusts, each with their own benefits and tax implications. Below are a few examples:

- **Bare Trusts:** Assets are held in the name of the trustee, but the beneficiary has an absolute right to them.
- **Discretionary Trusts:** Trustees have discretion over how the assets are distributed, providing flexibility and potential tax advantages.
- **Life Interest Trusts:** Provide income to a beneficiary for life, with the remaining capital passing to other beneficiaries upon their death.

Gifting

Gifting is a straightforward method to reduce the size of your estate and potentially minimize IHT. The UK allows an annual exemption of £3,000 per person for gifts. Additionally, small gifts of up to £250 per person per year and wedding gifts up to £5,000 for children are exempt from IHT.

Business and Agricultural Property Reliefs

For individuals with business or agricultural interests, Business Property Relief (BPR) and Agricultural Property Relief (APR) can significantly reduce the value of these assets for IHT purposes, potentially down to zero. These reliefs encourage the continuity of family businesses and farms across generations.

Life Insurance

Life insurance policies can be an effective way to cover potential IHT liabilities, ensuring that heirs receive the full value of their inheritance. By placing a life insurance policy into trust, the payout can be excluded from the estate and therefore not subject to IHT.

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EDUCATING THE NEXT GENERATION

A crucial yet often overlooked aspect of intergenerational wealth planning is educating the next generation about financial management. This includes the responsibilities that come with inheriting wealth. Including potential beneficiaries in ongoing financial planning will give them the foundations to manage their inheritance wisely and continue the family legacy.

Family Meetings

Regular family meetings to discuss the longer-term wealth plan, objectives and goals can foster a sense of responsibility and understanding among younger generations. This transparency helps prevent future conflicts and ensures everyone is aligned with the overall strategy.

Professional Advice

Leveraging professional financial planning and advice is essential. At Thrive Financial Planning, we can provide tailored strategies that can be adapted to align with ongoing personal and family objectives.

This guide is for information purposes and does not constitute financial advice, which should be based on your individual circumstances. The Financial Conduct Authority does not regulate some aspects of Trust, Tax and Estate Planning.

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