The value of investments can fall. Investors may not get back the amount invested.
Income from investments may vary and is not guaranteed.

BNY INVESTMENTS
RETIREMENT GUIDE

Intergenerational wealth and long-term tax planning

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Intergenerational wealth and long-term tax planning

For individuals who have built up significant levels of savings, investments and other assets during their lifetimes, it makes sense to think about whether they might want to share this wealth with their family. And, if so, what their options are.

Drawing up a will and looking at the potential impact of inheritance tax are important parts of long-term financial planning. Equally, many people may wish to give money or property to their children or grandchildren long before they reach old age.

Intergenerational transfers of wealth can help younger relatives meet financial challenges such as getting on to the property ladder or paying for school and university fees. They can also have tax benefits, for example by reducing eventual inheritance tax bills.

However, inheritance tax planning can be complex and there are a number of potential pitfalls to be aware of. Seeking professional advice from a financial adviser or a solicitor is highly recommended.

Tax treatment will depend on individual circumstances and may change in the future.

Inheritance tax: the basics

Under current UK rules, each person can pass on assets worth up to £325,000 before their estate is subject to inheritance tax. This £325,000 allowance is known as the nil-rate band.

Above this level, tax is charged at 40%. So if someone left assets valued at £500,000 when they died, the inheritance tax bill would be 40% of £175,000, or £70,000.

Inheritance tax does not apply when someone leaves assets to their husband, wife or civil partner. Meanwhile, married couples and civil partners are allowed to transfer any unused portion of their nil-rate band to their surviving spouse. This can potentially double the amount of the estate that can be bequeathed tax-free.

There is also an additional tax-free amount that applies when someone leaves their home to their children or grandchildren. This is known as the residential nil-rate band, and it is currently worth £175,000. This potentially increases the overall nil-rate band to £500,000.

Reducing potential inheritance tax bills

There are several strategies you can use to reduce the amount of inheritance tax that is eventually due on your estate. Getting professional advice before deciding on the most suitable course of action is likely to be in your interest.

MAKING GIFTS

Giving away money or other assets before you die can help reduce potential inheritance tax liabilities. Under current rules, you can give away up to £3,000 a year in cash or other assets. This gift automatically falls outside your estate for inheritance tax purposes.

You can also make further tax-exempt gifts of up to £250 per person. Although, recipients of these additional gifts may not be the same as whoever received your £3,000 gift. Tax-exempt wedding gifts can also be made to children (up to £5,000), grandchildren (up to £2,500) and other relatives or friends (up to £1,000).

Any money or assets you give away above these limits can be included in your estate and is potentially subject to inheritance tax. However, if you live for seven years after making such a gift, it becomes exempt, and the rate of inheritance tax decreases over this seven-year period.

You can also give away any surplus income you have – i.e. income from pensions or other sources that you do not need to cover your living expenses. For these gifts to be exempt from inheritance tax, they should be made regularly and not negatively affect your standard of living. Keeping detailed records of these and any other gifts you make can help to avoid future complications and challenges from tax officials.

GIVING MONEY TO CHARITY

Money and other assets given to charity – either in your will or in the form of gifts earlier in your life – is exempt from inheritance tax. And if the value of the charitable bequest is 10% or more of your estate, inheritance tax can apply to the rest of the estate at a lower rate of 36% rather than 40%.

USING TRUSTS

By putting assets such as property and shares into a trust, you can transfer their ownership to beneficiaries such as your children or other relatives. In certain circumstances, the assets could then become exempt from inheritance tax.

There are many types of trusts. Setting them up can be complex and expensive, and there may be tax implications, both for you and your intended beneficiaries. It is crucial that you seek expert legal advice if you are thinking about using a trust as part of your inheritance planning.

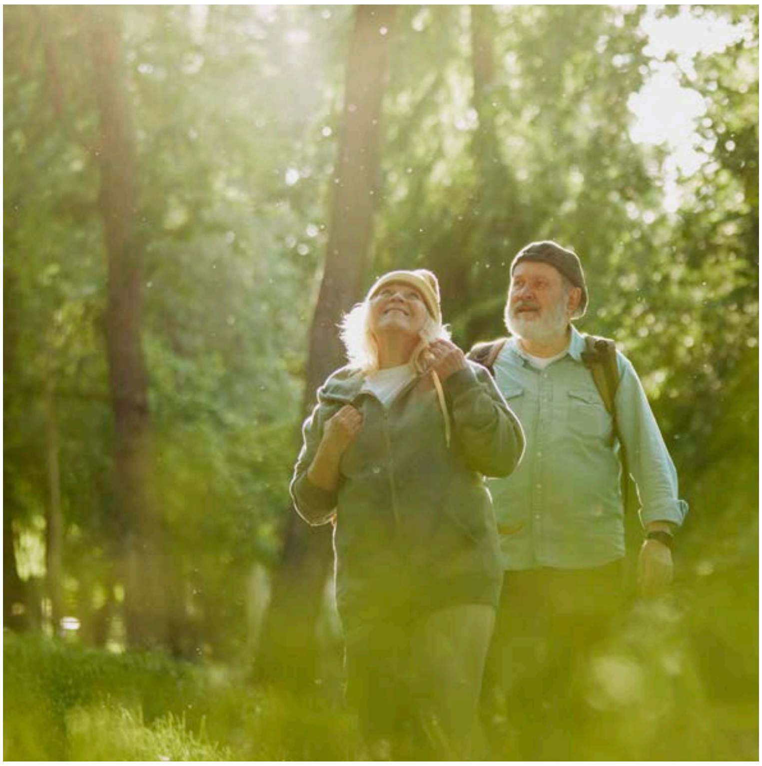
LIFE INSURANCE AND INHERITANCE TAX

Taking out a life insurance policy is one way of covering the cost of any inheritance tax bill your relatives could face. If an insurance policy is set up in trust, a payout can be made to your beneficiaries before the probate process is complete. This is because the policy will not be considered part of your estate. Under normal circumstances, inheritance tax bills need to be settled before probate can be issued.

Inheritance tax and pensions

Under current rules, there is no inheritance tax to pay on defined contribution or personal pensions. These are pensions that involve people building up their own pot of money that they then use to generate an income in retirement.

However, the government has announced plans to include pensions in inheritance tax calculations from the start of the 2027 tax year. It is not yet clear exactly how the new system will operate, but the expected change could be another reason to seek expert advice related to inheritance planning.



Paying for long-term care

You should also take into account the possibility that you or your partner will need to pay for care later in life - either in your own home or in a residential nursing home.

For some types of later-life care, local authorities will carry out a means test to establish how much they will contribute to care costs. For people who have given assets away in the years preceding such a means test, there is a risk the local authority could decide they have been doing this specifically to reduce the amount they have to contribute towards care expenses. This practice is known as deliberate deprivation of assets.

Local authorities are less likely to make such a finding in cases where the individual was in good health when the gifts were made, and did not believe they were likely to need long-term care.

Drawing up a will

Writing a will and ensuring it is kept up to date is a fundamental part of inheritance planning. Anyone who dies without a valid will has no control over how their estate is shared out. A lack of a will can also make the probate process far more challenging for surviving relatives.

There are a wide range of considerations when it comes to sharing wealth with family members. But the sooner you start thinking about your options, the more effective – and tax-efficient – your plans are likely to be.

Deciding on the best path forward can be difficult, and talking with a financial adviser may provide valuable guidance.

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