WAY Investment Services Limited

Giving gifts… how to work out when, how, and how much

It's entirely normal for parents and grandparents to want to provide financial support to younger generations. But when it comes to giving financial gifts, it is worth putting some careful thought and planning into working out the *when*, *how* and *how much*. There really is 'no time like the present' to start these conversations with clients.

When is the best time to inherit?

According to a recent report from the Institute of Fiscal Studies*, those born in the 1960s will be an average age of 58 when their last-surviving parent dies, rising to 64 for those born in the 1980s. Furthermore, around a third of people born in the 1980s will be in their 70s by the time their last-surviving parent dies. But this is not necessarily the time in life when an inheritance is most useful. Some parents and grandparents may feel that the next generations would benefit far more from an inheritance at a younger age – perhaps when they are facing greater pressure from property and education costs, rather than approaching, or actually in, retirement. Adding to this, in the current climate, financial support may be needed (and greatly appreciated) by those whose employment or businesses have been negatively impacted by the Coronavirus pandemic. Balanced against this, inheriting too much money at too young an age can bring its own set of problems, so families need to be comfortable and considered with their decisions.

How should money be gifted?

Making direct gifts, especially when the sums involved are considerable, is not necessarily the best option. Consider some of the key risks:

- Access to the assets is lost, making them unavailable to the donor should their own financial needs change in the future.
- Assets now sit in the beneficiary's estate, inflating the value of their estate and possibly creating an IHT liability or possibly making an existing one worse. The assets are potentially subject to another assessment to IHT, further reducing the family wealth other generations may have enjoyed.
- The assets may be at risk from potential future social impacts such as divorce or bankruptcy. Parents may not necessarily be keen on their child's choice of partner, and fear what might happen to family wealth should divorce take place at some point in the future.
- Wealth may be lost from the family through sideways inheritance; if a beneficiary passes away, their partner may remarry, and the grandchildren of the donor could be cut out of the inheritance line.

Using a loan facility to address concerns about gifting

Using a trust with a loan facility can be one way of addressing these concerns. At WAY Investment Services Limited, our flexible reversionary, interest-in-possession trusts already provide flexibility for clients, enabling the Trustees to revert money to the Settlor, if required. In addition, the Trustees can loan money from the trust to the beneficiaries at any time. The loan remains an asset of the Trust and a debt of the recipient(s) providing far more protection of the assets than gifting direct, and can help protect against the risks listed above. It is important for the Settlor to write a detailed Letter of Wishes to the Trustees (preferably at the time the Trust is set up) and also review it regularly, so that the trust assets are used as the settlor intended.

How much should be gifted?

Ultimately, the decision as to how much to give is personal and specific to every family and their circumstances. Family wealth planning is part of the bigger conversation, and Financial Advisers have a key role here in helping clients recognise and determine their own financial objectives. Gifting should be one aspect of the wider planning process. Helping families understand that the *when* and *how* of gifting is crucial and can help ensure successful, tax-efficient, outcomes that also protect their family wealth inter-generationally. The future is uncertain but having these conversations with clients now is important to help ensure their long-term financial goals are met and their family wealth is protected as much as possible.

* https://www.ifs.org.uk/uploads/R173-Inheritances-and-inequality-within-generations.pdf

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