- The A-Z of inheritance

The A-Z of inheritance

favicon.jpg
By Perpetual Private Insights
13 January 2021



Inheritance is an emotional subject – on every level. The people leaving an inheritance generally do it with pride and love. The people receiving an inheritance often receive it with gratitude – and sorrow. But while emotional, it's also a financial transfer that comes with a whole range of legal, financial planning and admin issues attached.

In this article, we look at both the financial and emotional aspects of inheritance and at how some forethought can make the process easier for everyone.

Passing on, and passing on wealth

Thanks to the hard work of the Baby Boomer generation, we are about to witness the greatest transfer of wealth in history. According to Griffith University, Australians over 60 are about to pass on $3.5 trillion of their wealth.

These big numbers should be good news for the giver and receiver. Yet for many people inheritance is painful and protracted. It can lead to family disputes and disappointment. To

ensure that doesn’t happen you need to manage two things – the process and your emotions.

The process – leaving a paper trail

Moving wealth from one generation to the next does not happen quickly. Let’s think about why that is and why some intelligent forward planning is required.

Consider your own finances – all the bank and investment accounts, loans, credit cards, tax, super and insurances that make up your financial life. Think of all the documents, passwords, websites and email chains they create. Then hand them to someone who isn’t financially trained and hasn’t dealt with them every day like you have. Hand them to someone who’s emotionally drained by your passing – and then has to deal with the whole series of complex legal processes we outline below.

Get a grip on assets and liabilities

Before any inheritance gets distributed, the executor (the person you’ve appointed in your will to administer your estate) needs a deep and documented understanding of your financial position – what you own, what you owe. It’s complex and detailed work. But it needs to be done so a Statement of Assets and Liabilities can be submitted to the Supreme Court.

Probate – all about a valid will

After the assets and liabilities have been accounted for, the executor of your will needs to apply for Probate. The word tells its own story – it comes from the Latin *probare:* “to prove”.

It means a Court must certify that the will they’re working with is the valid one. Usually, the executor needs to advertise their intention to apply for probate in a newspaper or via the court website. They also need to give creditors time to lodge a claim against the estate.

Death and Taxes

Once Probate has been granted your executor must make sure outstanding taxes are paid and a date of death tax return and other tax returns are lodged. They also need to work through any other tax complexities, including family trusts, to ensure assets are passed on in compliance with tax law.

This is one area where a financial adviser or accountant – or both – can be invaluable. If you’re preparing your estate plan, their help can make sure you pass on assets to those you care about in the most-tax-effective fashion.

And if you’re *receiving* an inheritance, expert financial advice can help you manage the tax decisions more effectively.

Tax management is important. Australia doesn’t have death duties and most assets you inherit don’t get captured by Capital Gain Tax (CGT) when they transfer into your ownership. But CGT does apply when you sell those assets or, potentially, if you inherit residential property that has been used for investment purposes. Expert advice can help you manage these complexities.

Rings passed down for generations

Unless a claim is lodged against the estate (and it can't be paid or negotiated away) the next step is for cash legacies, bequests and personal items – including jewellery – to be distributed. Individuals often use their will to make bequests to charitable organisations – these are identified and treated separately to the rest of the estate.

Would you like to know more about leaving money to charity? Learn more.

Distributing the estate

Once all legacies and bequests have been managed correctly, the balance of the estate (typically large assets like property, equity in businesses and investment holdings like shares) are distributed in accordance with the will or subsequent directions from a court. Sometimes this is not a final process – particularly if there are minor children involved. In these situations, the administration of the estate can be ongoing (which adds to complexity and costs).

As you can see, taking an inheritance from the reading of the will to the distribution of assets has already involved accounting, advertising and two layers of Court documentation. This all takes time – and that's assuming there are no family disputes or arguments with the tax man or the deceased's creditors.

The emotions

We mentioned managing the process. Now we need to talk about managing your emotions. If all parties do that – the person leaving the inheritance and the person receiving it – the result can be better for all concerned. So, let's look at the emotions involved in leaving an inheritance and the paths they can take us down.

Grief

In the aftermath of a loved one's death, it can be hard to manage complex tasks, particularly if those tasks stir more emotion – like family disputes. Preparing for that challenge – perhaps by ensuring the executor has some financial skills, or is trusted by all parties, or is independent – can reduce the stresses placed on grieving family.

Impatience

A simple look at the list above explains why patience is required in an inheritance situation. Understanding the probable time frame – which can vary depending on the complexity of the estate, but can often be a minimum of 12 months before an estate is settled - can make all the difference.

As we saw earlier, good advice can be crucial to setting up an estate plan that provides the maximum benefit for those you leave behind. It can be just as useful for the inheritors of an estate. Perpetual's *What do you care about* research suggests about 30% of people who receive an inheritance invest it. Another 23% pay off the mortgage*. That suggests that many treat an inheritance as a windfall – a chance for some spending.

To a certain extent, that's understandable – but in an ideal world anyone expecting an inheritance would have thought through that 'windfall' in the context of what it can do for their overall financial wellbeing – their **long-term** financial and lifestyle goals. A financial adviser can help structure this process more effectively.

Reticence

According to the same Perpetual research quoted above, some 53% of parents have *not* discussed their will and legacy with their children. More striking still, 80% of Australians

who believe they *will* inherit something haven't discussed that inheritance with their parents.

That lack of communication is at the heart of many fraught inheritance experiences. Perpetual's research suggests just 40% of families are comfortable talking about money.

But to ensure that the transfer of wealth from one generation to the next happens with the minimum of complexity, cost and angst, all those involved, across the generations need to be clear about their intentions - and their feelings.

For more insight into the challenges and opportunities around inheritance visit our dedicated inheritance page.

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo), ABN 42 000 001 007, AFSL 236643. This publication has been prepared by PTCo and contains information contributed by third parties. It contains general information only and is not intended to provide you with advice or take into account your objectives, financial situation or needs. You should consider with a financial adviser, whether the information is suitable for your circumstances. The information is believed to be accurate at the time of compilation and is provided by PTCo in good faith. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. PTCo does not guarantee the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance. Published in August 2024.