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How to save the third generation of family wealth

12TH MAY 2017 *by* **SPEAR'S**

'Rags to riches and back again in three generations' still holds true, according to a recent study, but there are steps families can take to stay rich for even longer, writes Stephen Woodward

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The Mandarin proverb ‘Fu bu gao san dai’ literally translates as ‘wealth does not sustain beyond three generations’, the anglicised equivalent being our truism of ‘Rags to riches and back again in three generations’. A recent study from the Centre for Economics and Business Research has found that two thirds of individuals in the *Sunday Times Rich List* made their fortunes since the millennium. This is unsurprising given the radical changes in the world economy in general since 2000 (the rise of China) and specific changes such as the tech wealth generated in the last 17 years; pre 2000 there was no Facebook or Twitter. Importantly, the same study found that wealth is still often gained and lost again within three generations; there is nothing new under the sun.

The great challenge for the recently wealthy is to ensure that they buck the trend and do not end up temporarily wealthy. The fact that the odds are historically stacked against new members of the *Sunday Times Rich List* is scant consolation, but there are concrete steps that can be taken by the first generation to avoid the third generation fulfilling the cliché of genteel poverty:

Firstly, get a succession plan. No business can survive without a Business Plan and family wealth dissipates if there is not a Succession Plan. If the first generation considers, and records, the fundamental questions of how and when wealth will be passed down the generations and whether the next generation or paid outsiders will run the business(es) created by the first generation they are already well on the way to preserving their wealth. The purpose of a succession plan is partly to identify potential risks to the family wealth. There are excellent family consultants who can assist with this process in the same way that traditional management consultants help businesses.

Next, get a will. Death is an absolute certainty and a significant risk event in passing down wealth, both in terms of estate taxes and battles between aggrieved heirs. Once a Will is in place it should be reviewed regularly.

Subsequently, get Lasting Powers of Attorney (LPA) in place. Medical advances now mean that we are all more at risk of developing dementia and of surviving serious accidents, both of which can take away an individual's mental capacity rendering them legally incapable of any action. This can be avoided by deciding now who should act as trusted Attorneys under an LPA if the worst occurs.

Then, welcome newcomers to the family (with a pre-nup). The starting point for UK Inheritance Tax is 40 per cent, but the starting point for a divorce in the UK Family Courts is a 50/50 split. Divorce is a significant risk to generational wealth, and whilst pre-nuptial agreements are not binding in the UK courts they are if properly structured vital in mitigating the effects of matrimonial breakdown.

And last but not least – tax. Put in place asset holding structures that serve the Succession Plan and are tax efficient. There is no one size fits all solution; the asset structuring of each family should always be bespoke. There are many asset holding vehicles to choose from (trusts, foundations, companies, partnerships) but these are merely tools to carry out the Succession Plan in a tax efficient manner.

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