
It's a fair question. Why should you care if your children, who are likely to be fully grown adults, will pay inheritance tax after you have shuffled off your mortal coil?

**You don't have to care**

The short answer, of course, is that no one has to worry about it. Parents leaving assets to children don't have to be the ones to worry about any resulting tax bill. After all, they won't be the ones paying it…or will they? It is worth remembering whose hard earned assets will be sold to pay the tax bill. If this gives your clients pause for thought then the next question might be: Do you want a say in this? Would you like to ensure a level of control over which assets are sold? There are those who will want to control which assets stay in the family, and those who won't care either way.

**Some people care**

Some people are more likely to want to control their estate. This could be the case where the asset that might be sold is the family farm or a third generation business. Or where an asset is considered a prize, the result of a life's work. In those circumstances your clients might want to make a plan for some of the tax bill on their estate. So it's not for everyone, but it's definitely a consideration for some.

**Gas!**

As it happens, I recently spoke to my father about this. He asked, (after almost 20 years) what I actually do in Irish Life and inheritance planning eventually came up. He was bemused that, as he put it, my job involved helping my generation to benefit further from his generation. He was fascinated, and not in the way I would prefer, when I spoke about Section 72 plans. He thought it was "absolutely gas" that my generation would ask his generation to help pay the tax bill we'll be hit with when they die.

So I know one person who won't be buying a Section 72 plan. He thinks we, my generation, should be planning for the bill ourselves. Has he a point?

Is he right? Well let's look at the generations. We have all heard of Generation X and Baby Boomers but what are the motivations that drive these two groups? How they would each plan for a tax that is going to affect them (in one way or another) at some point?

Generational theorists Neil Howe and William Strauss are generally credited with identifying and naming 20th-century generations in their 1991 book entitled "Generations". Most of their labels stuck, though the dates that define them can be somewhat flexible.

Howe and Strauss define generational cohorts in the U.S from 1900 as follows:

- 2000: New Silent Generation or Generation Z
- 1980 to 2000: Millennials or Generation Y
- 1965 to 1979: Thirteeners or Generation X
- 1946 to 1964: Baby Boomers
- 1925 to 1945: The Silent Generation
- 1900 to 1924: The G.I. Generation

**Generation X: Born at the wrong time?**

Those in Generation X today are in their forties and early fifties, and despite being in dual income families, are regarded as the first generation that will not do as well financially as their parents.[1] A study in 2014 by the Pew Charitable Trusts showed that while they have higher family incomes than their parents they have much less wealth. While 75% earn more than their parents, only 36% have more wealth.[2] They were hit harder by the Great Recession and lost around half their wealth between 2007 and 2010.[3]

So even though they have two good incomes, they are not as well off as Mum and Dad. Gen Xers are cautious and conservative with money, and are more inclined to save than other generations.[4] This is not surprising; they were hit badly by austerity measures and negative equity, having bought their first home during the boom.

It is true that, some younger Gen Xers are renters with young families.[5] However, older Gen Xers are in the main in the established phase of their careers and own their own home. (The 2006 Census shows that by the age of 28, owning a home was more common than renting). Those born in the 1960s or early 1970s would likely have bought a house in the late 1990s or early 2000s which means that while they suffered when prices collapsed they also benefited from the pre-bust climb in prices and are in positive equity today.[6] Contrast this with the

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latest Census which shows most people renting up to 35[7], and it is clear that Gen Xers, while not as wealthy as their parents, are better off than those younger than them, who can't even get on the property ladder.

So if their children are young they are likely to have high childcare costs at the moment but they are typically employed, and are in dual income households. Most generational studies show that while they are not as driven by money as their parents, they are highly educated and earn more than their parents did.[8]

**Baby boomers**

Their parents are either the Silent Generation or, more likely, are Baby Boomers. The Silent Generation are the older group, born up until 1945, while Boomers were born between 1946 and 1964. Baby Boomers are also known as the "Me" generation.[9] They were born post-war, and came of age in an era of moon landings and the Beatles. Here in Ireland, they were working (or unemployed) through the 'Troubles' and Emigration, Haughey v Thatcher, Glenroe and Who shot JR? They benefited from the rise of house prices in the nineties. They have lived through recession, boom and bust.

**Generational divide**

Interestingly, Baby Boomers are the generation most likely to regard money as a status symbol, whereas their children see it as a means to an end.[10] And, at this present time, they (those over 55) hold 60% of the wealth in the State.[11]

Generation X are the most likely group to inherit in the next decade, given that the share of wealth owned by over 65s is set to increase to 42% in the next decade.[12]

So whether their parents care or not, many in the age group 40- 55 will pay a tax bill, specifically a Capital Acquisitions Tax Bill; in the next decade or two, and if they are receiving long term financial advice: they should be told about it. Because the first issue as an industry we need to address is the complete lack of awareness around inheritance tax.

A Survey[13] conducted by Coyne Research in 2018 of 1000+ adults in Ireland showed very low awareness of the rate of inheritance tax, as well as the inheritance tax thresholds. Only 1 in 6 of those surveyed were aware of what the current inheritance tax rate is, and a majority were not aware of inheritance tax thresholds across different categories of recipients. If people don't know about this tax it is unlikely they will make any plans to address it. And all the evidence would point to the fact that those inheriting wealth haven't got wealth of their own, but they do have income.

So in my opinion a good place to start is to make those that will actually have to pay the bill more informed. If, once aware and informed, they want to insure Mum and Dad on a basic whole of life insurance plan, then it's an option they can explore with you. Assuming they can get cover in place on their parents, it can be an efficient way for them to control their own share of the tax bill. In addition, as the policy is not part of their parents' estate, the benefit claim won't be held up by probate. As they would pay for the plan, they would be entitled to the entire proceeds tax free, regardless of whether they use them to pay inheritance tax, or not.

Or Mum and Dad might decide that they do care about the holiday home being sold, and take out a Section 72 approved plan on themselves, for some of the tax bill at least. Either way, both generations can help each other out with costs using the Small Gifts Exemption, depending on how cash flow is impacted by the stage of life everyone is at. The reality is: this can be approached by the family as a whole, and the overall result could be the most efficient financial decision made for all in the long run.

**Sources**:

1, 2, 3: A New Financial Reality: The balance sheets and economic mobility of Generation X

4, 8, 9, 10: Howe and Strauss, Generations, 1991

5, 6: Source – CSO 2016, Savills Dec 2017, Coyne Dec 2017

7: Census 2016

11, 12: Goodbody Stockbrokers

13: (Source: Coyne Research, 2018 for Irish Life).