Perpetual Private

Making the most of your inheritance

Trust is earned.

Administering your loved one's estate

When a loved one passes away, it can be an emotional and stressful time, and you may be called on to make important decisions that could have a lasting impact on your financial security. You will be asked to go through an unfamiliar legal and financial process, and this is a lot more complex than just reading the will.

Here are just some of the aspects involved

- Finding the will and identifying all the beneficiaries named in it
- Identifying and valuing all of your loved one's liabilities and assets
- Applying to the supreme court for probate
- Notifying all the claimants and managing any disputes
- Distributing the estate
- Managing any taxation

A guiding hand

Depending on the state of your loved one's affairs, distributing their estate can be long and complex. It can feel overwhelming and sometimes involves conflict. Besides the financial, legal and taxation aspects there are often emotional and family issues to consider, as many of the parties involved will be grieving.

No two families are alike and no two estates are alike. For example, some family members may be estranged, distributions may be seen as unfair, there may be an entire second family to consider, or some family members may be vulnerable due to disability or mental illness.

Perpetual's Estate Administration team is here to guide you through all of this and help you get through the process as smoothly as possible.

So how did we get involved?

We're involved because your loved one appointed us in their will to be the executor or co-executor of their estate.

They did this to give you peace of mind. They wanted you to have the comfort of knowing that independent, impartial professionals with expertise in this field will distribute the estate as quickly, fairly and efficiently as possible.

Perpetual are those independent and impartial professionals. For over 135 years our experience in estate administration has supported Australians at challenging times of their lives. We were established in 1886 by a group of businessmen including Sir Edmund Barton, later to be Australia's first Prime Minister, and this trustee heritage is what makes Perpetual unique.

Why not just get a solicitor?

We're often asked why a solicitor isn't handling all of this. The answer is that a solicitor will only do one part of it: arranging probate. They won't collect and distribute the assets and aren't qualified to handle potentially unusual aspects of the estate, such as valuing and selling collections or memorabilia.

We have the expertise to manage the entire process and advise you on all aspects of it, so you only need to speak to one person.

How long will it take?

The short answer is: longer than you expect or might like. Just getting probate (confirmation from the court that the will is valid) can take three or four months, and we can't make it happen any faster.

In most cases the administration of an estate may take a year or more to resolve: the more complex it is the longer it takes.

To take advantage of this wait time, you can start planning what you might do with any inheritance, before you receive it.

What does this administration cost?

Our fee depends on the size of the estate, and is paid out of the estate. We'll give you an estimate once we've collected and valued all the assets. We only deduct our fee at the end before we distribute the final amounts to the beneficiaries.

You can find out more about our fees in our Traditional Trustee Company Services Financial Services Guide at www.perpetual.com.au/fsg

How we work with you

As executor of the will, we appoint a Trust Manager to be your single point of contact. They take responsibility for each step and keep the beneficiaries informed throughout the process.

We're here to help you, so if you have any questions about any aspect of the estate administration at any time, we encourage you to ask your Trust Manager.

If you've been appointed as a co-executor of the will, we'll work closely with you, and can also act on your behalf if required.

We always perform our duties diligently, and treat all beneficiaries equally and respectfully, no matter how complex the family situation might be. We are also adept at dealing with claims against the estate and have a proven ability to manage the complex investment, taxation and legal matters that can arise.

The process

There are six main steps in administering an estate, and we will guide you through each one. Here's an overview.

Step 1 – Confirm the beneficiaries, assets and liabilities

We identify and contact the beneficiaries of the estate, then verify and secure all of the assets (for example property, shares, bank balances) and any liabilities (such as unpaid loans or other debts).

We use this information to value the estate and prepare a statement of assets and liabilities. In most states and territories this forms part of our report for the Supreme Court.

Step 2 – Calculate taxation

Tax return

The estate has to lodge a tax return for the period from 1 July to the date of death. Also, if the estate isn't distributed and wound up within a year, it has to lodge a tax return for each financial year after that in which it receives income.

Capital Gains Tax

When an estate sells some assets, in particular property or shares, it has to pay Capital Gains Tax (CGT). The obligation to pay this tax is distributed among the beneficiaries, and can vary from one person to another. To calculate it we have to find out when the deceased person bought each asset, which can be difficult if the assets were bought many years ago, or if they didn't keep detailed records.

The tax implications of an estate can be complex. We recommend that all the beneficiaries consult their Trust Manager, who can bring in an experienced Perpetual Private financial adviser. The adviser can explain how the estate affects each beneficiary, and help them make tax-effective decisions. The first meeting with our financial adviser is complimentary, and if you decide to proceed we'll discuss an advice preparation fee with you.

Step 3 – Apply for probate

'Probate' means confirmation from the court that the will is valid and is the most recent version.

To apply for probate we:

- Publish a notice in a major newspaper or court website of our intention to apply (this is required by law)
- Publish a notice to creditors so they have time to make a claim against the estate
- Appoint a solicitor to apply to the court for probate

The notice period

We can't take any steps to distribute an estate among the beneficiaries until the court grants probate. Once they do that, there is then a notice period during which creditors can make a claim on the estate. If any creditors make a claim, the executor has to reach an agreement with them or the court has to rule on the matter.

The notice period varies from state to state, but it's the ideal time for beneficiaries to get financial advice about how best to receive their inheritance.

Step 4 – Collect and sell the assets

Once probate has been granted, we collect all the deceased's assets and distribute in accordance with the will and directions of the beneficiaries. We use the proceeds to pay any outstanding debts or expenses.

Step 5 – Pay bequests and legacies

Some wills have specific requirements, such as making a donation to charity, establishing a trust, or ensuring that a person receives a particular item (for example shares, property, jewellery, furniture).

If the will includes any of these bequests or legacies, we distribute the cash amounts or items according to its instructions. If a beneficiary who is a minor receives a cash bequest we may have to invest the money on their behalf until they turn 18.

Step 6 – Distribute the estate

We can distribute the remainder of the estate only when the following actions have been completed:

- identified all the beneficiaries
- resolved any claims
- finalised the tax and statutory periods have elapsed
- distributed any bequests or legacies

To do this, we give each beneficiary who is entitled to a share a detailed financial statement and distribute the money or assets among them.

If the will calls for a trust to be established we'll create the trust, an investment plan and tax strategy and continue the administration of the trust in accordance with the will.

An important point about the distribution

It's important to note that once you receive an inheritance you can't change the form in which you receive it. So for example, if you're about to receive a share portfolio and you ask the administrator to sell the shares and give you cash instead, you can't change your mind later.

Decisions you make at this point can potentially have large tax implications a year later, so it's important to get advice about this before you receive the inheritance.

And after that?

When you receive an inheritance there's a lot to think about. You now have to fit the inheritance into your existing financial situation, which requires you to make some decisions. Ideally you will have already sought financial advice to help you make tax-effective choices.

So what sort of things do you need to consider when you're expecting an inheritance?

What to do with an inheritance

Receiving an inheritance can feel like winning the lottery, and it's tempting to go on a spending spree. Research tells us that around two-thirds of Australians who receive an inheritance spend all of what they received in just a few years.

Think long-term

During the time it takes to distribute an estate, you have an opportunity to plan how to use any inheritance you're likely to receive. An inheritance doesn't always come just as a cash payment, so there are many aspects to consider.

You might receive an inheritance as a lump sum, an income stream, shares or superannuation balances, or in the form of valuable items such as property, vehicles, jewellery or collections. Each of these types of inheritance comes with its own taxation implications and in some cases, such as superannuation, limits on how you can invest the money.

Managing taxation is particularly important because, if not handled properly, aspects such as Capital Gains Tax (CGT) can consume a large portion of the amount you expected to inherit.

Rather than simply spending an inheritance, there are many ways to gain long-term benefits to your overall financial situation, by investing well and minimising the amount of tax you pay.

Consider your needs

Of course, everyone's needs and goals are different, and there are many approaches that you can take, including:

- Investing the money
- Paying off debts
- Boosting your super
- Giving to charity
- Treating yourself

Investing the money

Investing means different things to different people. What you invest in comes down to your appetite for risk, and that's likely to be tied to your age.

If you're young and employed, you might use an inheritance to buy a property, or buy shares and ride out the ups and downs of the market while your capital grows steadily over many years.

If you're about to retire, you may want to invest in defensive assets like term deposits to protect the money and generate an income from it. If you're retired and already well off, you might want to set up a trust so you can pass the money on to the next generation.

These different positions require different investment strategies, so you need to work out which one is right for you with the help of a financial adviser.

> "When it comes to investing an inheritance, there's a unique solution each time."
>
> **Elysse Lorenti**
> Senior financial adviser, Perpetual Private

Paying off debt

Using an inheritance to pay off debts might seem like common sense, but it can have unforeseen tax consequences. For example, if you sell an inherited financial asset and use the money to pay off your mortgage, you could find yourself with an unexpectedly large tax bill at the end of that financial year.

Also, while it might seem that clearing all your debts is the best way to use an inheritance, this can depend on your circumstances. Debt isn't always a bad thing. You may be able to use an inheritance to borrow more to generate wealth more quickly, or take on tax-deductible debts such as investment or business loans.

So before taking an inheritance in cash and paying off your mortgage, take a moment to consider the possible consequences and your options.

Case study

When Joanna's father died, he left her $2 million in shares he'd bought over decades, mostly in CBA and CSL. Joanna immediately sold $1 million worth of the shares to pay off her mortgage.

She didn't realise that by selling those shares she created a (net) capital gain of $300,000. When the ATO calculated her tax return they required her to pay $141,000 in CGT. Joanna had to sell more shares to pay this, triggering another capital gain.

A financial adviser may have recommended she sell smaller portions of the shares over several years to stay below the top tax bracket. In this scenario, she would have had to pay interest on her home loan for a bit longer, but this would have been far less than the CGT bill.

Boosting your super

Depending on your age and finances, using an inheritance to boost your superannuation balance can be a tax-effective way to increase your retirement savings. This is because money you put into super is generally only taxed at 15% (if your income is less than $250,000) instead of your applicable marginal tax rate.

There are limits on how much you can contribute to super each year, but you may be able to use an inheritance to 'bring-forward' up to three years' worth of non-concessional contributions into your super.

There are complex rules for making super contributions, so while an inheritance can give your super a significant boost, knowing how to work within the rules is critical to maximising the benefit.

Case study

After Lorenzo's mother passed away prematurely, he inherited her house which was worth $2 million. Having read that super was the most tax-effective investment, he decided to sell the house to contribute into super. The sale proceed came through in June, he then contributed $330,000 (using bring-forward) into each of his and his wife's superannuation accounts before 30 June. The remaining funds were held in a term deposit.

If Lorenzo had obtained advice from a financial adviser and his goal was to maximise super contributions in a tax effective way, they could have advised him to contribute $110,000 each within the current financial year then followed by $360,000 (bring-forward provision) in the next financial year. There may also be a consideration of utilising concessional contributions (including carry-forward contributions) to reduce their overall tax.

Giving back

Many people who inherit choose to give some of it to the broader community. Rather than making a one-off donation, you could consider donating through a structured giving program, either by creating your own charitable foundation or setting up an endowment within an already established fund.

Structured giving provides a sustainable revenue stream and allows you to plan when, where and how your money is invested for maximum social return. It also has the potential for tax benefits. There are many ways to maximise the benefit of your gift, not all of them obvious.

Case study

When Josh's father died after a long battle with cancer, he left Josh a large portfolio of Australian shares. When he sold the shares, Josh discovered that he would have to pay $50,000 in Capital Gains Tax. He decided to reduce this by establishing an endowment within the Perpetual Foundation. Josh named the endowment in honour of his father.

The Perpetual Foundation is a Public Ancillary Fund managed and invested by Perpetual, and every dollar Josh contributes to it is tax deductible.

The endowment has grown over time, and each year the income supports a number of fellowships for specialist cancer researchers, increasing understanding of cancer and ultimately working to save lives.

Treating yourself

Judging by the number of people who spend their inheritance in just a few years, this is a popular option. Whether it's going on an overseas trip, throwing a lavish party or buying the sports car you've always wanted, using some or all of an inheritance to buy yourself happiness might be perfectly appropriate.

It's not for all of us though. Many of us might be better off thinking about the future for a moment, and considering how we can use an inheritance to secure our finances. This is particularly true if you're retired or approaching retirement, because your savings need to last for a long time.

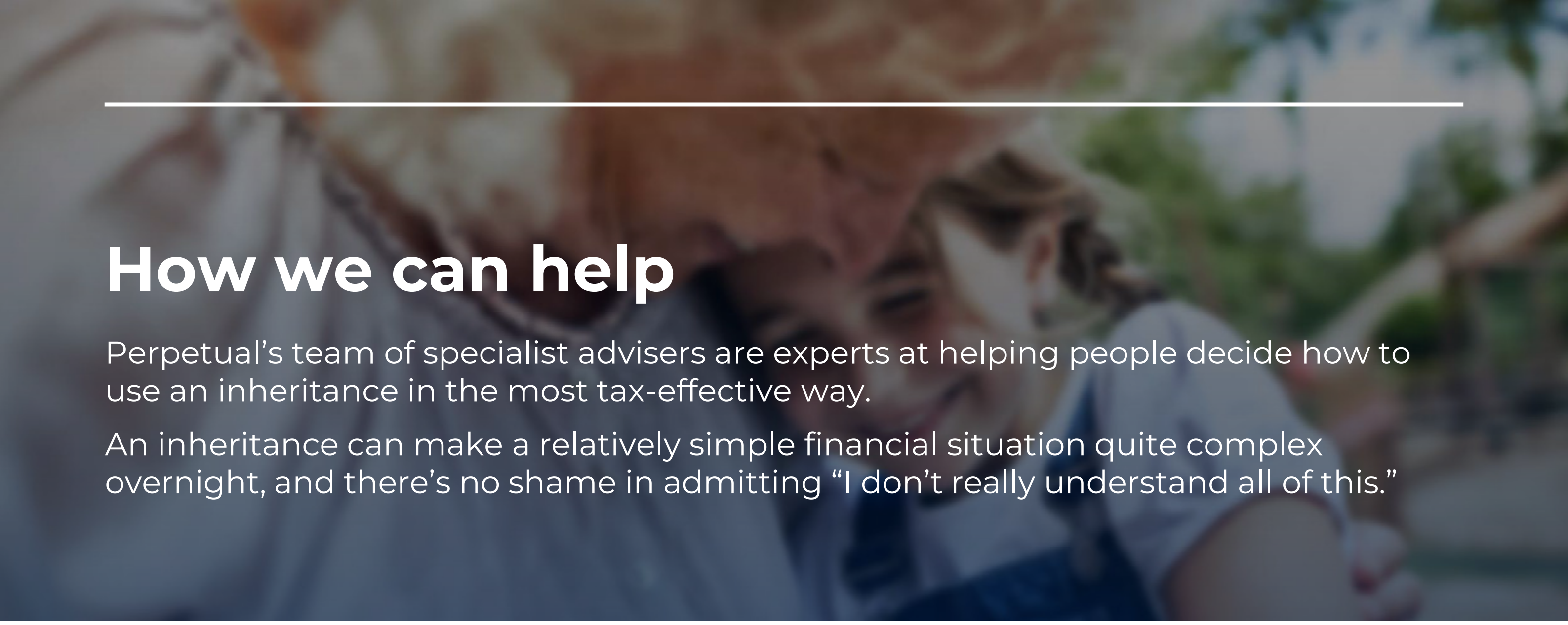
So if you're thinking about using an inheritance to treat yourself, it's always worth stopping for a moment and asking: could I do something my future self will thank me for?

What about tax?

No matter what combination of these options you choose, you'll need to find ways to manage your tax. Why? Because minimising your tax obligations can make a huge difference to how much of your inheritance actually ends up in your hands rather than going to the ATO.

For example, if you inherit property or shares and sell them, this is likely to trigger a Capital Gains Tax event. Assets that have been steadily increasing in value over many years can require you to pay large CGT amounts, in some cases up to half or more of the value of the asset.

On the other hand, if you receive an income from an inheritance – such as rent from an investment property or share dividends – the ATO usually considers it to be part of your taxable income and tax it at your full marginal rate. The extra income might also push you into a higher tax bracket.



How we can help

Perpetual's team of specialist advisers are experts at helping people decide how to use an inheritance in the most tax-effective way.

An inheritance can make a relatively simple financial situation quite complex overnight, and there's no shame in admitting "I don't really understand all of this."

Understanding your options

We have your interests at heart, and we can help you:

1. Baseline your current financial situation
2. Define your financial goals and aspirations
3. Present options on how best to use the inheritance
4. Explain the rules around putting the money into your super
5. Explore ways to optimise your tax obligations (such as a trust that pays the money to you over five years instead of as a single taxable amount)
6. Help you understand the tax benefits of giving through philanthropy
7. Devise strategies to invest the inheritance, maximise your returns and minimise your risks.

The more you inherit the more tax you're likely to pay, and the more valuable our advice becomes.

Your first consultation is complimentary

We understand people may have reservations when it comes to seeking financial advice, which is why **our first consultation with you is free.**

If you leave that meeting confident that you can navigate the complexities of your inheritance yourself, great, you're a step ahead. On the other hand, if you get an insight into how much of your inheritance you're likely to keep by doing things a bit differently, you might want to come back for another visit.

Our aim is to help you define your goals, your needs and your wants, and help you make informed decisions so you can achieve them. If you partner with us, we'll ensure that you get the most out of your inheritance, however you choose to use it.

Your statement of advice

After our initial consultation, we do a deep dive into your financial situation to establish where you are, where you want to be, and how best to use your inheritance.

We produce a comprehensive Statement of Advice that lays out our recommendations in detail.

Our fees

When you engage one of our advisers, they'll prepare a preliminary estimate of the likely cost of the advice.

There's a one-off fee for us to put together the initial Statement of Advice. After that we charge an annual fee to manage and review your investments. This annual fee varies depending on the structures you decide to put in place, but you can opt out of ongoing management at any time.

If you set up any long-term structures such as trusts, our advisers can manage these for you, to make tax-effective investment decisions that maximise returns. In this case the trust pays our fees, so there's no direct cost to you as an individual.

Visit perpetual.com.au/fsg to find out more about our fees.

Why Perpetual?

If our team has handled the administration of your loved one's estate, we're already familiar with all the aspects of the inheritance. This gives us a lot more knowledge of the circumstances than any advice firm that will have to start from scratch.

Our advisers have many years of experience in all aspects of inheritances, including tax-effective structuring, superannuation, philanthropy and investing. We can help you avoid potentially costly errors in the way your inheritance is taxed, and maximise the long-term benefits of receiving your loved one's bequest.

Your inheritance is personal. Advice should be too.

Contact our team today and see how we can help protect and build your wealth

1800 631 381

perpetualprivate@perpetual.com.au

perpetual.com.au