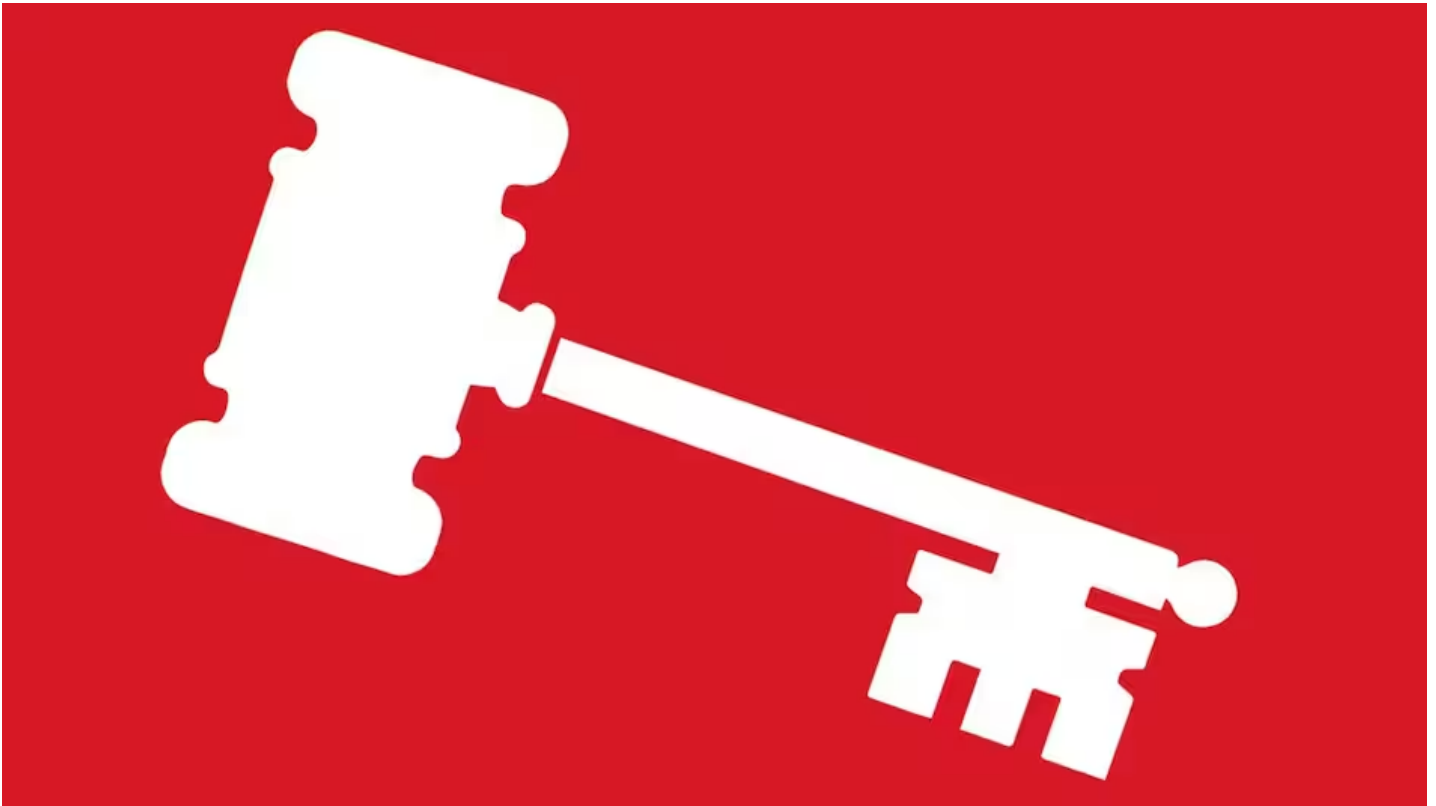


How UHNI families can use succession planning to safeguard their enterprises from tax consequences

Effective succession planning can help UHNI families minimise these tax consequences and protect their enterprises for future generations.



Inheritance and estate taxes can be substantial, particularly for UHNI families.

Ultra High Net Worth (UHNI) families face many challenges when it comes to succession planning. Beyond ensuring a smooth transition of ownership and leadership, they must also see complex tax implications that can significantly impact their wealth. Effective succession planning can help UHNI families minimise these tax consequences and protect their enterprises for future generations.

Anuradha Shah, MD and CEO of Warmond Fiduciary Services Limited said, "Wealth preservation and transfer is as important if not more than wealth creation. UHNIs worldwide recognise this and take the necessary steps to do so efficiently."

Understanding the tax landscape

Inheritance and estate taxes can be substantial, particularly for UHNI families. These taxes vary across jurisdictions and can erode a significant portion of the family's wealth. Additionally, capital gains taxes can arise from the sale of assets or business interests during the succession process.

Shah says, "Internationally, inheritance tax is a big driver for using trust structures for estate planning. Trust structures help to ensure that businesses and assets do not need to be sold in distress-like situations for the purpose of discharging the inheritance tax liability when the estate is being passed on to the next generation."

"In India, currently, trusts are tax neutral due to the absence of inheritance or estate tax. However, there are numerous examples of how UHNI families have seen their wealth eroded, attached or fall into unintended hands," adds Shah.

What to do for tax-efficient succession planning

Family office establishment: Creating a family office can centralise wealth management and provide a structured approach to succession planning. It enables the implementation of tax-efficient strategies, such as asset diversification, wealth structuring, and philanthropic giving.

Strategic asset allocation: Diversifying investments across various asset classes can help mitigate tax risks. Investing in assets with favourable tax treatments, such as certain real estate or private equity investments, can offer significant tax benefits.

Trust formation: Careful planning of generational transfers can minimize tax liabilities. Techniques like gifting, charitable giving, and the use of trusts can be employed to transfer wealth over time while optimising tax efficiency.

"Trust structures enable asset protection, minimise disputes among beneficiaries and allow seamless separation of management and control," said Shah.

International tax planning: For UHNI families with global assets, international tax planning is crucial. By understanding the tax implications of cross-border transactions and utilising tax treaties, families can minimise their overall tax burden.

Take professional advice: Engaging experienced tax and estate planning professionals is essential. These experts can provide tailored advice based on the family's specific circumstances and help navigate the complex tax landscape.

There are multiple structures one can choose from based on their need for control, family constitution, stage of business, bequest motives, etc. By implementing a comprehensive succession plan and considering the tax implications of each decision, UHNI families can safeguard their enterprises and ensure a prosperous future for generations to come.