
July 16, 2010

Asians Paying More Attention to Inheritance Planning

By SONIA KOLESNIKOV-JESSOP

“Parents in heaven, children in court.” The Chinese saying has resonance for the children — many now in their 60s — of the modern first generation of wealthy Asians, who have often found themselves fighting in court over the estates of their parents because little planning has been done.

“We did not talk about death to them because we worried that they might be sensitive and superstitious about it,” said a wealthy Singaporean businessmen who inherited a large family business from his father. He declined to be identified by name because he was speaking about sensitive family matters. “We did not want our parents to think that we were going after their money, because that might make us lose their trust.”

But time brings all things to pass, and advisers say that this second generation is more ready to discuss inheritance planning.

“This generation, which has inherited from the previous generation, is much more willing to get engaged to talk about estate planning,” said Michael Troth, Asia head of Citi Trust in Singapore.

William Lexmond, a managing director with UBS in Singapore, said that because family values were stronger in Asia, high-net-worth individuals between 30 and 40 years old — those with at least $1 million in investable assets — were more likely to do estate planning than their Western counterparts “because they feel they have the obligation to do so.”

If anything, he added, inheritance planning might actually be more sophisticated now in Asia than in the rest of the world because the region’s wealthy have never become accustomed to the idea that the state will provide — in life or, especially, after death.

"Rather than to rely on someone else, i.e., the state, to take care of your family, there is more of a desire to make sure something is set aside," he said. "It's more of a self-help type situation to provide some support."

Inheritance planning is not yet uniform throughout Asia. Last year, a research study by Bain & Co. and China Merchants Bank on private wealth in China showed that the first generation of rich mainland Chinese was still too young — 70 percent to 80 percent are younger than 50— to think about matters like bequeathing their wealth to descendants. Only about 10 percent of high-net-worth individuals surveyed reported having thought about inheritance issues.

By contrast, in developed areas like Europe, the United States and Japan, wealth inheritance is the primary objective of wealth management. In these places, inheritance is the main source of wealth for an increasing number of individuals, and with inheritance tax rates of 40 percent to 50 percent, high-net-worth individuals are motivated to develop inheritance plans early, the study found.

But even if there is no inheritance tax in mainland China and in many other places in Asia, like Singapore, Hong Kong, Indonesia and Malaysia, an increasingly globalized world means that children are now often living abroad, which opens the door for inheritance taxes in the countries where the children are now based.

"My conversations with clients are often about how to deal with their children, for example, if they have a U.S. passport or a green card," Mr. Troth of Citi Trust said. "Parents are very concerned about passing on assets to their children in a tax-efficient way. It can be done, and it is easier if this is done in advance of mum and dad not being here anymore."

Christian Stewart, managing director of Family Legacy Asia, a company based in Hong Kong that provides advice to Asian families on succession, pointed out that, for example, a Hong Kong or Singapore resident who invested in U.S., British or Japanese stocks as an individual was potentially subject to very high estate taxes in those countries.

The situation can be avoided by using a personal investment holding company to make the investment, Mr. Stewart explained.

It works like this: The individual invests through the holding company incorporated in, for example, the Bahamas. After death, the assets that pass to the estate are the shares in the Bahamian company, not the underlying securities.

Mr. Troth added that once investors set up such tax-efficient companies, they should consider how to deal with the shares.

"One suggestion is to establish a trust to hold the shares of that company that you have just set up. The trust will help, amongst other things, to deal with the distribution of the assets to the next generation," he said.