canada life

International

Wealth Preservation Accounts

Taking money out of the Wealth Preservation Accounts

There are occasions when the trustees could decide to take money out of the trust fund and pay it to you or the beneficiaries.

The main purpose of this investment is to relieve your inheritance tax position and in order for that to be effective, some restrictions have to be placed on when you are able to receive money from the trust.

Also, before taking any payments from the trust you should discuss the most tax efficient method with your adviser.

During your lifetime

In order to be effective as a gift for inheritance tax purposes, you are only able to receive payments from the trust on the anniversary dates, as agreed by the trustees.

These payments will be as a result of a maturity of one or more of the policies.

The trustees may also decide that it is appropriate to distribute some of the trust fund to beneficiaries and can surrender or appoint one or more of the policies in order to do so.

Further details on these transactions are given below.

Policy maturity

Before each anniversary date, the settlement trustees have to decide if policies should mature or if they should remain in the trust by having their term extended.

They will let the initial trustees know their decision and those trustees will give Canada Life the appropriate instructions by completing and signing the maturity form.

For any policy that is to mature:

- Shortly after the maturity date, the current investment value of those polices will be paid
- Any profit made (the 'chargeable event gain') will be assessed on you for income tax
- Tax will be due at your marginal tax rate
- The tax will be payable after the end of that tax year

Surrender

- The settlement trustees can decide that beneficiaries should receive a cash payment
- They can surrender any policies they want to
- Then the initial trustees can write to us and let us know how many policies are to be surrendered
- They also need to tell us who the proceeds should be paid to (that is, themselves, the beneficiaries or a third party)
- Any profit made (the 'chargeable event gain') will be assessed on you for income tax
- Tax will be due at your marginal tax rate
- The tax will be payable after the end of that tax year
- The trustees may feel that it is more appropriate for the beneficiaries to be assessed for the chargeable event gain, so could decide to appoint the policies to them before surrendering

By signing a simple deed of appointment, trustees can allocate policies to beneficiaries.

The policies are then held under a 'bare' trust for the appointed beneficiaries. Accordingly, when the initial trustees surrender the policies, any income tax on profit made (the 'chargeable event gain') will be assessed on the beneficiaries and payable at their marginal tax rate after the end of that tax year. However, where the beneficiary is your unmarried minor child the chargeable event gain will continue to be assessed on you at your marginal tax rate. (parental settlement anti avoidance rules).

After your death

Provided that some of the lives assured are still alive after your death, the Wealth Preservation Account (the 'Account') can remain invested until further notice.

It may be that the trustees want to distribute the trust fund or they may decide to keep some or all of it invested. Of course, they would usually take into account any views that you had expressed on the subject during your lifetime.

The options open to them are:

Regular withdrawals

They could set up an arrangement where regular withdrawals are made from the Account and paid to beneficiaries.

Maturity values

The policies will still reach maturity dates unless the trustees extend the term. If any policy does mature, the maturity value will be paid to the trustees and they will then have to decide what to do with it. That is, reinvest it in the trust fund or distribute it to beneficiaries.

However, the chargeable event gain will be assessed on the trustees (provided you died in a previous tax year) and they would have to pay tax at the rate applicable to trustees, which is not less than any individual's tax rate. So this may not be the best course of action.

Surrendering

The trustees can surrender all or some of the policies and distribute the proceeds to beneficiaries.

If this happens in the tax year of your death, any chargeable event gain will be included in your final income tax assessment. That is, if you died on 1 October 2020 and the Account is surrendered on 3 March 2021, the chargeable event gain will be included in your final 2020/21 income tax assessment.

However, if the trustees surrender in the next tax year, for example on 8 June 2020, the chargeable event gain will be assessed on the trustees.

Appointing policies

As an alternative to surrender, the trustees can appoint policies to beneficiaries. Any chargeable event gain will be assessed at their own individual tax rate.

Death benefit

No death benefit is payable until the last of the lives assured dies. If this happens, a chargeable event gain may arise and income tax become payable.

Changing the investments

The trustees are allowed to hold a wide variety of investments in the trust. They can surrender policies and buy alternative investments, but there would be tax consequences as outlined in the surrender section above.

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