canada life

Wealth Preservation Accounts

Case study 2

"I want to make sure that my family inherit without the taxman taking a huge chunk of my money" *Gladys*

Gladys:

- Is aged 71 and a widow
- Inherited fully the estate of her late husband, Stanley
- Has three children and five grandchildren
- Has assets totalling £1.5 million
- Still lives in the family home, worth £400,000
- Invested £200,000 in a Wealth Preservation Account in 2013

The Wealth Preservation Account:

- Is designed to help people reduce their potential inheritance tax (IHT) liabilities
- In order to be effective for IHT, the trustees can only allow you to receive (if you want to) yearly payments from the trust
- The rest of the trust will be kept for your beneficiaries – who are typically your family and others that you nominate
- Once you have lived for seven years after setting up the trust, it will not be included in your estate for IHT tax purposes

Gladys's Wealth Preservation Account is now worth £280,000.

The advantage of planning ahead can be seen by the benefits of her existing investment.

1. Her £200,000 investment is now over seven years old and no longer subject to IHT when she dies
2. In addition, the investment growth is also excluded, so her total IHT saving is £112,000 (this is £280,000 at the IHT tax rate of 40%)
3. She can receive payments from the trust (with the agreement of the trustees) on each anniversary date

Even though Gladys made plans seven years ago, the value of her house and investments has kept increasing.

This means that a large part of her hard-earned wealth could go to the taxman when she passes away.

This is not something that she wants to happen, so she contacts her professional adviser for assistance.

She has £300,000 to invest and at the present time she does not need any income from her investment, but who knows what will happen in the future?

Her day-to-day costs may increase and she might go into care; meaning that she might need to take money out of her investments to meet the cost involved.

Her adviser looks at what would be suitable investments for her and says, after due deliberation, that the Wealth Preservation Account is still suitable for her.

After seven years, Gladys's potential IHT bill will be reduced by £120,000 (this is £300,000 at the IHT tax rate of 40%).

This arrangement:

- Saves IHT: provided that she lives for another seven years, the new trust fund will not be part of Gladys's estate on death
- Can provide yearly payments: every anniversary date, the trustees can sanction the payment of some trust funds to Gladys to help her pay for her living expenses
- Can assist the family: it is a discretionary trust, which means that her family can receive trust funds at any time
- Gives control over who benefits and when: the trustees will decide on the appropriate amounts to be paid to beneficiaries and timing; guided by a letter of wishes that Gladys has provided

For more information on the Wealth Preservation Accounts, please contact your professional adviser.

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