

Wealth Preservation Trust Q & A

The Wealth Preservation Trust allows an individual to make a gift into trust whilst allowing flexible access to the money at each policy anniversary.

The trustees can also decide to either surrender or appoint any of the policies, at any time, to a beneficiary.

Capital growth will be outside the estate and therefore free of inheritance tax on the settlor from inception.

Question	Response
TRUSTS	
Why are there two trusts?	This structure avoids the application of Pre-Owned Asset Tax (POAT). The legal ownership of the policies is placed into a bare trust (the Initial trust) for the absolute benefit of the donor. The donor then assigns all the equitable rights to the benefits and powers of the policies into a discretionary trust (the Settlement trust). The transfer into the Settlement is a Chargeable Lifetime Transfer (CLT). Legal ownership remains with the trustees of the Initial trust. The provisions of the Settlement allow the maturity payments to be paid to the settlor under a carve-out arrangement.
Can the Settlement Trust be held as a bare trust?	No. As the settlor's right to the maturities is held by way of reversionary interest, it is not possible to construct a bare trust under inheritance tax legislation.
TRUSTEES	
How many trustees should there be on each trust?	For both trusts, there must be a minimum of two trustees at all times, of which at least two must be UK resident.
Can the settlor's spouse/civil partner, and/or children, be trustees, if they are also beneficiaries?	Yes, but if the settlor is also a trustee of the Settlement trust, there must be an independent trustee (a person who has no beneficial interest in the trust) alongside them all. If the settlor is not a trustee of the Settlement trust, then the spouse and/or children can be the only trustees. However, there should be an independent trustee where possible on the Settlement trust, as this will add credibility and ensure unbiased decisions are being made.
What powers does the settlor have to dismiss and reappoint trustees?	The settlor has no power just to dismiss trustees. However if a trustee dies, wishes to be discharged, refuses to act, or is no longer capable of acting, the settlor in the first instance has the power to appoint a new trustee bearing in mind that at all times there should be at least two trustees in place.

Question	Response
TRUSTEES	
Which trustees' signatures are required during the term?	All trust decisions must be taken unanimously. The initial trustees are the people that we always deal with and they must all sign any documentation for it to be actioned. They act on the instructions of the settlement trustees. Maturity dates cannot be deferred without all the signatures of the initial trustees, under any circumstances.
MATURITIES, ASSIGNMENTS, SURRENDER AND DEATH	
Can policies be deferred at any time?	Normally trustees wait until the maturity is due to decide on whether to allow the policy to mature, or to defer it to a later date. However, if the trustees are confident that maturities will not be needed, they can request for policies to be deferred at any time.
Are there limits on the number of times policies can be deferred?	There are no limits on the number of times a maturity can be deferred. A policy can continue to be deferred up to when the policy matures before the youngest life assured's 101st birthday, if appropriate.
Do maturities have to be in consecutive years?	There's no reason why maturity dates, either chosen at outset or subsequently deferred, have to be in consecutive years.
Can the settlor arrange a one year term at outset and the trustees just defer all the maturities every year?	The arrangement, and the maturities, should be set up with the objective to provide the settlor with periodic payments, not for access to all the capital when they want it, otherwise HMRC may not view that the arrangement is being held for the correct purpose. Usually a term of 10 years is applied at outset, but the settlor can choose a different term if they wish, with the policy maturities staggered over the chosen term, commencing on the first anniversary date. The minimum term we can quote for is seven years.
How do maturities work after the settlor's, or the last life assured's, death?	Whilst there are other lives assured, maturities will still arise after the death of the settlor for the benefit of the beneficiaries. For simpler administration, all future maturity dates could be deferred to the maximum possible period. (being age 100 of the youngest life assured). On the death of the last life assured, the whole bond will cease to exist and a death benefit will be paid to the initial trustees. No further maturities will arise.
Can the trustees transfer the policies into a beneficiary's name?	If the settlement trustees agree to provide for a beneficiary, aside from surrendering a policy, they can appoint one or more policies into a bare trust for that particular beneficiary and any subsequent policy payment, for example a surrender value, will be for their benefit. The beneficiary will be assessed for any chargeable gain. This will be caught by the parental settlement rules if the beneficiary is a minor child of the settlor.

Question	Response
MATURITIES, ASSIGNMENTS, SURRENDER AND DEATH	
What are the options on the death of the settlor?	<p>If the policy has been written on a multiple life basis, then the policy will continue if the settlor is survived by at least one other life assured. Policies can either be surrendered, or allowed to continue to mature, for the benefit of the beneficiaries. Otherwise, the maturity dates can be deferred to the maximum to allow the assets to continue to be held in the trust.</p> <p>The policies may also be endorsed to allow for regular withdrawals and the trustees can use the cumulative 5% tax deferred allowances.</p>
PERIODIC AND EXIT CHARGES	
When will periodic charges apply?	<p>If the value of the trust exceeds the available nil rate band at that time (nil rate band on the 10-year anniversary, reduced by any other chargeable lifetime transfers made by the settlor in the seven years before commencement of the trust and any distributions to beneficiaries in the previous 10 years), the excess will be subject to a 6% periodic charge.</p> <p>Any policies which matured for the settlor in the previous 10 years are not included.</p>
Why are maturities not added back in to the periodic charge calculation?	<p>HMRC has confirmed that, as the maturity proceeds are carved out and held under a bare trust for the settlor, the maturity proceeds are not classed as distributions from the discretionary trust and therefore are not subject to relevant property taxation.</p>
Will an exit charge apply on a maturing policy?	<p>Not if this occurs during the settlor's lifetime. HMRC has confirmed that, as the maturity proceeds are carved out and held under a bare trust for the settlor, the maturity proceeds are not classed as distributions and so not subject to relevant property trust taxation.</p>
Will an exit charge apply on either surrender, or appointment, of a policy to a beneficiary?	<p>Possibly if, prior to that event, an initial or periodic charge had been paid or could have been paid, as this would be classed as a distribution.</p>

Wealth Preservation Trust Q & A

Question	Response
GENERAL	
Is the WPT subject to the Disclosure of Tax Avoidance Schemes regulations (DOTAS), Pre-Owned Asset Tax (POAT), or Gift with Reservation (GWR)?	HMRC have confirmed that the WPT is not subject to DOTAS, or GWR, and specifically refers to arrangements which “put the policies into bare trust for the settlor and then assign the equitable rights under the policies to a trust which sets out the respective rights of the settlor and beneficiaries. https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm20561 HMRC have also confirmed that the settlor’s retained rights do not give rise to a charge under the POAT legislation: https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm44112
Can the WPT be held by joint settlors?	No, it is only available on a single settlor basis. Consideration was given to this but, as it would have created rights held in succession for the settlors, it would have been much more complicated to avoid POAT. In addition, with a joint settlement, after the first death any chargeable gains (on maturing policies, for example) would have to be taxed on the surviving settlor and trustees jointly. So the trustees would be assessed on half the gain and tax payable at the rate applicable to trusts (currently 45%).
Can the settlor be the only life assured?	Yes, but the settlor’s death will give rise to a death benefit being paid out, which may result in a chargeable event, and no further maturities would arise.
Can a husband and wife both arrange a WPT and have each other as beneficiaries?	In theory, yes. However if a policy was surrendered or appointed, no part of that benefit can be enjoyed by the settlor as it may then trigger the Gift With Reservation legislation. Therefore it may be simpler not to include the settlor’s spouse/civil partner as a beneficiary, or potential beneficiary, and only add them after the settlor’s death, as and when distributions are required, or to include them as ‘widow’ or ‘widower’ at inception.
Can the settlor and their spouse both be lives assured?	Yes. The lives assured are to ensure continuity of the policy.
Can the WPT be written on a capital redemption basis?	No, the WPT can only be written on a life assured basis. This is because the WPT consists of fixed term policies with flexible maturity dates. A capital redemption bond cannot be deferred.



Canada Life International Limited, registered in the Isle of Man no. 33178. Registered office: Canada Life House, Isle of Man Business Park, Douglas, Isle of Man IM2 2QJ. Telephone: +44 (0) 1624 820200 Fax: +44 (0) 1624 820201 www.canadalifeint.com Member of the Association of International Life Offices.

Canada Life International Assurance (Ireland) DAC, registered in Ireland no. 440141. Registered office: Irish Life Centre, Lower Abbey Street, Dublin 1, Ireland Telephone: +44 (0) 1624 820200 Fax: +44 (0) 1624 820201 www.canadalifeinternational.ie Member of the Association of International Life Offices.

Canada Life International Limited is an Isle of Man registered company authorised and regulated by the Isle of Man Financial Services Authority. Canada Life International Assurance (Ireland) DAC is authorised and regulated by the Central Bank of Ireland.