

# Wealth Preservation Accounts

## Case study 4



The more policies the investment bond has the more opportunities there are.

### Joe and Sarah:

- Are aged 47 and 46 respectively
- Have combined assets worth £1.5 million
- Currently they have 2 grandchildren (3 and 6 months) but as more might come along the trust needs to be flexible
- Joe invests £300,000 into a Wealth Preservation Account in 2020

### Wealth Preservation Account (WPA):

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

15 years later their first grandchild starts university and Joe and Sarah would like to give them £18,500.

The WPA, assuming 4% annual investment growth, has grown to £540,280. By planning ahead Joe has received the following advantages:

1. His £300,000 investment is now over seven years old and no longer subject to IHT when he dies.
2. In addition, the investment growth is also excluded, so his total IHT saving is £216,112 (this is £540,280 at the IHT tax rate of 40%).
3. The trustees can surrender policies and pay out the monies to the grandchild.

His professional adviser explains:

- That before the trustees surrender the appropriate number of policies they should first be appointed into a bare trust for the grandchild. This means that any chargeable gain will be assessed at the grandchild's marginal rate of tax and not on Joe, as the settlor of the trust.
- As the grandchild is a non-taxpayer they can benefit from the personal allowance, £5,000 starting rate savings band and £1,000 personal savings allowance.
- When the WPA was taken out in 2020 it was split into 30,000 individual policies each with a premium of £10. This means that it is easier to pinpoint the amount required, reducing any potential chargeable gain.

He explains this using the following table:

Initial Premium	Number of policies	Current value per policy	Gain per policy	Policies Surrendered	Amount withdrawn	Total gain
£300,000	10	£54,028	£24,028	1	£24,028	£24,028
£300,000	100	£5,403	£2,403	4	£21,612	£9,612
£300,000	1,000	£540	£240	35	£18,900	£8,400
£300,000	30,000	£18	£8	1,028	£18,504	£8,224

- By having more policies the trustees are able to ensure that the grandchild only receives the intended amount. If the WPA only had 10 policies the grandchild would receive more money than intended. Also the chargeable gain of £24,028 could mean that the grandchild has a tax liability.

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



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