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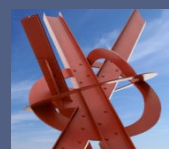
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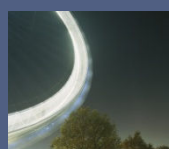
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International insurance planning: section 7702 from (a) to (g)

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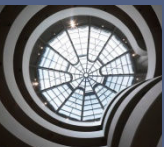
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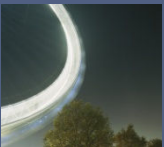
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Uses of Insurance in International Planning

- Pre-Immigration Planning
- Deferred Compensation Planning
- Foreign Trust Planning
- Charitable Planning
- Split Dollar Planning

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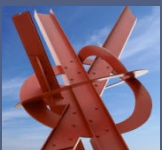
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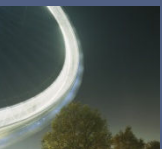
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Advantages of PPLI

- Tax-free Investment Growth on Tax Inefficient Alternative Investments
- Tax-free Access to Policy's Value Through Policy Loans
- Provides Flexibility in Holding Alternative Investments
 - Hold foreign based assets subject to anti-deferral regimes
 - Investment Growth Outside of Transfer Tax Net
- Creditor Protection of Assets
 - Segregated Asset Account not Subject to Insurance Company's Creditors
 - PPLI Protected from Owners Creditors in Many Jurisdictions
- Death Benefit Income Tax Free

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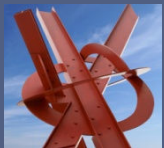
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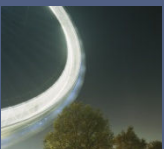
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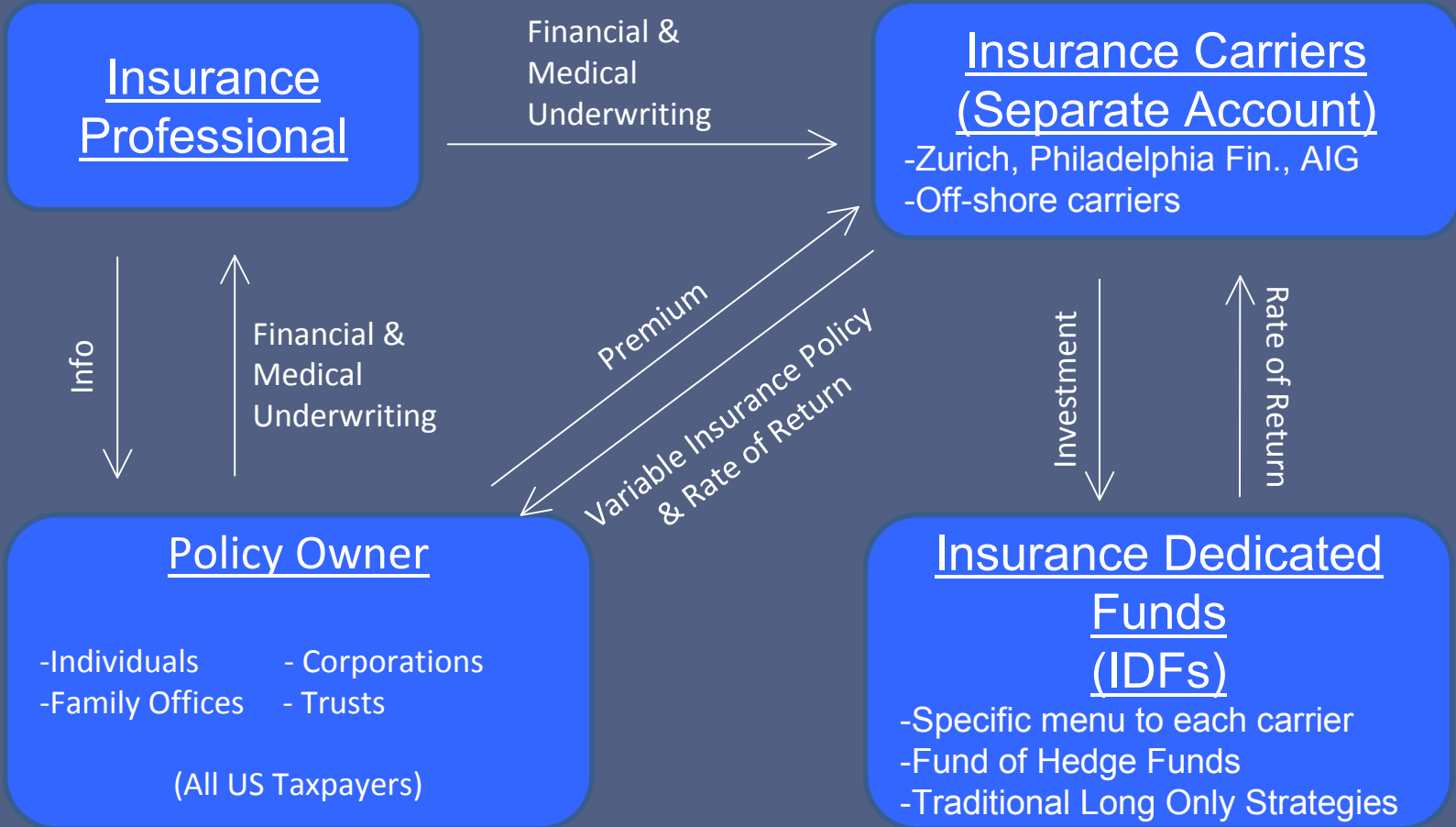
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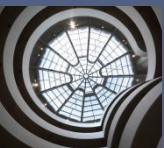
PPLI Structure



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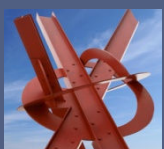
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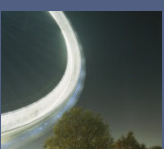
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Private Placement Variable Universal Life Insurance

- A life insurance policy under § § 7702 and 817 of the Internal Revenue Code
- Net premiums are placed in a segregated investment account, with the insurance benefit adjusting year over year to track the performance of the account.
- The policy and the policy holder must meet a number of tests: (1) Purchaser Qualification, (2) Cash Value Accumulation and/or Corridor test to maintain status as an insurance policy, (3) Diversification and Control.

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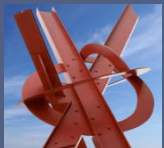
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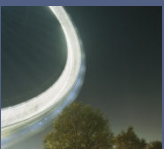
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Purchaser Qualification for Domestic Policies

- PPLI policies are only available to “Accredited Investors” who are “Qualified Purchasers.”
- Must have a net worth over \$1,000,000 or annual income of over \$200,000.
- Must have over \$5,000,000 of investments.
- Investors must provide sufficient financial information to pre-qualify.
- Carriers require minimum investments, and policies are subject to maximum life insurance limits.

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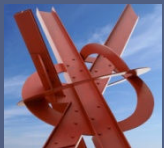
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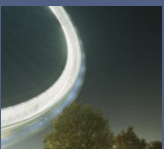
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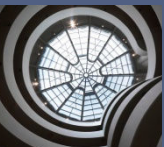
Section 7702(a) Premium Restrictions

- The policy must meet one or both of these tests to qualify as life insurance, with the attendant tax benefits. The test is written into the policy: once chosen, it is fixed.
- CVAT: the Accumulation test limits the cash value of the policy relative to the death benefit – the cash value cannot exceed the net single premium required to fund the benefit.
- CVCT: under the Corridor test, the policy must meet Guideline Premium requirements as well as limiting the cash value relative to the benefit based on an age-related sliding scale.
- The choice of test can have a significant impact on the financial results from the policy.

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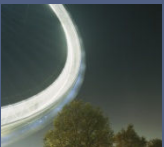
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Section 817 – Lack of Investor Control and Required Investment Diversification

- Investor may not exercise direct control over investment decisions. If the investor has too much control, then he or she is treated as the owner of the underlying assets, and the tax benefits of the insurance policy are lost.
- Instead, investor chooses from the range of funds and fund managers offered by the insurance carrier.
- Managers ensure that funds must meet statutory diversification requirements. Investments are reviewed quarterly for ongoing compliance.

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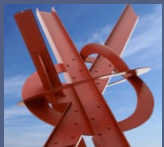
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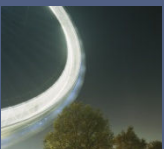
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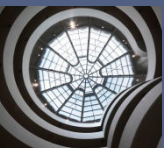
Section 7702(g): Frozen Cash Value

- If policy qualifies as insurance under local law but fails 7702(a) premium restrictions, or if fail diversification of investments, then taxed under Section 7702(g)
- Taxed annually on increase in policy cash value plus cost of equivalent term insurance
- Use “penalty” as sword: Structure policy so cash value never increases!
- Tax free growth and income tax free at death
- Owner cannot access cash in excess of premiums paid

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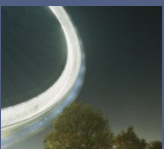
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Section 7702(g): Frozen Cash Value

- Intentionally fails Section 7702(a) tests
- Not a MEC
- Must be “insurance” under local law and *LeGierse*
 - Generally use 2.5% - 10% death benefit
- Taxed annually on increase in policy cash value plus cost of equivalent term insurance
- Death benefit qualifies for non-taxable treatment under Section 101

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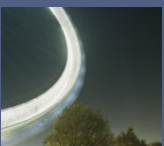
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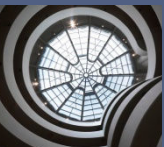
Section 7702A: MEC vs Non-MEC

- A policy will be treated as a Modified Endowment Contract if the premiums paid over the first 7 years exceed the limits established by § 7702A (the “7-pay” test).
- A non-MEC policy allows cash withdrawals on a FIFO basis – i.e. tax-free up to the amount of premiums paid in. The premiums for a non-MEC will usually be paid over 4 or 5 years in order pass the 7-pay test.
- Withdrawals (including loans) from a MEC are taxed on a LIFO basis as ordinary income. Investor can make a single up-front premium into a MEC, to take advantage of additional years of tax-free compounding within the policy.

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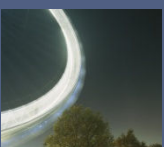
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Inbound Planning

- Purchase PPLI or PPVA prior to arrival
- No income on growth inside policy
- PPLI more appropriate for permanent move to US
- PPVA less expensive if move to US is temporary

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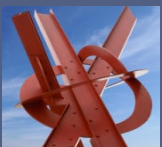
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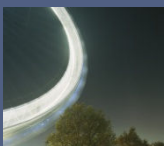
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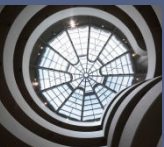
Deferred Compensation Planning

- CLAT owning PPLI
- 403(c) vs 402(b)(4)
- Split dollar insurance

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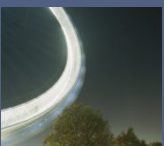
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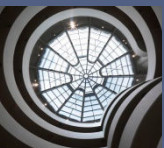
Foreign Trust Planning

- Avoids generating income during accumulation phase
 - No DNI means no UNI
- Death benefits received tax-free
- Helps deal with cross-border families where US branch might otherwise seek domestication of trust

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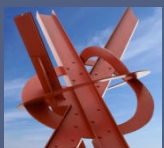
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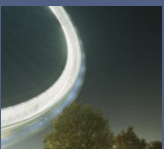
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PPLI

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Age	<u>Initial Investment</u>	<u>End-of-Year Cash Value</u>	<u>Death Benefit (Including Cash Value)</u>	<u>Taxable (53% Tax)</u>
50	10,000,000	\$10,583,149	\$41,162,000	\$10,376,000
55		13,862,975	41,162,000	12,026,792
60		19,365,400	41,162,000	14,464,374
70		39,085,869	45,339,608	20,921,810
80		80,302,482	84,317,606	30,262,088
90		163,260,398	171,423,418	43,772,215

\$10M invested in both scenarios, assuming a 8% net return

PPLI generates \$4.9M more than taxable investment after 10 years and \$120M more than the taxable investment over 40 years

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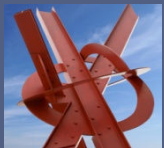
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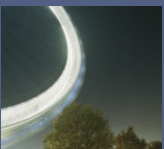
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