

Industry Insights:

“Life Insurance is Tax-Free” (Unless It Isn’t)

U.S. TAX TREATMENT OF LIFE INSURANCE



The U.S. tax treatment of personal life insurance is generally well understood. For a U.S. citizen resident, if properly structured and designed, life insurance should enjoy tax favored treatment in the U.S., including:

- income tax deferral on cash value accumulation,
- income tax-free cash value distributions; and
- estate and income tax-free death benefit proceeds.

U.S. consumers and planners can find comfort in knowing this codified and tried and tested treatment means a life insurance solution should deliver the expected results from a tax perspective.

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While the U.S. income taxation of U.S. and non-U.S. issued U.S. tax compliant life insurance does not typically change when the parties to the policy are non-U.S. citizens and/or non-U.S. residents (i.e., Global Citizens), another country’s (or countries’) tax treatment likely now applies as well. NOTE: Different U.S. transfer taxation applies to U.S. life insurance for noncitizen nonresidents, but we’ll cover this topic in a separate future piece.



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U.S. based life insurance professionals, wealth planners, attorneys, accountants and trustees are often surprised to learn how life insurance is treated outside of the United States. Spoiler- it isn’t always as tax-efficient as one might hope.

Contributing factors in determining the tax treatment of life insurance vary by country. The factors can include one or more of the following and while some may seem obvious based on U.S. planning concepts (but not necessarily for the same reasons), others are not:

- Citizenship & Tax Residency of Parties
- “Domicile” Status of Parties
- Ownership & Beneficiary Structure
- Issuing Carrier’s Country of Domicile
- Product Type & Policy Features
- Premium Funding Design & Level
- Relationship Between Contract Parties
- Policy Issue Date
- Source of Premium Payment
- U.S. Double Tax Treaty Status & Provisions
- Inforce Policy Transaction History
- Beneficiary Designation Type

The above factors should be considered and, if possible mitigated, not only at the time of issue but for the life of the insurance portfolio. If left unmonitored, lifetime changes can lead to unexpected and unwanted results. As this is generally true regardless of the issuing jurisdiction (U.S. and non-U.S.), the regular review of a Global Citizen client’s life insurance portfolio is highly recommended.

WE CAN HELP

Cross-border and international life insurance planning is complicated and complicated problems require expert solutions. For 20 years, the team at Professional Advisor Group Consulting has focused exclusively on the design, implementation and maintenance of life insurance-based solutions for Global Citizen clients. We know the issues and know how to address them. To learn how we can help, contact us at peter@pagconsultingllc.com or visit us at www.pagconsultingllc.com.