

U.K. Conference Delegates Discuss Tax Aspects of International Wealth Transfers

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===== SUMMARY =====

International wealth transfer practice was the hot topic at the eighth annual International Bar Association Conference in London 23- 25 September. The conference covered a wide range of topics, but several international advisers provided guidance and updates on tax developments of interest to estate planners and professional advisers. Topics included life insurance as a tax planning tool, the impact of German law on international tax planning, Italian tax developments in inheritance and gift taxation, and international developments concerning offshore financial centres.

===== FULL TEXT =====

International wealth transfer practice was the hot topic at the eighth annual International Bar Association Conference in London 23- 25 September. The conference covered a wide range of topics, but several international advisers provided guidance and updates on tax developments of interest to estate planners and professional advisers. Some of those key tax aspects are detailed below. Life Insurance as a Tax Planning Tool David Whelehan, chair of AG Transnational Ltd., New York, and editor of International Life Insurance, said there probably is no other financial instrument in any country in the world that provides as many benefits as life insurance. He pointed out that life insurance is a unique financial planning tool for the purposes of wealth accumulation, wealth preservation, and wealth transfer. The values of an insurance contract typically grow income-tax- free. In some countries, life insurance premiums may be tax- deductible, although the deduction usually is limited to small amounts for the purpose of basic family income protection. In a few countries, funds can be accumulated in a policy and then withdrawn, tax-free, after a specified period. In many countries, life insurance comes with asset or creditor protection that may apply not only to the policy holder/insured, but also to the beneficiaries. In some countries, life insurance receives special death tax treatment. (For example, if there is a death tax, such as estate tax or inheritance tax, life insurance may be exempt.) Whelehan noted that life insurance death benefit proceeds traditionally are income-tax-free in most countries. However, life insurance frequently is used to shelter the accumulated growth on investments during life, mainly for the benefit of the insured. For example, in the United Kingdom, portfolio bonds are used for "gross roll-up" purposes. In Germany, it might be a 12-year endowment contract. In the United States, corporations use life insurance on large numbers of employees in corporate-owned life insurance. Banks in the United States use the same technique under bank-owned life insurance. The premiums are not deductible, but the investment growth is, and the death benefits on those policies are free of income tax. Regarding private individuals, Whelehan explained that private placement insurance is used solely for income tax planning purposes. Large amounts are deposited into an insurance structure designed to be compliant with the tax laws of a particular country, so that: the funds will grow, free of income tax; will be accessible to the policyholder during the life of the insured, if necessary; and then will pass on to the heirs, free of income tax. Countries that have an annual tax on the wealth or assets of a resident generally impose the wealth tax on life insurance products. Under that circumstance, individuals may prefer to put assets into special life insurance products that limit the policyholder's access to the premiums paid, to avoid the application of wealth tax on future growth. The growth still passes to the beneficiaries free of income tax. Whelehan concluded that because there are many variables in terms of the tax treatment of life insurance and annuity products, it is important to take into account four important issues regarding the laws of the country, or countries, that affect a particular client:

- the definition of life insurance in the particular country;
- the tax treatment of the life insurance;
- any tax distinction between local insurance and foreign insurance, assuming that the foreign product looks just like the local product; and
- the regulatory implications of buying or owning, directly or indirectly, insurance outside one's own country.

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