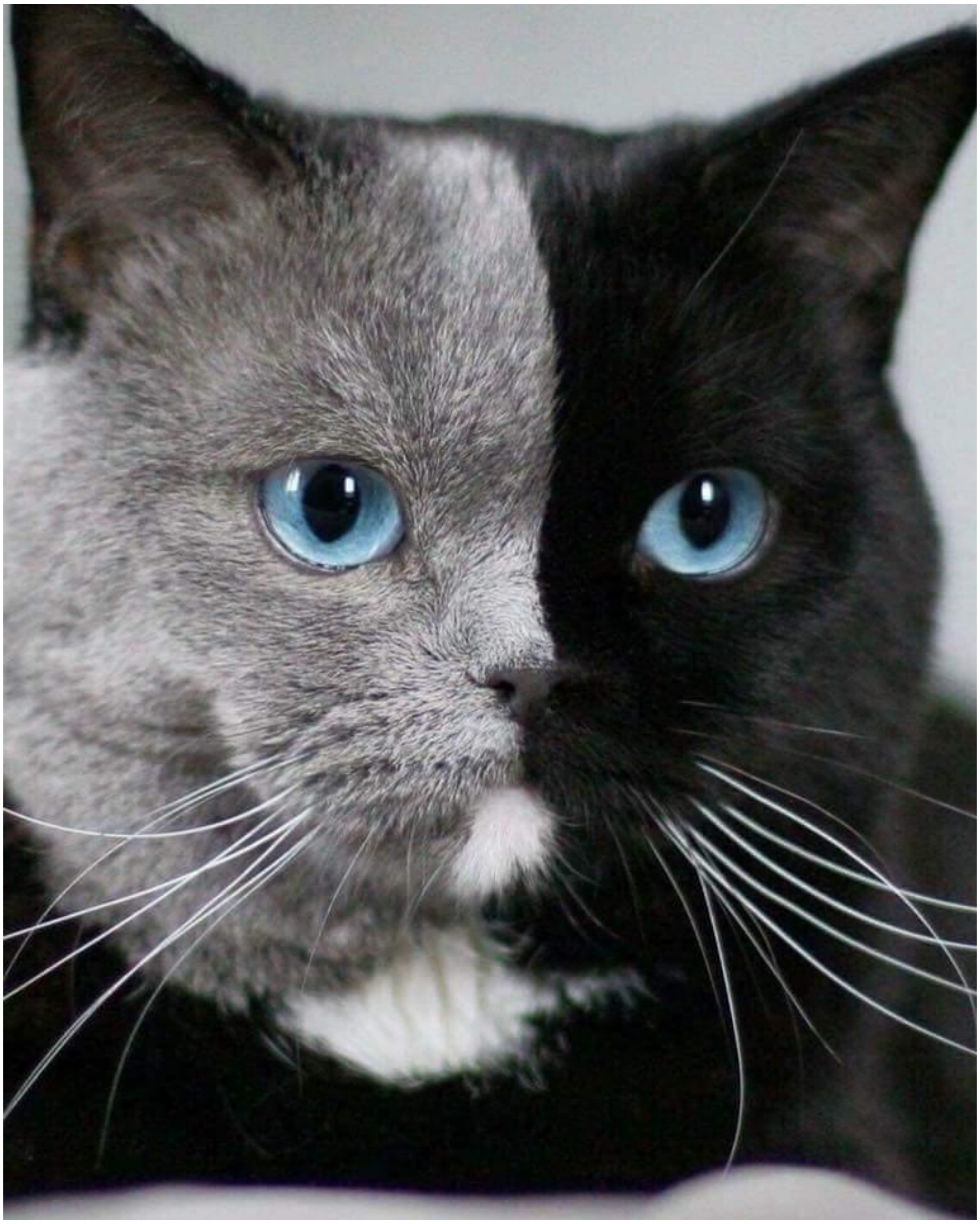

[Different Uses of a Tax Shield]

PPLI: Two Sides of One Face, Part I

Tax Shield concepts are best understood by comparing similar Private Placement Life Insurance (PPLI) concepts. In our specialty, PPLI structures for wealthy international families, an article caught our attention that highlights our topic--the difference between PPLI structuring for families strictly in the U.S. context, and those structures that work best for international families.

Our topic is much like the picture of this cat: two sides that have something in common, yet also something that can be very different.

The international families we work with may have ties to the U.S. like U.S. beneficiaries, real estate, or investments, but they also have substantial wealth outside the U.S. Our firm is able to create structures for these international families that have a very robust character. An odd phrase for international tax planning, but as you will read below, this robust character allows our firm many more possibilities than we have for our clients who are U.S. persons and just have holdings inside the U.S.

The article mentioned above is "Private Placement Life Insurance Primer, Recent tax law changes make for a particularly interesting time to explore PPLI," by Brian Gartner and Matthew Phillips.

In the structuring process, one decision that is made early on in the process is whether to put the policy under U.S. tax and insurance rules (a so-called 953(d)) policy, or that of the country where the insurance company is domiciled, usually Bermuda or Barbados, a non-953(d) policy. If we can use a non-953(d) policy, we have much more flexibility in the structuring process.

In the picture of the cat, the two blue eyes are blue, and contrast to the black and gray sides of the face. For our discussion, the two blue eyes are what is similar to both 953(d) policies and non-953(d) policies. So we will look into the eyes of our topic first, and discuss the similarities.

A key element in our two policy types is the tax deferral of the assets inside the policy. This chart, courtesy of the article mentioned above, is an example of U.S. centric planning. It shows how powerful tax deferral can be in terms of what an investor keeps after taxes. The chart compares a Taxable Investment vs. placing those same assets inside a properly constructed PPLI policy.

Another aspect where we look into the same pair of eyes and see something similar relates to trust planning with PPLI. We quote from the article:

"Trustees are attracted to PPLI in the context of multi-generational trust planning for three main reasons: (1) assets within a trust allocated through PPLI grow on an income tax-deferred basis; (2) the trustee can make income tax-free distributions to trust beneficiaries from PPLI without having to consider the income tax consequences of liquidating assets; and (3) the trust will eventually receive an income tax-free insurance benefit, which will serve to effectively step-up the basis of the assets within the trust that are allocated through PPLI."

In our next blog we will discuss how using a non-953 policy works with the investor control and diversification requirements of the U.S. tax code.

- We greatly appreciate your comments and suggestions.
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