ANNUITIES AND LIFE INSURANCE

Prepared by:
Gary S. Wolfe
THE WOLFE LAW GROUP

LORMAN®

Published on www.lorman.com - January 2018

THE WOLFE LAW GROUP

The Wolfe Law Group is an international array of legal and tax experts providing collaborative services for Global High Net Worth Investors on a per client basis.

Gary S. Wolfe, A Professional Law Corporation has over 35 years of experience providing clients with expertise for IRS Civil and Criminal Tax Audits, International Tax Planning, and International Asset Protection.

Awards
Since 2015 Gary have been the recipient of 29 separate international tax awards from 10 different global expert societies in London/UK including:

International Tax Planning Law Firm of the Year Award (2017) – International Advisory Experts.

International Tax Advisor of the Year (2017) - Global Business Magazine/Prof. Sector Network.

Click here for complete list.

Books
To date Gary has written 18 e-books (available on Amazon) regarding the IRS, International Tax Planning and Asset Protection. Click here for complete list.

Articles
To date Gary has published or been interviewed in 100+ separate articles published by 15 different US and International magazines. Click here for complete list.

Video
In December 2016 Gary was interviewed by California CEO Magazine and RCBNNews.org on the subject of Criminal Tax Evasion and IRS Tax Audits: Civil and Criminal Issues. This 4 part series, which has been published by Lorman Education, can be viewed below:

Criminal Tax Evasion - Part 1
Criminal Tax Evasion – Part 2
Criminal Tax Evasion – Part 3
Criminal Tax Evasion – Part 4

Contact:
Gary S. Wolfe, Esq.
Tel: 323-782-9139
Email: gsw@gswlaw.com
Website: gswlaw.com

Annuities and Life Insurance

Written by Gary S. Wolfe

Annuities and life insurance get a “bad rap” because the commercial products that are sold to the general public lack “net ROI” (return on investment) due to costs, fees, and varied returns annually.

Life insurance cash value has highly favorable tax rules which includes no tax due on earnings (while held in the cash value component of the policy), no tax reporting due on annual earnings and no tax on policy earnings withdrawn as a loan, as long as the policy is funded over five years as a NON-MEC.

Cash value build-up is a sophisticated investment tax planning strategy used by Walt Disney (who used his policy cash value loan to finance his dream of opening his theme park, Disneyland); and Max Foster (who used his policy cash value to purchase an 80 acre Modesto, CA farm which has grown into Foster Farms one of America’s largest chicken providers).

Wells Fargo Bank, America’s 3rd largest, carries over $30B in cash values of life insurance on their corporate books.

For the global high net worth investor a far better tax planning strategy is to use private annuity (PA)/private placement life insurance (PPLI) to act as two separate tax-planning strategies for the client’s stock and bond investment portfolio.

Tax planning benefits for investors include: tax-free annual compounded earnings, no annual earnings reporting Form 1040 tax returns (not reportable as income unless withdrawn from PA), no disclosure of offshore PA or PPLI required under IRS form Fincen Form 114 (FBAR) for foreign bank and financial accounts over $10k; or FATCA Form 8938 for foreign financial assets over $50K (which also may require separate FBAR filing).

When combined, the PA/PPLI tax planning strategy for investment portfolios offer portfolio earnings both tax deferral (PA) and tax exempt returns (PPLI; which if a NON-MEC has tax free earnings). For example, client sales stock held under the PPLI with a $5m capital gain.

Normal long term capital tax in California is 34% (blended Federal/CA tax rate) so tax of $1.7m is due on sale. If held by the PA at the time of sale, the tax is $0 (tax savings $1.7m).

No tax due until funds withdrawn from PA but while funds are in PA they compound tax deferred. If the PA then takes the $5m to fund the PPLI (NON-MEC; funded over 5 years) so both the basis and earnings may be withdrawn tax-free (i.e. basis withdrawal of amounts invested in PPLI is tax free, earnings borrowed out as a tax free loan repaid on a leveraged basis; premium paid for death benefit received).

Effectively, on a $5m policy premium ($1m per year), $1.7m of the premium paid (34%) is free $ (paid from capital gain tax savings). Please see my Lorman Education Services article, Doubling Net Investment Returns.

The key to the tax planning is annual, compounded, net tax-free earnings (both the PA and PPLI). Under the tax planning strategy, a client's portfolio (e.g. $10m) annual earnings (e.g. at 10%; $1m per year) are taxed at $0 per year (unless withdrawn as an annuity at which time earnings are subject to tax). If taxed at 55% (highest blended Federal/CA tax rate), net after tax return is $450,000 ($1m -$550,000). Under the Tax Planning Strategy the net after tax return is $1m (and the additional amount i.e. $550,000 tax savings compounds tax deferred).

In the words of Albert Einstein Compounding is the 8th Wonder of the World.