

Life insurance as a planning tool

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Life insurance has long been a planning instrument for wealthy families in continental Europe. A unit-linked life insurance policy, in which the policyholder's premiums are invested in a portfolio of assets held by the insurer, can offer advantages in succession planning, asset protection and taxation, depending on the law of the policyholder's country of residence. Insurance companies in Liechtenstein, Luxembourg and Switzerland have developed products for this market, often called insurance wrappers or private placement life insurance. The assets are frequently managed by a Swiss bank as custodian or asset manager.¹

The use of insurance wrappers requires care. Their tax treatment depends on whether the policy qualifies as life insurance under the law of the policyholder's residence, which in Germany, for example, requires a minimum death benefit and limits the influence of the policyholder on the investment of the assets. A policy that does not meet these requirements may be treated as a transparent investment, which eliminates the tax advantages and can lead to tax criminal proceedings if the income was not declared.² The author, whose doctoral thesis examined the prospectus liability of life insurers, has advised on a number of such structures and has seen both the legitimate uses and the misuses of the instrument.

1 Notes

1. On unit-linked life insurance (fondsgebundene Lebensversicherung, private placement life insurance) as an instrument of cross-border wealth planning and the role of insurers in Liechtenstein, Luxembourg and Switzerland, see the specialist literature. To be verified. ↩

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2. On the requirements for the recognition of unit-linked life insurance policies for German tax purposes (§ 20 para. 1 no. 6 EStG, minimum death benefit, prohibition of direct investment control by the policyholder, "Vermögensverwaltende Versicherungsverträge", § 20 para. 1 no. 6 sentence 5 EStG), see the German tax literature. To be verified. ↩

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