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# Benefits of Owning a U.S. Life Insurance Policy

AS A NON RESIDENT ALIEN

Products issued by

**National Life Insurance Company | Life Insurance Company of the Southwest**

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## Why should a Foreign National with U.S. connections consider owning a U.S. based Life Insurance policy?

It turns out there are many reasons. a permanent life insurance policy may provide:

- income and estate tax free death benefits<sup>1</sup>,
- tax deferred cash value growth,
- tax advantaged distributions<sup>2</sup>
- liquidity heirs can use to protect assets,
- estate planning confidence.

These short and long term benefits are meaningful for all policy owners but there may be special tax benefits to owning a life policy when you are a foreign national.

<sup>1</sup> Internal Revenue Code § 101(a)(1). There are some exceptions to this rule. Please consult a qualified tax professional for advice concerning your individual situation.

<sup>2</sup> Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. Withdrawals up to the basis paid into the contract and loans thereafter will not create an immediate taxable event, but substantial tax ramifications could result upon contract lapse or surrender. Surrender charges may reduce the policy's cash value in early years.



# Estate and Tax Planning Considerations

Individuals who are not U.S. Citizens but have ties and assets in the U.S., as well as individuals who are U.S. citizens but whose spouse is not, have special estate and tax planning considerations.

## Did you know there are tax regulations that may cause your family to owe money to U.S. taxes? For example;

- A person who has never stepped foot in the U.S. may be leaving his heirs with U.S. estate taxes to pay if his portfolio included stock in a U.S. Corporation or other U.S. based assets.
- A surviving spouse living in a foreign country whose husband was a U.S. Citizen, may be required to pay U.S. estate taxes on their second home located in Florida (as an example) that they owned at the time of his death.

## The Tax Concerns



### GIFT TAX

The gift and estate tax marital deductions generally allow for transfer between spouses with no transfer tax consequences. However, there is no unlimited marital deduction for gifts to non-citizen spouses. Exclusions for life time transfers to a non-citizen spouse are limited to \$148,000 annually with an additional lifetime exemption of \$5,490,000 (2017 exclusion and exemption numbers).



### RESIDENCY STATUS

Non-U.S. citizens who live in the U.S. may be considered a resident alien and subject to Income Taxes if they have a “substantial presence” in the U.S. Non-U.S. citizens who have connections or assets tied to the U.S. but do not have substantial presence may be considered nonresident aliens. This test is not always clear, and it may be important for individuals to understand whether or not they could be considered a Resident Alien for income tax purposes.



### ESTATE TAX

Nonresident aliens are limited to a \$60,000 estate tax exclusion on U.S.-based assets. As with gift taxes, there is no unlimited marital deduction for estates transferred to non-resident alien spouses unless transferred through a Qualified Domestic Trust (QDOT). U.S. based assets owned by a nonresident alien or that are being transferred to a nonresident alien may be subject to the estate tax. This includes all tangible property and real estate located in the U.S., or stocks and ownership interest in a U.S. corporation.

# Why Life Insurance?

Life Insurance offers many benefits to the owner and beneficiaries regardless of their citizen status. However, there are characteristics of a life insurance policy that may assist foreign nationals with their special estate and tax planning needs.

- The proceeds payable under a life insurance policy are not considered a tangible U.S.-based asset and are not subject to U.S. estate taxes for non-resident aliens.
- Benefits payable under a life insurance policy are generally income tax free.

- In a permanent life insurance policy any growth in the cash value is tax-deferred. This cash value may also be accessed income-tax free by the policy owner.<sup>2</sup>

By using Life Insurance as part of the estate plan, a policy owner may be able to provide a tax-free benefit to their heirs in order to pay any U.S. estate taxes without having to sell property. In addition, the policy may also provide some wealth transfer to the beneficiary after any tax liabilities are met.

## Additional Benefits of Owning a U.S. based Policy

Beyond the estate and tax planning benefits of the life insurance policy itself, a foreign national may also find benefit in participating in the U.S. Life Insurance Market.

- The U.S. Life Insurance market is the most mature in the world which may allow for access to improved product design and competitive product pricing.<sup>3</sup>
- The U.S. Life Insurance industry is highly regulated through both federal and state oversight and is considered one of the most stable in the world.<sup>4</sup>
- In addition, with the contract and benefits denominated in the U.S. Dollar, a policy may provide financial confidentiality, wealth diversification, and economic security that may not otherwise be available in a foreign market.
- A U.S. Life Insurance contract provides the personal freedom to choose beneficiaries and heirs and can avoid the concern of forced heirship for those whose home country requires a specific inheritance.

Regardless of the policy owner's citizen status, a life insurance policy may also help with many other needs such as income protection, business succession planning, legacy planning, wealth protection, and executive benefit planning.

## National Life as the Right Company

Choosing which life insurance company to partner with can be just as important as deciding to purchase a life insurance policy. The insurance companies of the National Life Group maintain a strong portfolio of products and our agents are committed to working to find the right product to fit your needs.

National Life Insurance Company and Life Insurance Company of the Southwest have an A+ financial strength rating from Standard & Pools.<sup>5</sup>

At National Life, our story is simple: For more than 167 years we've worked hard to deliver on our promises to millions of people with our vision of providing peace of mind in times of need. It's our cause, stemming from a deep passion to live our values to do good, be good and make good, every day.

<sup>3</sup> Global Insurance Industry Insights, Global Insurance Pools 4th ed. McKinsey & Company (2014)

<sup>4</sup> Potent Policies for a Successful Normalization, Global Financial Stability Report, Chapter 3 – The Insurance Sector (April 2016). [http://www.imf.org/external/pubs/ft/gfsr/2016/01/pdf/c3\\_v2.pdf](http://www.imf.org/external/pubs/ft/gfsr/2016/01/pdf/c3_v2.pdf)

<sup>5</sup> 5th of 21 ratings - Strong. As of 8/15/17. Ratings are subject to change. To see all our current ratings, please visit [www.nationallife.com/OurStory-Financials-Ratings](http://www.nationallife.com/OurStory-Financials-Ratings)