SUCCESSION PLANNING FOR CHINA TAX RESIDENTS

INVESTMENT-LINKED LIFE INSURANCE POLICIES

UTMOST INTERNATIONAL INVESTMENT-LINKED LIFE INSURANCE POLICIES

This guide provides information on the succession planning options and tax position of your clients who own an Utmost International investment-linked life insurance policy (the 'policy') and are already tax residents of China or will become tax resident at some time in the future.

Investment-linked life insurance policies are effective, long term wealth planning solutions that provide a range of benefits.

These include access to:

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KEY BENEFITS

- LIQUIDITY THROUGH LIFE INSURANCE
- GROSS ROLL-UP
- GIFT ASSIGNMENT
- PRIVACY
- SUCCESSION PLANNING
- TAX-EFFICIENT WITHDRAWALS
- WEALTH PRESERVATION
- REDUCED REPORTING ADMINISTRATION

INVESTING IN UTMOST INTERNATIONAL POLICIES

Utmost International policies can help give your clients real freedom over how they invest and control their money. Based on the Isle of Man and backed by years of investment expertise and financial strength, our flexible policies allow clients to choose from a wide range of assets, in a stable, tax-efficient environment that can add value to their choices.

Utmost International Isle of Man Limited is currently not liable to income tax, capital gains tax or corporation tax on assets linked to the policies. This means that your client's investment can grow virtually tax free. It is possible that withholding tax may be deducted from some of the dividends in their country of origin but once inside the policy, they can accumulate tax-free.

utmost™
WEALTH SOLUTIONS

RECENT CHANGES TO TAX LAW IN CHINA

The Standing Committee National People's Conference have implemented changes to the People's Republic of China Individual Income Tax (PRC IIT) law with effect from 1 January 2019.

These new Chinese tax reforms make changes to the definition of tax residence for non-domiciled Chinese residents, re-characterise types of taxable income, and bring in amendments to tax administration and collection. This guide only considers the rules on residence and taxation applying from 1 December 2019.

Determining tax residence in China

A PRC tax resident is an individual who is:

DOMICILED IN CHINA WHETHER OR NOT THEY ARE PHYSICALLY RESIDENT IN THE COUNTRY

OR

WITHOUT A DOMICILE BUT RESIDING IN CHINA FOR 183 DAYS OR MORE CUMULATIVELY IN A TAX YEAR.

How is Chinese domicile defined under PRC IIT law?

Having a domicile in China means the individual habitually resides in the country because of their household registration, family or economic ties to the PRC. If an individual holds a Chinese passport they will be deemed to be domiciled in China no matter where they actually live unless they can provide sufficient evidence to the satisfaction of the PRC tax authority, proving that they are tax resident of another jurisdiction.

Foreign nationals becoming resident in China

A foreign national who moves to China will become resident in China in that tax year if they spend 183 days or more there in that tax year. As a Chinese tax resident, the foreign national will pay PRC IIT on their China sourced income.

Foreign nationals resident in China are exempt from PRC IIT on their non-China sourced income paid by an overseas entity or individual until they've been resident for six full consecutive tax years without leaving China for more than 30 days in a single trip in any one of those six years. From the seventh tax year they will pay PRC IIT on their total worldwide income.

If a foreign national leaves China for a period of more than 30 consecutive days in a tax year, this period of exemption from tax on the non-China sourced income paid by an overseas entity or individual can be restarted.

TAXATION IN CHINA

The Chinese tax year runs from 1 January to 31 December and a PRC tax resident is liable to PRC IIT on their worldwide income.

TAX ON INCOME AND INVESTMENTS

Income is categorised according to type and there are different rates and deductions available.

- Comprehensive income, which includes salaries and wages, is taxed at progressive rates up to 45% after any deductions.
- Dividends and interest payments are taxable at up to 20% with no allowable deductions.
- Income from the redemption of shares, fixed interest securities and collective investment schemes outside China is taxable at 20%.
- Income arising from the redemption of shares listed on the China stock exchange and collective investment schemes in China are not currently subject to PRC IIT.

Tax on death – inheritance tax

Currently, there is no inheritance tax payable on the estate of a deceased individual or the beneficiary of a deceased's estate.

TAXATION OF INVESTMENT-LINKED LIFE INSURANCE POLICIES IN CHINA

Utmost International distributes private placement life insurance (PPLI) and variable universal life (VUL) insurance policies.

As Utmost International policies are used as a means of investing in equities, fixed interest securities and collective investment schemes, the table below summarises the tax position of an Utmost International policy and compares this to other non-China based overseas investments owned directly by an individual PRC tax resident.

Policy gains arising from Utmost International policies on encashment, partial withdrawals and death of the last life assured, are not assessable for PRC IIT.

Utmost International does not pay Isle of Man tax on income and gains from policyholder investments but withholding taxes may be retained on foreign investments such as tax retention on certain overseas dividend payments.

EVENT	UTMOST INTERNATIONAL PPLI AND VUL	PUBLICLY LISTED SHARES	FIXED INTEREST SECURITIES	COLLECTIVE INVESTMENT SCHEMES
ENCASHMENT	No PRC IIT	20% PRC IIT	20% PRC IIT	20% PRC IIT
DIVIDENDS AND INTEREST	Not applicable	20% PRC IIT	20% PRC IIT	20% PRC IIT
DEATH	No PRC IIT	No PRC IIT	No PRC IIT	No PRC IIT

TRANSFERRING ASSETS TO AN UTMOST INTERNATIONAL PPLI AND VUL POLICY

Trusts are recognised in China and can be used by high net worth individuals to help control how assets are passed on to future generations. An Utmost International policy can be assigned by the policyholder to their chosen trustees and used as the means of investment.

An asset transfer is when the PRC tax resident transfers their shareholdings in investment portfolios and shares they own in private investment companies, both located outside China. Shares denominated in Chinese Renminbi cannot be transferred to Utmost International.

Before a PRC tax resident transfers assets to Utmost International they should take advice on the tax implications of doing this.

Transferring taxable assets as the premium for a PPLI or VUL policy might be considered a taxable event subject to PRC IIT.

MORE INFORMATION

Investment assets such as mutual funds, stocks, currency, structured notes, bonds, private company shares and, for third party custodian agreements, exchange traded options are all subject to acceptance by Utmost International. For more information, please refer to the product brochure, product summary and terms and conditions.

EXAMPLES OF ASSETS THAT CAN BE TRANSFERRED TO AN UTMOST INTERNATIONAL PPLI AND VUL POLICY:

PPLI/VUL

- OPEN-ENDED INVESTMENT COMPANIES
- PRIVATE SHARES
- STOCKS/SHARES
- EXCHANGE TRADED FUNDS
- UNIT TRUSTS
- FIXED INTEREST SECURITIES/BOND

SUCCESSION PLANNING IN CHINA USING UTMOST INTERNATIONAL POLICIES

China has a civil law type legal system but succession law allows for testamentary freedom so that an individual can leave their estate on death, subject to their will. Certain restrictions within the succession law make compulsory provision for family members who are not in work and have no source of income.

Also, intestacy rules will apply when no valid will is left by the deceased; these create two tiers of statutory heirs. A full explanation of Chinese succession law is beyond the scope of this guide and clients should take appropriate advice on how to structure their succession planning.

USING AN UTMOST INTERNATIONAL POLICY IN SUCCESSION PLANNING

Making a gift of an Utmost International policy

Policies can be assigned to a new owner. When the assignment is a lifetime gift by the current policyholder, for no consideration, no PRC IIT is payable by the policyholder.

When the assignment is part of a transaction, for example to create a trust, see the next page, PRC IIT may become payable by the policyholder as transferor.

Beneficiary nomination

PRC insurance law recognises the use of beneficiary nominations by policy owners provided the life assured agrees to it. An effective nomination avoids Utmost International requiring a grant of probate in the jurisdiction where the policy is domiciled, in this case the Isle of Man.

Payment of the death benefit can be made swiftly on receipt of all the insurer's requirements and will be made separately to the distribution of the deceased's estate through their will. A nomination can remain private between the policyholder, Utmost International and the nominees and doesn't prevent the policyholder benefitting from the policy during their lifetime.

There may be occasions when clients want the policy to be held in trust for their beneficiaries, rather than using a nomination which becomes effective on death.

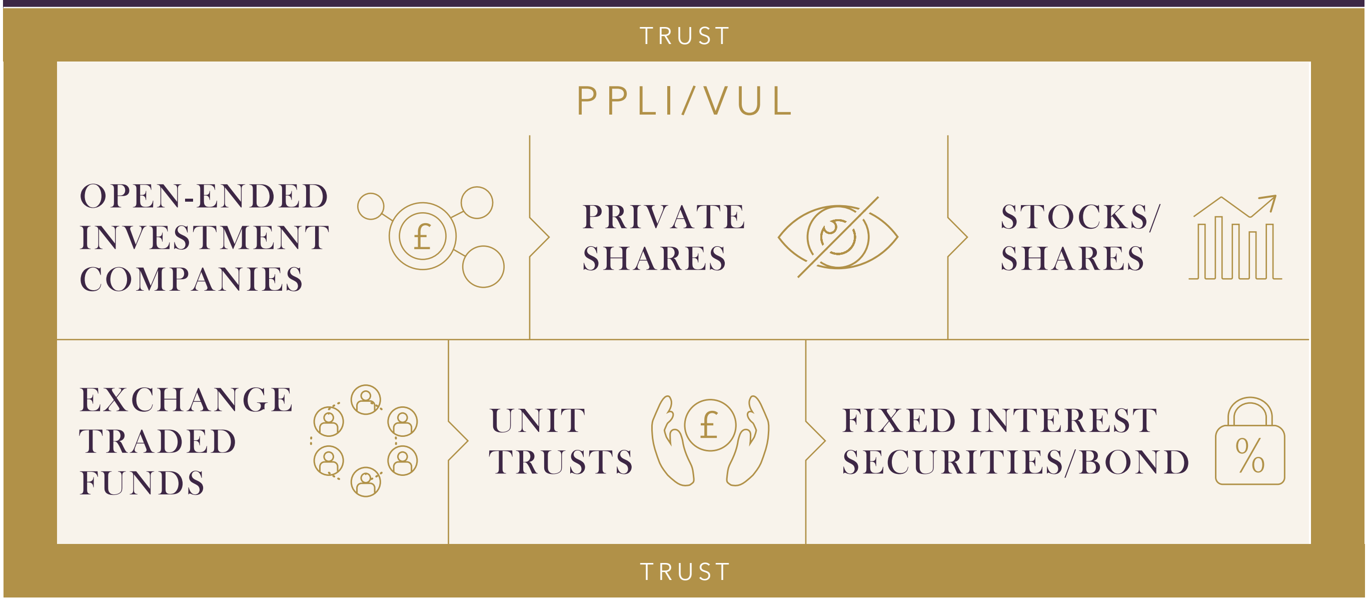
USING A TRUST FOR SUCCESSION PLANNING

Subject to acceptance by Utmost International, PRC tax residents may use an asset transfer as the premium to purchase an Utmost International policy.

By transferring assets to the trustees, the settlor may be deemed to have transferred them for no consideration so below their market value and therefore might be charged PRC IIT on the difference between the market value and the original acquisition cost. Before creating a trust, clients should take appropriate advice on their tax position and whether PRC IIT will be payable on the transfer of assets to the trustees.

When a PRC tax resident beneficiary who is not the settlor is paid income from the trust, they will not currently be taxed on the income received. This is because income of this type has not been classified as taxable income under the current PRC IIT laws, or by the Ministry of Finance or the State Administration of Taxation.

WITH A TRUST, THERE WILL BE AN ADDITIONAL LAYER TO SAFEGUARD CLIENTS' WEALTH.



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HOW CAN AN UTMOST INTERNATIONAL POLICY HELP YOUR CLIENTS?

Case study

- Michael, a PRC citizen, spends most of his time outside of China as he runs a successful manufacturing business with operations in Hong Kong and Singapore.
- He has personal investments across multiple jurisdictions totalling US$20m.
- Dividends, interest and gains are taxable in China.
- Numerous custodians must provide data to comply with Common Reporting Standards (CRS) reporting obligations.
- Michael wants to ensure a swift transfer of assets to his wife and children when he passes on.
- Michael transfers the assets into the PPLI policy and uses a beneficiary nomination naming his wife and children.

ASSET TRANSFER OF US$20M TO PPLI POLICY

PRIVATE BENEFICIARY NOMINATION TO WIFE AND CHILDREN

NO TAXATION WHEN SWITCHING INVESTMENTS INSIDE PPLI POLICY

PPLI

NO PRC IIT ON PPLI BENEFITS

SIMPLIFIED REPORTING FOR CRS

The case study detailed is fictional and used purely to illustrate a possible real life scenario.

This sales aid is based on Utmost International's understanding of the law, regulation and taxation practice of the UK, Isle of Man and China as at December 2020, which may change in the future. No liability can be accepted for any personal tax consequences as a result of future legislative, regulatory or tax changes. Investors should seek professional advice regarding their own tax circumstances.

The value of investments can fall as well as rise and investors may not get back what they put in.

Full details of the products available can be found in the product literature and Policy Terms which are available from Utmost International.

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www.utmostinternational.com

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Utmost Wealth Solutions is the registered business name of Utmost International Isle of Man Limited Singapore Branch.
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Member of the Life Insurance Association of Singapore. Member of the Singapore Finance Dispute Resolution Scheme.

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