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# Foreign Nationals & Real Estate

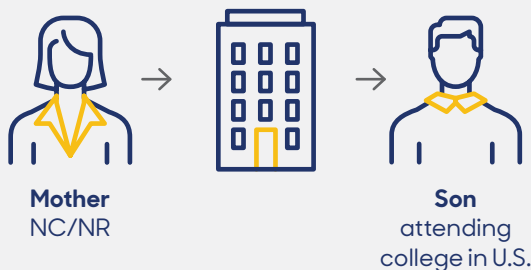
3 things to know about Non-citizens/Non-residents

If you work with **Non-citizen/Non-resident Aliens (NC/NRs)**<sup>1</sup>, there are 3 key things to know about the impact of owning a large concentration of U.S. real estate:

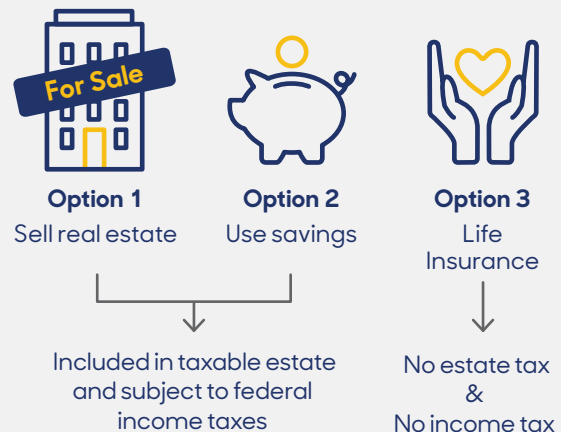
1. The unlimited marital deduction for federal estate tax **ONLY APPLIES** to U.S. citizens.
2. For the NC/NR, the maximum amount exempt from U.S. estate taxes is \$60,000. This means U.S. assets over this amount are subject to estate tax.
3. Some assets are excluded from U.S. federal estate taxes: they include U.S. bank deposits, U.S. treasury notes, government bonds, and life insurance death benefits. U.S. real estate is subject to U.S. federal estate taxes.

Your NC/NR clients have access to U.S. life insurance. Not only does a U.S. life insurance policy offer them life insurance protection and an opportunity to further diversify a global portfolio with a U.S.-dollar denominated asset, it also offers U.S. estate and income tax advantages. Therefore, it may make sense to also consider life insurance as part of their U.S. portfolio of financial assets if they have a need for death benefit protection.

## DURING LIFETIME NC/NR BUYS CONDO FOR SON



## AT DEATH OPTIONS TO PAY ESTATE TAXES AT DEATH (Only \$60,000 is exempt from estate tax)





# Life Insurance

**Chart A** below illustrates the potential estate tax implications for a U.S. portfolio of assets owned by a NC/NR Alien. It is assumed that the U.S. estate is currently valued at \$10,000,000 and growing at 3% annually. It is also assumed that the estate consists of assets subject to the U.S. estate tax. The chart calculates the net amount transferring to heirs as if death occurs at the end of each summary year illustrated. The chart does not take into account the U.S. federal income tax on assets in year of death. However, the life insurance death proceeds are generally not subject to U.S. income or estate taxes.<sup>2</sup>

**Chart A**

NET U.S. ESTATE WITHOUT INSURANCE						NET U.S. ESTATE WITH INSURANCE					DIFFERENCE
Yr	Age	Gross Estate Beg Year	Gross Estate @ 3% End Year	Estate Tax @ 40% (Net of 60K) End Year	Net to Heirs End Year	Life Premium Beg Year	Gross Estate Net of Premium @ 3% End Year	Estate Tax @ 40% End Year	Non-guaranteed Net Death Benefit	Net to Heirs End Year	Advantage to Heirs with Life Insurance
1	46	10,000,000	10,300,000	4,096,000	6,204,000	177,412	10,117,266	4,022,906	\$3,376,795	\$9,471,153	\$3,267,153
10	55	13,047,732	13,439,164	5,351,666	8,087,497	177,412	11,344,317	4,513,727	\$3,376,795	\$10,207,384	\$2,119,886
20	65	17,535,061	18,061,112	7,200,445	10,860,667	-	15,245,814	6,074,326	\$4,765,096	\$13,936,585	\$3,075,917
30	75	23,566,655	24,272,625	9,685,050	14,587,575	-	20,489,099	8,171,640	\$6,787,589	\$19,105,048	\$4,517,473
40	85	31,670,270	32,620,378	13,024,151	19,596,227	-	27,535,636	10,990,250	\$9,725,401	\$26,270,783	\$6,674,556

**Chart A** assumes a \$3,376,000 Whole Life 10 Pay with LISR on a Female Age 45, Ultra Preferred Non-Smoker underwriting risk class. LISR is a rider that blends term. It is assumed that the LISR portion of the face amount is \$1,688,397 and that non-guaranteed dividends purchase additional paid-up insurance to convert the LISR fully to base coverage by year 10. The premium is \$177,412 per year for 10 years. Dividends are not guaranteed and it may take longer for the LISR to convert.

**Chart A** is a supplemental illustration that is not valid unless accompanied by the [basic illustration](#). Refer to the basic illustration for assumptions, explanations, guaranteed elements and additional information. The values shown here are taken from the current assumption non-guaranteed values and assume the 2022 dividend schedule. The dividend schedule is reviewed annually, and it is likely that dividends in the future years will be lower or higher depending on the company's actual experience.



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<sup>1</sup> A non-citizen, who does not intend to establish domicile in the U.S. is referred to as a non-resident alien or a non-citizen, non-resident (NC/NR). Generally, estate and gift taxes are only imposed on assets located in the United States. See U.S. IRC §2103. For U.S. estate tax purposes, a decedent is considered a resident if domiciled in the United States. U.S. Treasury Regulations specifically define “domicile,” and the IRS considers a combination of other factors to determine resident status.

**Clients should seek counsel from an attorney familiar with such matters to assess their own particular situation.**

<sup>2</sup> Death Benefit proceeds are generally excluded from the beneficiary’s gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. Loans and withdrawals from a life insurance policy’s cash values will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as Modified Endowment Contracts (MEC) may be subject to tax when a loan or withdrawal is taken. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

