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US life insurance policy benefits



Am I subject to US estate taxes?



Obtain JH US life insurance coverage?



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Advanced Markets

US life insurance opportunities for high-net-worth foreign nationals

Client guide



INSURANCE PRODUCTS	
MAY LOSE VALUE	NOT A DEPOSIT
NOT BANK GUARANTEED	NOT FDIC INSURED
NOT INSURED BY ANY GOVERNMENT AGENCY	



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In today's global economy, more foreign nationals have connections to the US – including business, financial and personal interests – and as a result are likely to have unique and complex US estate and tax planning needs. For those high-net-worth individuals who have ties to the US, but are not US citizens or residents, a US life insurance policy from John Hancock may be a helpful solution to protect their families and preserve wealth for future generations.

A US life insurance policy can provide several benefits, including:

- 1 Estate and wealth preservation** – can help provide protection for loved ones by offering liquidity to cover various debt obligations, including taxes, and overall can help to preserve wealth for generations to come.
- 2 Income replacement** – can be used to replace lost income should something happen to the high-income earner.
- 3 Funding for business succession plans** – for successful business owners, a properly structured buy-sell plan funded with life insurance can help with business succession needs.
- 4 Liquidity for estate tax planning** – depending on your US tax status, you may be subject to significant US estate taxes as well as taxes in your home country of citizenship/residence. A life insurance death benefit can provide needed liquidity to help cover your taxability. Care should be taken to understand the potential US estate tax exposure you may have – keep reading for more information.



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The answer to this question depends on whether you are considered a “resident alien” or a “nonresident alien”. A resident alien is defined as an individual who is “domiciled” in the US at the time of death. The rules for determining domicile are complex, including time spent in the US and abroad; US visa status; and location of friends, family and business interests. A nonresident alien is an individual who is not a US citizen or US national and is not domiciled in the US. It is essential that you work with tax counsel specializing in cross-border planning to help determine your status as either a resident or nonresident alien.

Generally speaking, resident aliens are subject to US estate taxes on their worldwide assets. Please note that there may be an offset to US taxes if estate or gift taxes are paid in a foreign country, depending on specific treaties.

- Resident aliens can also take advantage of certain US estate and gift tax exemptions and exclusions. For example, under the lifetime exemption, a resident alien can give away up to \$12,920,000 (in 2023) during life or at death without incurring any US estate or gift tax. They can also gift \$17,000 (\$34,000 if married) annually to as many individuals as they like without paying any gift taxes. The lifetime exemption and annual exclusion are adjusted for inflation. Resident aliens are subject to estate and gift taxes on worldwide assets.
- Nonresident aliens are only subject to estate tax on property that is considered to be a “US situs asset”. They can exempt up to \$60,000 of US assets at death without being subject

to US estate tax. Due to this low threshold amount (which is not adjusted for inflation), it will be important to discuss with your planning team whether assets you own are likely to be characterized as US situs assets.

- Life insurance is generally not considered US situs property, which means that a nonresident alien can own a US life insurance policy on their life without having the death benefit subject to estate taxes.

Summary of resident vs. nonresident transfer tax treatment

Resident alien	↔	Nonresident alien
\$12.92M in 2023*	Estate tax exemption	\$60,000
\$12.92M in 2023*	Gift tax exemption	Annual exclusion gifts only (\$17k in 2023)
US and worldwide property	Property subject to estate tax	US situs property
Yes	Irrevocable Life Insurance Trust (ILIT) needed to exclude death benefit from estate taxes	No

*Exemption is adjusted for inflation and will sunset to \$5M, adjusted for inflation, in 2026.



Additional benefits of life insurance

A John Hancock Policy is an effective way to address US estate and gift tax concerns, and can also help:

- Provide protection and enhance the legacy for your loved ones
- Provide tax-deferred growth and tax-free death benefit in the US



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Can I obtain John Hancock US life insurance coverage?

High-net-worth non-US residents with a minimum net worth of \$5M may be eligible to purchase a John Hancock policy, if all nexus, solicitation, and underwriting requirements are satisfied. Establishing the need for US insurance – which includes substantial financial or physical ties to the US – is fundamental. These cases are reviewed holistically on a case-by-case basis and sufficient nexus includes ties to the US such as owning US real estate or a US sited business, working for a US company, having a US estate tax liability, or having immediate family members residing in the US.

Additionally, you must have an existing US financial presence, including a US bank account. While the extent and nature of your US assets will be taken into consideration, you must have a minimum of \$200K or 25% of the coverage amount applied for in US assets that are directly titled to you or your US entity. All premiums must come directly from a US bank.

There are additional financial and medical underwriting considerations and other factors that will be evaluated to determine whether coverage is available. The above is not exhaustive. Please consult with your insurance professional to discuss your options considering your personal situation and planning goals.





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Reach out to your **financial professional** to learn more.

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Trusts should be drafted by an attorney familiar with such matters in order to consider income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds. There can be costs associated with drafting a trust.

Loans and withdrawals will reduce the death benefit and the 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. Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 ^{1/2}. Withdrawals are available after the first policy year.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

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