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Embracing the PPLI opportunity in North Asia

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What are some of the trends and developments in North Asia when considering PPLI?

I think PPLI has evolved a lot in the last couple of years here in Asia, especially in North Asia. I remember when I first came to Hong Kong - about 11-12 years ago - and practically nobody knew about PPLI. Now the wealth management players have all heard of PPLI. They understand the basic concept of the structure, and so it's a great development that we have seen over the past decade.

Obviously, there has been a lot of tax changes, such as CRS and FATCA. This is helping as well because many legacy structures are not valid anymore. A lot of clients, therefore, are aware that they need to restructure, and PPLI is one of the suitable options for certain clients. It has been a very good couple of years since we have set up office in Hong Kong.

Why is PPLI an important tool in the wealth structuring conversation with a client?

PPLI is a very well-rounded wealth planning solution. Why? Because it not only covers estate planning and taxes, but it has a very diverse applicability. It covers on one side the tax aspect, which is why PPLI was originally created, and it has all the estate planning aspects clients need. It also brings asset protection, which a lot of clients in a now very transparent world are looking for, because they're worried about their assets, they're worried about what could potentially arise and impact their assets. PPLI brings a certain level of confidentiality, which other structures potentially cannot provide anymore.

Last but not least, it doesn't leave out also the liquidity aspect, which is very important in Asia. A lot of families are looking after liquidity, and therefore you have this hybrid tool, VUL, which is basically just a PPLI with a high death benefit, which can provide the high death benefit/liquidity aspect.

What are the main reasons clients use this structure?

Clients use these structures for very different reasons. There are certain clients that come to us looking for an estate planning tool. For example, a

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family which has a quite complex situation being something of a patchwork family. Or maybe a family who has beneficiaries or heirs not just in one jurisdiction, but they're spread out in different parts of the world. Because then you need a solution which not only works for the family or the first generation, but also works for the second generation in their relevant tax jurisdictions. Then there are other clients who are interested in PPLI to allow for a very tax efficient structure. Especially where a client resident in a low tax jurisdiction like Hong Kong, but with an intent to move into a high tax jurisdiction, for example, the UK, US, or Australia. We have a lot of cases in this field. Or perhaps the assets are in a high tax jurisdiction, where nowadays most countries have applicable withholding tax. And then finally there are clients where it's more about asset protection and confidentiality - they're very worried, they're entrepreneurs. Nowadays you can basically have liabilities everywhere, or you can get sued for anything in certain jurisdictions, and these types of clients say they want to have a structure where they have fuller protection, but they still are able to control the assets.

What are the implications of the recent Taiwan CFC rules for current structures - like trusts, foundations, PPLI?

The CFC rules in Taiwan are brand new. They have been implemented since January 1st, 2023. There has not yet been any reporting. The reporting starts in May 2024. But as you probably know, a lot of Taiwanese families, they have been commonly using offshore companies in various different jurisdictions, such as the British Virgin Islands, and it has always perfectly worked for them.

The CFC rules that have now been implemented have basically made everything much more complicated. They start to disregard offshore companies where clients have substantial shareholdings, and therefore a lot of clients need to restructure. Why do they need to restructure? Very simply because otherwise, they're ending up possibly violating reporting duties or not paying taxes. And as we know, nowadays, international organisations like the FATF have implemented tax avoidance as a criminal offense and as a money laundering offense. And individuals using this structure could actually end up with legal issues.

Therefore, it's very important that those clients who had those offshore structures look for advice to restructure. There are great tools like PPLI. Unfortunately, there are certain areas are not 100% clear yet, because the Taiwan CFC rules are brand new, but obviously structures like trusts may need to be looked at and reconsidered as an onshore trust in Taiwan, and they're typically treated as a transparent structure.

However, the rules provide an opportunity to reconsider the structure, to look at what should be reviewed and redone, to ensure the structures are still compliant with the new CFC rules implemented in Taiwan. ■