Taiwan: MOF has its first-ever guidance on PPLI under CFC rules

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Taiwan | Tax | Ministry of Finance | MOF | Controlled Foreign Corporation | CFC | Private Placement Life Insurance | PPLI |

In brief

On 8 April 2025, Taiwan's Ministry of Finance (MOF) released a significant update to its Q&A on the individual Controlled Foreign Corporation (CFC) regime ("**Individual CFC Q&A**"), expressly addressing the treatment of Private Placement Life Insurance (PPLI) in the context of CFC rules for the first time.

This update mirrors the MOF's earlier position on offshore trusts, as articulated in Ruling Tai-Cai-Shui No. 11204665340, issued on 4 January 2024 ("**Jan 4 Ruling**"). Where an individual pays the premium for a PPLI policy by transferring CFC shares to an insurance company and, together with related parties, retains control over the underlying enterprise, the CFC will be treated as directly held by the individual, regardless of its formal ownership by the insurer.

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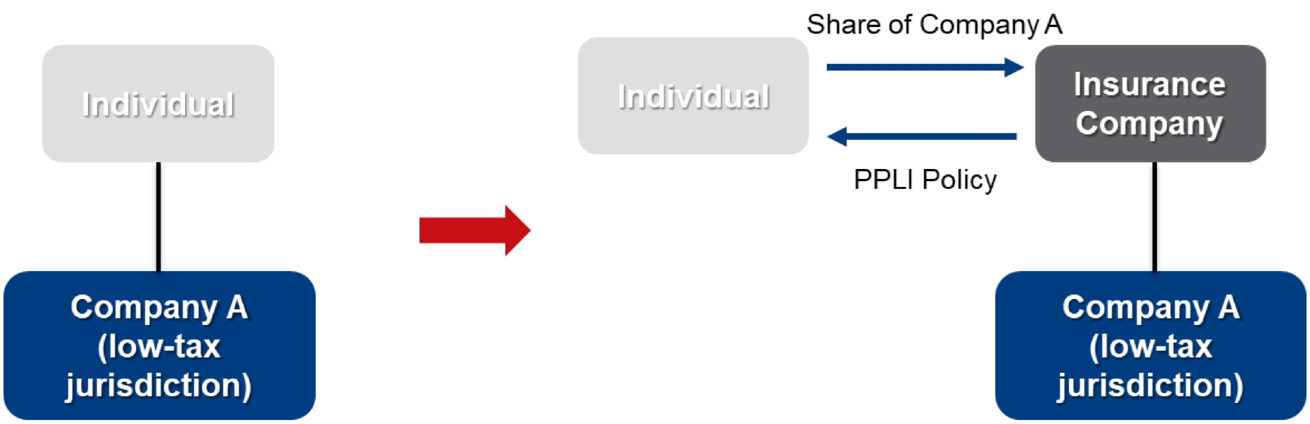
Key takeaways

1. First-Ever Reference to PPLI by the MOF

   This is the first time the MOF has formally addressed PPLI structures in its official guidance. Previously, there was a perception that PPLI had not been on the radar of the tax authority, and no formal interpretation had been issued. This update clarifies the MOF's position and sheds light on its treatment of PPLI in tax compliance assessments. However instead of saying PPLI needs to be reported or reiterating it is not a legitimate insurance policy in Taiwan (which can enjoy estate tax exemption), MOF focuses on the substance over form issue. This seems to open a possibility that under the Asia Asset Management Zone project (a special financial zone in Taiwan, see our country paper previously issued), PPLI can be a product sold to high-net-worth clients if blessed by the Financial Supervisory Commission by submitting a pilot program with a business plan attached. A tax compliant PPLI is likely workable. The next question is how we educate the regulators and define a tax compliant PPLI. The US rules could be a good reference.

2. MOF Clarifies PPLI Structures Under CFC Rules

   In the newly added Question 66 of the Individual CFC Q&A, the MOF cites Article 7, Paragraph 3 of the Taxpayer Rights Protection Act and Article 2, Item 4 of the Regulations Governing the Calculation of Income from Controlled Foreign Companies for Individuals, stating that when an individual enters into a PPLI contract and pays the premium by transferring shares of a CFC to the insurer—thereby obtaining a customized private life insurance policy—and continues to exercise control over the underlying enterprise (either directly or through related parties), the arrangement will be assessed based on its economic substance rather than its legal form. Accordingly, even if the CFC is nominally held by the insurance company, it will be deemed part of the individual's direct shareholding. The MOF further emphasizes that any similar arrangements intended to circumvent CFC taxation shall be subject to the same principles.



3. Not All PPLI Structures Are Automatically Disqualified

   The MOF's example is specific. If the PPLI arrangement does not involve continued control or is structured differently from the scenario described, there may still be valid grounds for exclusion from CFC regulations. This update provides a foundation for case-by-case analysis rather than a blanket prohibition.

   Our view is that the MOF's clarification offers more legal certainty for taxpayers using PPLI as part of their asset planning. In the past, the lack of formal guidance left taxpayers in a gray zone—unsure of how authorities might react to a discovered PPLI. Now, with clearer lines drawn, taxpayers and advisors can better understand what crosses the line, and what remains permissible.

4. Core Message: Substance Determines CFC Status

   The MOF is focused on preventing CFCs from being disguised through any form of wrappers. Simply placing a CFC inside a PPLI or other structure does not change its character. The key consideration remains whether the underlying entity qualifies as a CFC in substance. Individuals should avoid representing PPLI as a tool that eliminates CFC exposure. As we have reiterated in our advice, tax should not be the sole reason for restructuring, and clients should not retain substantial control, no matter it is a PPLI or otherwise. Our position remains unchanged.

Suggestion

1. Not all PPLI structures will necessarily trigger CFC attribution. However, for those who has existing PPLI arrangements, it is recommended to re-evaluate the associated tax compliance risks.
2. For ongoing structures, analyze the impact of changes in relevant regulations.
3. As we have consistently emphasized, any inheritance structure should prioritize legal considerations and should not be primarily driven by tax planning.
4. If there are any doubts, please discuss with a lawyer first to avoid misunderstandings of the regulations.

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