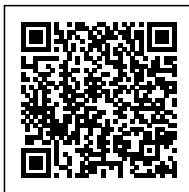


# UNIT-LINKED: TRANSPARENCY AND TAX BENEFITS - ABBC

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**The insurance sector, however, has evolved over the past few years, and a number of innovative products, such as endowments, money-back plans, whole-life plans, etc, have stormed the market. One product category that is increasingly catching the eye of individuals is the unit-linked insurance plan.**

**Unit-linked plans are defined as insurance policies connected to investment funds, the associated risk of which runs solely against the policyholder, and are seen as good medium to long-term investments.**

## **Framing**

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The insurance sector, however, has evolved over the past few years, and a number of innovative products, such as endowments, money-back plans, whole-life plans, etc, have stormed the market. One product category that is increasingly catching the eye of individuals is the unit-linked insurance plan.

Unit-linked plans are defined as insurance policies connected to investment funds, the associated risk of which runs solely against the policyholder.

Unit-linked plans started in Germany in 1970, but only in the second half of the 1990s did they gain substantial market share. In Portugal, unit-linked plans only gained some recognition at a market level from 2000 onwards. With the explosion of the financial crisis, these types of products are gaining more and more market share in Portugal, as they are seen as good medium to long-term investments, especially at a tax level.

## **New regulatory framework**

The Portuguese Exchange Securities Commission (CMVM) placed into public consultation a draft Regulation on Information, Advertising and Marketing of Complex Financial Products, which, if approved, will change the regulatory context of Portuguese unit-linked plans.

Unit-linked insurance funds, including insurance linked to investment funds and capitalisation transactions linked to investment funds, are considered complex financial products for the purposes of this CMVM draft regulation. The draft Regulation concentrates on a sole regulatory instrument for the information, advertising and marketing of all complex financial products subject to the CMVM's supervision. Besides those products covered in Regulation number 1/2009, it will include insurance linked to investment funds and capitalisation transactions linked to investment funds.

The financial crisis has created the need for legislative intervention to strengthen disclosure and transparency within the financial sector. Among others, one aim of the draft Regulation is to even out the disclosure duties on complex financial products by establishing, for said purpose, a specific information regime to "allow the public to effectively identify its characteristics and risks".

## **Tax advantages**

According to the Portuguese tax regime, the amounts paid by the policyholders, including the initial charges on the policy subscription, are not tax deductible. With regards to the tax regime on received benefits, the positive difference between the amounts paid as discharge or advanced payment life insurance policies and transactions and the respective paid premiums or invested values qualifies as capital/investment income.

In relation to Personal Income Tax (IRS), the taxation of income obtained from life insurance policies and capitalisation investments, when they qualify as capital income, varies according to the time between the premium's payment and the day when the discharge or advanced payment occurs (and only if the premiums and other amounts paid during the first half of the contract's duration reach at least 35% of their total amount). If the payment occurs within the first five years, the taxation rate is 25%; if the payment occurs after five but before eight years, the income is taxed at a 20% rate; and, if the payment occurs after eight years, the income is taxed at a 10% rate.

### **In summary**

The new set of disclosure and transparency duties of the CMVM draft Regulation, when added to the tax advantages already contained within Portuguese legislation, make the unit-linked plan a very eye-catching product as it combines a very attractive component of investment together with a life insurance feature. This is something that is particularly popular in times of financial crisis, as recent history has proven many times over.

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