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Private Placement Life Insurance:

Purpose, Advantages, Estate Planning Supremacy, and Client Suitability

*A Comparative Analysis of Standard PPLI Structures and the Tolani Flow® PPLI Model
Incorporating IRC §7702 Compliance Architecture and the §7702(g) Enforcement Framework*

Dr. Sanjay Tolani, Ph.D.

Ph.D. (Finance) | CFP (Canada) | FLMI | Founder, Tolani Flow®

Founder & Principal, Tolani Family Office | CEO, Goodwill World

Author of 13 Books on Wealth Planning | Mentor to 200,000+ Financial Professionals Worldwide

sanjay@sanjaytolani.com | www.tolaniflow.com

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ABSTRACT

Private Placement Life Insurance (PPLI) represents one of the most sophisticated and tax-efficient instruments available to high-net-worth (HNW) and ultra-high-net-worth (UHNW) families engaged in multigenerational wealth planning. Emerging from offshore insurance jurisdictions in the 1980s and establishing significant onshore presence in the 1990s, PPLI has evolved into a globally recognised structure that simultaneously addresses the five most complex challenges in estate planning: tax efficiency, asset consolidation, confidentiality, liquidity provision, and seamless generational transfer.

This paper presents a comprehensive academic analysis of PPLI across four dimensions. First, it examines the fundamental purpose of PPLI as a wealth structuring instrument - distinguishing it clearly from conventional life insurance and from trust and foundation-based alternatives. Second, it documents the core advantages of PPLI across tax, regulatory, investment, and estate planning dimensions, including a dedicated analysis of IRC §7702 as the foundational legal architecture that grants PPLI its tax-advantaged status, and IRC §7702(g) as the enforcement provision that establishes the consequences of non-compliance and the design imperative that makes specialist structuring mandatory. Third, it analyses the suitability of PPLI across identified client profiles. Fourth, it presents a comparative analysis of standard market PPLI against the Tolani Flow® PPLI model.

The paper concludes that PPLI, when correctly structured and managed by qualified specialists within the IRC §7702 compliance framework, represents the optimal estate planning structure for HNW families with complex, multi-jurisdictional wealth. The Tolani Flow® model is identified as a materially superior implementation of PPLI principles, incorporating proprietary structural innovations that specifically address both the CRS privacy dimension and the §7702(g) compliance architecture.

Keywords: *Private Placement Life Insurance, PPLI, Estate Planning, IRC §7702, IRC §7702(g), Cash Value Accumulation Test, Guideline Premium Test, Modified Endowment Contract, Wealth Transfer, Tax Efficiency, CRS, FATCA, Family Office, Tolani Flow®, High Net Worth, Intergenerational Wealth.*



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1. INTRODUCTION: THE ARCHITECTURE OF MODERN ESTATE PLANNING CHALLENGES

1.1 The Global Wealth Transfer Imperative

An estimated \$84 trillion in private wealth is expected to transfer between generations over the next two decades - the largest intergenerational capital transition in recorded history. Yet the instruments through which most families attempt to manage this transition were designed for a world that no longer exists. Traditional trusts, offshore holding companies, and foundation structures developed in an era of limited regulatory coordination and low governmental transparency. Today, they operate in a fundamentally different environment.

The Common Reporting Standard (CRS), administered by the OECD and adopted by over 110 jurisdictions, mandates automatic exchange of financial account information between tax authorities. The Foreign Account Tax Compliance Act (FATCA), enacted by the United States, imposes extensive disclosure obligations on foreign financial institutions with respect to US-linked assets. The Panama Papers (2016), the Paradise Papers (2017), and the Pandora Papers (2021) eroded the confidentiality assumptions on which many offshore structures had long depended. The result is that the estate planning landscape of 2025 demands structures with four attributes simultaneously: full regulatory compliance, genuine confidentiality, operational flexibility, and tax efficiency. Very few instruments deliver all four. Private Placement Life Insurance does.

1.2 The Problem with Traditional Structures

The traditional toolkit of HNW estate planning - discretionary trusts, irrevocable trusts, offshore companies, family foundations, and holding structures - continues to serve important functions. However, each carries structural limitations that have become increasingly consequential in the current regulatory environment.



STRUCTURE	PRIMARY FUNCTION	KEY LIMITATION IN 2025	PPLI ADVANTAGE
Discretionary Trust	Asset protection; controlled distribution	Beneficial ownership disclosure under OECD/CRS; loss of policyholder control	PPLI maintains policyholder control with equivalent protection
Offshore Company / Holding	Asset consolidation; tax efficiency	UBO disclosure requirements; blacklisted jurisdictions; CFC rules	PPLI not classified as a foreign corporation; no CFC disclosure required
Family Foundation	Philanthropy; governance	Limited investment flexibility; governance complexity	PPLI offers broader investment mandate with full family control
Standard Life Insurance	Death benefit; income replacement	Limited investment options; retail pricing; jurisdictional inflexibility	PPLI offers bespoke investments, institutional pricing, global structuring
Standard PPLI	Tax-efficient investment wrapper	Variable CRS reporting; no insured person continuity; standard pricing	Tolani Flow® addresses all with proprietary innovations

PPLI does not merely complement existing structures - in many cases, it resolves their structural weaknesses while delivering superior outcomes across all four estate planning dimensions. The purpose of this paper is to document, analyse, and evaluate this assertion with rigour appropriate to academic and practitioner audiences.

1.3 The IRC §7702 Foundation

Central to understanding PPLI's legal legitimacy is IRC §7702, enacted by Congress in 1984 as part of the Deficit Reduction Act. Section 7702 defines what constitutes a 'life insurance contract' for federal income tax purposes - and thereby determines which contracts qualify for the tax-advantaged treatment that makes PPLI valuable. The compliance architecture established by §7702, and its enforcement counterpart §7702(g), forms the legal skeleton around which all compliant PPLI structures are built. This paper is, to the author's knowledge, the first practitioner-grounded academic analysis to integrate a thorough examination of §7702(g) into the PPLI estate planning framework.



1.4 The Tolani Flow® Contribution

Within the universe of PPLI structures, this paper introduces and analyses the Tolani Flow® PPLI model developed by the Tolani Family Office. Tolani Flow® represents a practitioner-designed evolution of standard PPLI, incorporating three proprietary structural innovations that address specific limitations in conventional PPLI design and that operate within - and are strengthened by - the §7702 compliance architecture.



2. LITERATURE REVIEW AND REGULATORY CONTEXT

2.1 The Evolution of PPLI in Academic and Practitioner Literature

Private Placement Life Insurance emerged offshore in the 1980s and gained significant traction in the United States during the 1990s as institutional carriers recognised its potential to deliver tax-deferred investment growth within a compliant insurance wrapper. As Chamberlain Hrdlicka (2025) documents, PPLI falls under the life insurance provisions of the IRC, with death benefit exclusions operating under IRC §101(a)(1) and tax-deferred investment growth under IRC §72(e)(5). The foundational qualification framework is IRC §7702, which the US Senate Finance Committee's 2024 report identified as the statutory basis for PPLI's tax treatment - and also as the provision whose complexity creates a structuring risk for policies that are not correctly designed. The 2024 report estimated that PPLI structures were being used to shelter up to \$40 billion in assets, reflecting both the structure's increasing adoption and the corresponding regulatory attention.

In the European context, the PPLI market has developed differently. Luxembourg's 'Triangle of Security' framework provides a level of regulatory protection unavailable in many other jurisdictions. Wikipedia's authoritative survey of PPLI notes that in most European countries where PPLI is available, the structure delivers at minimum tax deferral, and in most markets also provides income, wealth, and inheritance tax benefits. This has driven a growing trend among European advisors to convert existing offshore company, foundation, and trust structures into PPLI solutions.

In the Asia-Pacific and Middle East markets, Hubbis (2025) documents the rapid growth of PPLI adoption among globally mobile UHNW families. The publication notes that PPLI's combination of customisation, tax deferral, and regulatory compliance makes it 'increasingly hard to ignore' for families with cross-border assets - particularly as advisors recognise that PPLI is not captured by controlled foreign company (CFC) rules applicable to offshore company structures.



2.2 IRC §7702: The Academic and Legislative Context

The academic literature on IRC §7702 has focused primarily on its actuarial testing requirements and the 2020 amendment under the Consolidated Appropriations Act, which reduced the minimum interest rates used in calculating the Cash Value Accumulation Test (CVAT) and Guideline Premium Test (GPT). The Society of Actuaries (SOA, 2021) documented the practical impact of these rate reductions: higher guideline premium limits, allowing greater premium contributions before Modified Endowment Contract (MEC) classification is triggered, and higher permissible cash values relative to the death benefit. For PPLI, this amendment was structurally significant: it increased the maximum funding capacity of compliant policies, enhancing their accumulation efficiency without requiring a change in the fundamental insurance structure.

Cornell Law School's Legal Information Institute documents the statutory framework of §7702(g) as the provision governing contracts that fail to meet the §7702 definitional requirements: such contracts are not treated as life insurance for federal income tax purposes, with the consequence that inside build-up becomes currently taxable as ordinary income. This enforcement mechanism is of direct relevance to the PPLI compliance discussion: it makes the quality of structuring advice not merely a best practice but a legal imperative, since a §7702(g) failure converts a tax-efficient investment vehicle into a fully taxable one.

2.3 The CRS and FATCA Dimension

The introduction of CRS and FATCA created a fundamental challenge for traditional offshore estate planning structures. PPLI operates in a fundamentally different relationship with these frameworks. As HNWTAX.com's 2024 overview documents, standard CRS reporting for investment accounts requires custodians to report year-end balance, interest and dividends credited, other income generated, asset redemptions, and amounts credited or withdrawn. PPLI, by contrast, requires only balance and withdrawals. As Hubbis (2025) notes: 'What is reported, entirely compliantly, for CRS purposes is that you have an offshore life insurance policy of a certain value. You avoid probate, you have a distribution plan, and in short, it just seems to tick every box.'



2.4 The Investment Flexibility Dimension

One of PPLI's most structurally significant advantages is its capacity to hold alternative assets within a tax-advantaged wrapper. Corient Private Wealth (2024) documents that PPLI allows policyholders to hold alternative assets - hedge funds, private equity, real estate, private credit - inside the policy structure. Cerity Partners (2025) notes that PPLI, unlike commercial variable universal life insurance, allows the investment portfolio to mirror the client's broader strategy without being constrained by a predefined menu of subaccounts.

3. METHODOLOGY

This paper employs a multi-method analytical approach combining three principal streams of evidence.

3.1 Practitioner Knowledge Base

The primary evidence base is the practitioner knowledge developed at the Tolani Family Office over more than two decades of structuring PPLI and related insurance solutions for HNW families across Asia, the Middle East, Africa, and Europe. This includes direct observation of how standard PPLI structures perform across multiple jurisdictions, and how the Tolani Flow® innovations address observed structural limitations - including the compliance risks created by §7702(g).

3.2 Institutional Research Synthesis

The paper synthesises findings from institutional research published between 2023 and 2025, including analysis from Cerity Partners, Pathstone Family Office, Corient Private Wealth, Falcon Wealth Planning, Hubbis, HNWTAX.com, Raymond James, Chamberlain Hrdlicka, the Society of Actuaries, Cornell Law School's Legal Information Institute, the US House of Representatives official USC §7702 documentation, and the US Senate Finance Committee's 2024 PPLI report. Regulatory frameworks referenced include CRS (OECD), FATCA (United States), IRC §§72, 101, 7702, 7702(g), and 7702A, and relevant insurance secrecy and asset protection laws across Luxembourg, Liechtenstein, Bermuda, Cayman Islands, Singapore, and the UAE.

3.3 Comparative Analysis Framework

The comparative analysis of standard PPLI versus Tolani Flow® PPLI in Section 8 is constructed using a multi-dimensional evaluation matrix across eight operational dimensions, including the §7702(g) compliance risk dimension which has not, to the author's knowledge, been integrated into a comparative PPLI analysis in prior published work.

The paper does not present randomised controlled data in the statistical sense. Its contribution is an academically rigorous synthesis of practitioner knowledge and current research, presented in a format appropriate for submission to journals of wealth management, estate planning, insurance studies, and international tax law.



4. THE PURPOSE OF PRIVATE PLACEMENT LIFE INSURANCE

4.1 Definitional Framework

Private Placement Life Insurance is a form of variable universal life insurance issued privately - rather than through a public offering - exclusively to investors who qualify under applicable securities law as both accredited investors and qualified purchasers. As the US Senate Finance Committee defines it, PPLI policies require minimum premium commitments of \$1 to \$2 million or greater, and are restricted to individuals with net worth exceeding \$1 million (excluding primary residence) or, under the qualified purchaser standard, ownership of at least \$5 million in investments.

Unlike conventional life insurance, PPLI's architecture inverts the priorities of traditional insurance: rather than maximising the death benefit, PPLI minimises insurance costs in order to maximise the tax-advantaged accumulation of investment assets within the policy's cash value. As Cerity Partners (2025) describes: 'The goal is not to maximise death benefit - it is to minimise insurance costs so that more capital remains in the policy to grow tax-free.'

4.2 The Five Core Purposes of PPLI

Based on the institutional literature and practitioner experience at the Tolani Family Office, PPLI serves five distinct but interconnected purposes within a comprehensive wealth management strategy:

Purpose 1: Tax-Efficient Wealth Accumulation

PPLI converts otherwise taxable investment income and gains into tax-free or tax-deferred wealth accumulation. Under IRC §72(e)(5), premiums invested within a qualifying life insurance policy grow on a tax-free basis. This qualification is governed and maintained through compliance with IRC §7702 - specifically, either the Cash Value Accumulation Test or the Guideline Premium and Corridor Test. So long as the policy remains in compliance with §7702, capital gains, dividends, and income generated by the underlying investment portfolio do not trigger taxable events.



Purpose 2: Tax-Free Intergenerational Wealth Transfer

The death benefit of a properly structured PPLI policy is paid to beneficiaries income-tax free under IRC §101(a)(1). When the policy is held outside the taxable estate - typically through an Irrevocable Life Insurance Trust (ILIT) or equivalent offshore structure - the death benefit also escapes estate taxes. As Granite Harbor Advisors (2025) notes, this creates a 'synthetic step-up in cost basis': all invested dollars and accumulated growth are paid out as a tax-free death benefit, effectively eliminating the embedded capital gains tax liability that would otherwise accrue on the underlying assets.

Purpose 3: Global Asset Consolidation

For HNW families with assets distributed across multiple jurisdictions, PPLI provides a single structural envelope within which all assets can be consolidated under unified ownership (the insurance company), unified management (the policyholder's investment mandate), and unified transfer (beneficiary nomination), dramatically simplifying both the management and the succession of complex multi-jurisdictional estates.

Purpose 4: Regulatory Compliance with Confidentiality

PPLI achieves the combination that traditional offshore structures have increasingly failed to provide: full compliance with CRS, FATCA, AML, and KYC requirements, while preserving meaningful confidentiality. Because the insurance company is the legal owner of the assets, and because insurance policies have a simplified CRS reporting profile relative to investment accounts, families can maintain their financial privacy within a fully compliant framework.

Purpose 5: Liquidity and Access During Life

During the policyholder's lifetime, the accumulated cash value can be accessed through tax-efficient policy loans, with no requirement to repay during life. Cerity Partners (2025) documents that policyholders can typically access approximately 85% of total account value through withdrawals and loans without incurring income taxes - creating a 'family bank' function that provides liquidity for family needs, business opportunities, or lifestyle expenses.

"Legal structures in estate planning are not just dry documents. They are the vessels carrying our life's work to the shores of the future, safeguarding our intentions, values, and loved ones along the journey."

- Dr. Sanjay Tolani - Tolani Flow® PPLI White Paper

4.3 What PPLI Is Not - And the §7702(g) Enforcement Reality

It is important to distinguish PPLI from what it is sometimes incorrectly characterised as. PPLI is not a tax evasion instrument. The US Senate Finance Committee's 2024 review, while identifying concerns about structuring abuses among a subset of PPLI users, confirmed that appropriately structured PPLI operates within established law. The One Big Beautiful Bill Act of 2025 notably excluded PPLI from its provisions targeting tax shelter abuse - a significant legislative signal that correctly structured PPLI retains its favoured tax treatment.

However, this paper draws particular attention to what PPLI is not when incorrectly structured. IRC §7702(g) - titled 'Treatment of Certain Contracts Which Do Not Meet Definition of Life Insurance' - is the enforcement provision that governs what happens when a contract fails to meet the §7702 definitional requirements. The consequence is severe: the contract is not treated as life insurance for federal income tax purposes, the inside build-up loses its tax-deferred status and becomes currently taxable as ordinary income, and the entire tax efficiency argument for the PPLI structure collapses.



IRC §7702(g) - The Enforcement Provision: What It Means for PPLI Structuring

§7702(g) provides that if a contract does not meet the definition of life insurance under §7702(a), the income on that contract for any taxable year shall be treated as ordinary income received or accrued by the policyholder during that year. In practical terms:

- If the Cash Value Accumulation Test (CVAT) is violated - because cash value exceeds the net single premium required to fund future benefits - the policy fails §7702 and §7702(g) applies.
- If the Guideline Premium Test (GPT) is violated - because premiums paid exceed guideline limits or the policy falls outside the cash value corridor - the policy fails §7702 and §7702(g) applies.
- If the investor control doctrine is violated - because the policyholder retains direct control over specific investment decisions - the IRS may recharacterise the structure as a non-qualifying investment account, with §7702(g) consequences.

The §7702(g) risk is not theoretical. It is the reason that PPLI structuring requires specialist advisors - and it is the reason that the Tolani Flow® model's precise design parameters and dedicated advisory team represent a structural advantage, not merely a service advantage.

This analysis makes clear that the quality of PPLI structuring is not merely a matter of optimisation - it is a matter of legal compliance. A PPLI policy that falls afoul of §7702(g) does not simply underperform: it fails entirely, converting a tax-efficient structure into a currently taxable investment account. This enforcement reality strengthens, rather than weakens, the case for specialist PPLI structuring. It also provides the academic foundation for the Tolani Flow® model's emphasis on design precision and its dedicated team of lawyers, accountants, and insurance professionals.



5. CORE ADVANTAGES OF PPLI: A MULTIDIMENSIONAL ANALYSIS

5.1 Tax Advantage Matrix - Including §7702 and §7702(g) Dimensions

The tax advantages of PPLI are multi-layered and operate simultaneously across several dimensions of the tax code. The following matrix documents the principal tax benefits across each dimension, now incorporating the §7702 qualification framework and the §7702(g) compliance risk dimension:

TAX DIMENSION	MECHANISM	PPLI BENEFIT	RELEVANT AUTHORITY
Life Insurance Definition	Contract must pass CVAT or GPT under §7702 to qualify as life insurance	If §7702 compliant: all downstream tax benefits apply. If not: §7702(g) triggers full taxation	IRC §7702(a); §7702(b) CVAT; §7702(c)/(d) GPT/Corridor
§7702(g) Enforcement Risk	Failure to maintain §7702 compliance causes inside build-up to be taxable as ordinary income in the year accrued	Compliance is non-negotiable - specialist structuring is the only safeguard against §7702(g) triggering	IRC §7702(g); Cornell LII USC §7702
MEC Classification (§7702A)	Policy must pass the 7-pay test to avoid Modified Endowment Contract status	Non-MEC status preserves tax-free loan access; MEC status restricts it to annuity-like taxation	IRC §7702A; SOA 2021 analysis
Income Tax - Investment Growth	Tax deferral on investment earnings within policy under §7702 compliant structure	Earnings not taxable during policy term unless withdrawn in excess of premiums	IRC §72(e)(5)
Capital Gains Tax	No realisation event on portfolio rebalancing within policy	Gains on sale of assets inside policy not subject to annual capital gains tax	IRC §§1221, 7702



Estate / Inheritance Tax	Policy held outside estate via ILIT or offshore trust	Death benefit excluded from taxable estate; synthetic step-up in basis achieved	IRC §101(a)(1); estate tax code
Withholding Tax on Dividends	Effective use of Double Taxation Agreements (DTAs)	PPLI as legal owner may reclaim withholding tax through DTA provisions	Bilateral DTAs; HNWTAX.com (2024)
CRS Reporting Burden	Insurance policy has simplified CRS profile vs. investment account	Only year-end balance and withdrawals reported vs. full income/asset reporting	OECD CRS Standard 2014
Transfer / Gift Tax	Tax-deferred transfers of assets as 'premium in kind'	Existing assets transferred into policy without triggering capital gains or gift tax	Jurisdiction-specific; general PPLI practice

5.2 Investment Flexibility Advantage

Standard retail life insurance products constrain policyholder investments to a predefined menu of mutual fund subaccounts. PPLI, designed exclusively for sophisticated accredited investors, inverts this approach: the investment mandate is defined by the family's own investment objectives, and the range of permissible assets is substantially broader. The critical structural constraint is the investor control doctrine, which is directly linked to §7702(g): if the policyholder crosses the line from strategic mandate-setting into direct day-to-day investment control, the IRS may recharacterise the structure as a non-qualifying contract, triggering §7702(g)'s current taxation consequences. The Tolani Flow® Power of Attorney architecture, described in Section 8, is specifically designed to preserve practical control while satisfying this legal requirement.



5.3 Asset Protection Advantage

In most PPLI jurisdictions, the insurance company's legal ownership of the policy assets provides structural protection from creditors and legal claims against the policyholder. Luxembourg's 'Triangle of Security' framework provides the most formalised version of this protection in the European context: policy assets are ring-fenced from the insurer's own balance sheet, held with an approved custodian under regulatory supervision, and accorded statutory preference for policyholders over other creditors.

5.4 Probate Avoidance and Succession Efficiency

The transfer of wealth through a PPLI policy at the death of the insured person is immediate, private, and free of probate. By naming beneficiaries directly in the policy - or by placing the policy within a trust - the entire policy value passes outside of the estate without the delays, costs, and public disclosure associated with the probate process. For families with illiquid core assets, the PPLI death benefit provides the liquid counterpart: an immediate, tax-free cash injection at the moment it is most needed.

5.5 Privacy and Confidentiality Advantage

Under PPLI's legal ownership framework, the insurance company holds the policy assets. The policyholder's interest is documented in the policy contract - a private instrument not subject to public registration. Under the Tolani Flow® Zero Cash Value approach, the confidentiality dimension is further enhanced: the policy's simplified CRS classification as a potential non-reportable account reduces the automatic exchange of information to a minimum while maintaining full compliance.

5.6 Multigenerational Continuity Advantage

The Tolani Flow® Continuously Changing Insured Person mechanism overcomes standard PPLI's temporal constraint by allowing the insured person to be changed to a new family member before or at the point of death. This transforms PPLI from a lifecycle vehicle into a dynasty vehicle - and it does so within the §7702 framework, since the policy continues to satisfy the CVAT or GPT tests with a new insured person, preserving §7702 compliance and thereby avoiding any §7702(g) consequence.



6. CRS, FATCA, IRC §7702, AND THE REGULATORY COMPLIANCE DIMENSION OF PPLI

6.1 The Regulatory Transformation of Offshore Planning

The decade between 2009 and 2019 fundamentally altered the global regulatory landscape for HNW estate planning. The OECD's Common Reporting Standard, formally implemented from 2017, created a framework of automatic exchange of financial account information between more than 110 jurisdictions. FATCA, enacted in 2010 and fully operational from 2014, imposed parallel disclosure obligations specifically on assets linked to US persons or held in US-connected structures. The cumulative effect was to dismantle the confidentiality infrastructure on which most traditional offshore estate planning had historically depended.

As HNWTAX.com's 2024 analysis documents, offshore company structures that were once low-cost, high-privacy holding vehicles became subject to UBO registration requirements, mandatory disclosure of beneficial ownership to tax authorities, blacklisting risks for jurisdictions that failed to meet OECD transparency standards, and enhanced KYC obligations. PPLI's relationship with all of these frameworks is fundamentally different - by design and by law.

6.2 How PPLI Operates Within - Not Against - CRS

PPLI is not a structure designed to evade CRS compliance. It is a structure whose inherent architecture aligns with CRS requirements while delivering substantially reduced reporting burden and enhanced privacy relative to standard investment accounts.



REPORTING DIMENSION	STANDARD INVESTMENT ACCOUNT (CRS)	STANDARD PPLI (CRS)	TOLANI FLOW® ZERO CASH VALUE (CRS)
Year-End Balance / Value	Required	Required	Required
Interest / Dividends Credited	Required	Not required	Not required
Other Income Generated	Required	Not required	Not required
Asset Redemption Details	Required	Not required	Not required
Amounts Credited / Withdrawn	Required	Required	Required
Individual Asset Holdings	Often required by custodian	Not required	Not required
UBO Identity Disclosure	Full disclosure to tax authorities	Policy owner disclosed; underlying asset ownership not separately reported	Minimised under Zero Cash Value approach
CRS Classification	Financial Account - full reporting	Insurance Policy - simplified reporting	Potential non-reportable account under Zero Cash Value approach

6.3 The FATCA Dimension

For US persons or families with US-linked assets, a properly structured offshore PPLI held by a qualifying insurance company is not itself classified as a 'foreign financial account' for FBAR purposes. PPLI specialists working in this area coordinate with qualified tax attorneys to ensure that the structure achieves its intended tax and reporting objectives without creating unintended compliance obligations.



6.4 PPLI and the Investor Control Doctrine

The most significant US-specific compliance requirement for PPLI is the investor control doctrine, which holds that the tax benefits of life insurance are lost if the policyholder retains direct control over specific investment decisions within the policy. This doctrine is directly linked to §7702(g): a finding that the investor control doctrine has been violated would support a recharacterisation of the policy as a non-qualifying investment account, with the consequence that §7702(g) treats inside build-up as currently taxable. The Tolani Flow® Power of Attorney structure is specifically designed to address this risk - formal investment authority is delegated to the asset manager, while the policyholder retains strategic mandate control without crossing the legal boundary.

6.5 IRC §7702: The Foundational Compliance Architecture

IRC §7702, enacted in 1984 and most recently amended by the Consolidated Appropriations Act of 2021, is the statutory backbone of PPLI's entire tax treatment. Understanding it is not merely academic housekeeping - it is the compliance foundation on which every dollar of PPLI's tax advantage rests.

6.5.1 The Two Tests: CVAT and GPT

A contract must satisfy one of two tests to qualify as life insurance under §7702(a):

- **Cash Value Accumulation Test (CVAT) - IRC §7702(b):** The cash surrender value of the contract may not at any time exceed the net single premium that would be required to fund future benefits under the contract, calculated on the basis of prescribed interest rates and the 2017 Commissioners Standard Ordinary (CSO) mortality tables (as updated by the 2021 amendment). In practical terms: the death benefit must always be sufficiently large relative to the cash value to satisfy this ratio. For whole life and similar structures, CVAT is typically the preferred test as it provides the greatest funding flexibility.
- **Guideline Premium and Corridor Test (GPT) - IRC §7702(c) and (d):** The GPT imposes two requirements simultaneously: first, cumulative premiums paid cannot exceed the guideline single premium or guideline level premium (limits on how much premium can be contributed relative to the death benefit); and second, the death benefit must at all times be not less than an applicable percentage of the cash surrender value (the cash value corridor requirement under §7702(d)). For flexible premium structures like variable universal life - the architecture on which PPLI is built - GPT is most commonly used.



6.5.2 The 2021 Amendment: Lower Rates, Greater Funding Capacity

The 2021 amendment to §7702, enacted through the Consolidated Appropriations Act, reduced the minimum interest rates used in calculating both the CVAT and GPT from the original 1984 floor of 4% (CVAT) and 6% (GPT) to a dynamic rate structure benchmarked to current market rates - with a transitional floor of 2%. As the Society of Actuaries (2021) documents, this change had two practical effects for PPLI. First, guideline premium limits increased, allowing more premium to be paid into a policy while still qualifying as life insurance and remaining below MEC threshold. Second, the same amount of premium can now fund a policy with a lower death benefit (lower net amount at risk), allowing more efficient cash value accumulation within the §7702 framework. For PPLI policyholders, this means higher permissible funding levels - more capital in the tax-deferred investment wrapper - without structural adjustment.

6.5.3 The Modified Endowment Contract (MEC) - IRC §7702A

Closely related to §7702 is §7702A, which defines the Modified Endowment Contract (MEC) - a life insurance contract that meets §7702's definition of life insurance but is funded too rapidly (failing the 7-pay test: premiums paid in the first seven years exceed the amount needed to fully fund the policy in seven level payments). A MEC retains its §101(a)(1) income-tax-free death benefit, but loses the ability to make tax-free withdrawals and loans from cash value. Distributions from a MEC are taxed under the annuity rules - gain first, then basis - with an additional 10% penalty for pre-59½ distributions. PPLI structures are specifically designed to avoid MEC classification, because MEC status eliminates the liquidity advantage (the 'family bank' function) that makes PPLI operationally valuable during the policyholder's lifetime.

6.5.4 IRC §7702(g) - The Enforcement Provision and Its Implications for PPLI Design

IRC §7702(g) provides the enforcement mechanism for the entire §7702 framework. Under §7702(g), if a contract that is represented as life insurance does not actually meet the §7702(a) definition tests, the income on that contract for any taxable year shall be treated as ordinary income received or accrued by the owner of the contract during that year - regardless of whether any distribution has actually been made. The practical



consequence is devastating: what was intended to be a tax-deferred investment structure becomes a currently taxable one, with the policyholder owing income tax on all inside build-up each year, eliminating the entire economic rationale for the structure.

For PPLI specifically, §7702(g) creates three categories of design risk. First, overfunding risk: if premiums paid in a given period cause the cash value to exceed the CVAT limit or the guideline premium limit under GPT, the policy may fail §7702, triggering §7702(g)'s current taxation consequence. Second, corridor violation risk: if the relationship between cash value and death benefit violates §7702(d)'s corridor requirement - because the death benefit has declined or the cash value has grown faster than anticipated - the GPT test may fail. Third, investor control risk: as noted in Section 6.4, a finding that the policyholder has exercised direct investment control may support a recharacterisation of the policy as a non-qualifying investment account, with §7702(g) consequences.

These three risk categories collectively explain why PPLI is not - and cannot be - a self-administered structure. The 2021 amendment to §7702 increased funding capacity, but it did not reduce the compliance complexity. Every PPLI policy must be actively monitored against §7702 tests throughout its life. This is precisely why the Tolani Flow® model's dedicated team of lawyers, accountants, investment advisors, and insurance professionals is a structural feature, not merely a service offering: it is the practical architecture that keeps the policy on the right side of §7702(g) across every market cycle, funding event, and insured person change.



§7702(g) Risk Matrix - Three Triggers and Their Consequences

TRIGGER	MECHANISM	§7702(g) CONSEQUENCE	TOLANI FLOW® MITIGATION
Overfunding - CVAT Violation	Cash value exceeds net single premium required to fund future benefits	Policy loses life insurance status; all inside build-up taxable as ordinary income in year accrued	Active monitoring of CVAT limits; premium calibration by actuarial team
Overfunding - GPT Violation	Cumulative premiums exceed guideline single or level premium; or death benefit falls below §7702(d) corridor	Same as above - §7702(g) current taxation triggered	GPT/corridor compliance monitoring; automatic death benefit adjustment mechanisms
Investor Control Doctrine Violation	Policyholder exercises direct control over specific investment decisions within the policy	IRS recharacterises as non-qualifying investment account; §7702(g) current taxation applied	Power of Attorney to qualified asset manager; strategic mandate retained, day-to-day execution delegated
MEC Classification (§7702A)	Premiums in first 7 years exceed 7-pay test limit	Policy is a MEC - no tax-free loans/withdrawals; annuity rules apply; 10% penalty for early distributions	7-pay test monitoring; premium scheduling designed to remain non-MEC



7. CLIENT SUITABILITY: WHO SHOULD CONSIDER PPLI?

7.1 Eligibility Requirements

PPLI is a restricted financial instrument. It is not available to the general public and is unsuitable for the majority of investors. Access requires satisfaction of regulatory eligibility criteria, and practical suitability is additionally constrained by minimum premium requirements, the need for qualified professional advisors, and the long-term commitment required. Critically, the §7702(g) compliance architecture discussed in Section 6 means that the selection of advisors is itself a suitability dimension: a poorly advised PPLI policyholder is not merely suboptimally served - they are exposed to the risk of §7702(g) triggering, which would convert their intended tax efficiency into a tax liability.

ELIGIBILITY CRITERION	US STANDARD (ONSHORE)	OFFSHORE STANDARD	TOLANI FLOW® STANDARD
Minimum Premium	\$1M–\$2M initial	\$1M–\$2M typical; some carriers from \$500K	Minimum varies by structure and jurisdiction; usually \$25 Million and above, but contact Tolani Flow® team for updated data
Investor Classification	Accredited Investor + Qualified Purchaser required	Equivalent accredited investor standard in relevant jurisdiction	As per applicable jurisdiction requirements
Net Worth Threshold	\$1M+ net worth (excl. primary residence); \$5M+ investments for QP	Jurisdiction-specific; typically \$1M+ investable assets	Jurisdiction-specific
Professional Requirements	Must engage qualified insurance and tax advisors with §7702 expertise	Must engage qualified insurance and tax advisors	Dedicated team of lawyers, accountants, and insurance professionals
Long-Term Commitment	Minimum 7–10 year horizon for optimal tax efficiency	Minimum 7–10 year horizon	Designed as perpetual multigenerational structure

7.2 Suitability Profile 1: Family Offices and Multi-Generational HNW Families

Family offices represent the ideal primary adopter of PPLI. Their defining characteristics - complex multi-asset portfolios, multi-jurisdictional footprints, multi-generational time horizons, and the need for governance structures that outlast individual family members - align precisely with PPLI's structural capabilities.

- **Multi-jurisdictional asset consolidation:** Families with assets in multiple countries face compounding complexity across multiple tax, legal, and reporting frameworks. PPLI's single-structure envelope consolidates these assets under unified ownership, management, and reporting.
- **Dynasty planning:** The Tolani Flow® Continuously Changing Insured Person mechanism allows PPLI to serve as a permanent family structure with no defined end date - and it does so while maintaining §7702 compliance at each insured person change.
- **Alternative asset holdings:** Family offices typically hold significant alternative assets - private equity, hedge funds, commercial real estate, private businesses - that cannot be accommodated within standard retail life insurance but are fully compatible with PPLI's bespoke investment mandate, subject to the diversification requirements of the investor control doctrine.
- **Privacy requirements:** PPLI's reduced CRS reporting profile and the Tolani Flow® Zero Cash Value approach provide the most robust available confidentiality framework within a fully compliant structure.

7.3 Suitability Profile 2: Entrepreneurs and Business Owners

Entrepreneurs and business owners represent the second primary suitability profile. Specific planning needs addressed by PPLI include: the use of PPLI to fund key person insurance and buy-sell agreements; the transfer of existing business assets or equity stakes into PPLI as 'premium in kind'; the use of the death benefit to equalise inheritance among heirs with different roles in the business; and the cash value function as a family bank providing liquidity for personal needs, reinvestment, or emergency funds without requiring the liquidation of business assets.



7.4 Suitability Profile 3: Cross-Border Asset Holders and Expatriates

Families and individuals with assets or residency across multiple jurisdictions face a specific set of planning challenges that PPLI is uniquely positioned to address. Specific suitability factors for cross-border clients include: simplification of CRS/FATCA compliance through consolidated reporting; inheritance tax mitigation for families moving to high-IHT jurisdictions; portability - PPLI policies can follow the family across jurisdictions without triggering transfer taxes; and protection against double taxation through effective use of Double Taxation Agreements.

7.5 Suitability Profile 4: Families Seeking an Alternative or Complement to Trusts

For families who are unwilling or unable to use trust structures - whether due to loss of control concerns, governance complexity, mandatory UBO disclosure requirements, or cultural factors - PPLI offers an alternative that delivers most of the practical benefits of a trust within a different legal framework, while preserving the policyholder's operational control through the Power of Attorney mechanism.

7.6 For Whom PPLI Is NOT Appropriate

PPLI is not appropriate for: investors below the minimum wealth threshold (portfolios below approximately \$1 million in investable assets); investors with short time horizons (the tax benefits require minimum 7–10 years to outperform combined costs); investors requiring maximum short-term liquidity; and - critically - investors unwilling or unable to engage §7702-knowledgeable specialists. The §7702(g) compliance risk documented in Section 6 makes the last point a hard requirement rather than a recommendation.



8. STANDARD PPLI VS. TOLANI FLOW® PPLI: A COMPARATIVE ANALYSIS

8.1 The Standard PPLI Model: Strengths and Structural Limitations

Standard PPLI delivers the core benefits documented in Sections 4 through 6. However, it has three structural limitations that constrain its effectiveness as a permanent multigenerational vehicle: (1) temporal constraint - termination at the death of the insured person; (2) standard CRS reportable account status; and (3) capital gains tax on asset transfers between policy holders. The §7702(g) risk is present in all standard PPLI structures and is addressed only by the quality of the advisory team rather than by any structural design innovation.

8.2 The Tolani Flow® Innovations: Three Structural Solutions Plus §7702(g) Architecture

The Tolani Flow® PPLI model introduces three proprietary structural innovations that directly address the three limitations above, and additionally incorporates a dedicated §7702(g) compliance monitoring architecture.

Tolani Flow® Feature #1: The Continuously Changing Insured Person

Allows the insured person to be changed at any time, transforming PPLI from a lifecycle to a dynasty instrument. Each insured person change is effected within the §7702 framework, ensuring that the policy continues to satisfy CVAT or GPT tests with the new insured - thereby maintaining §7702 compliance and avoiding any §7702(g) consequence at the generational transition.

Tolani Flow® Feature #2: The Convertible Zero Cash Value Approach

Sets the cash surrender value to zero, achieving two simultaneous benefits: first, it reduces the CRS reporting burden by potentially removing the policy from reportable account classification; second, a policy with zero cash surrender value has inherently no risk of violating the CVAT cash value limit under §7702(b), since a zero cash value can never exceed the net single premium required to fund future benefits - providing a structural §7702 compliance advantage in addition to its CRS privacy benefit.

Tolani Flow® Feature #3: The Tolani Flow® Asset Exchange Method



Allows two parties, both holding Tolani Flow® PPLI policies, to exchange assets internally within the insurance structure - eliminating capital gains tax and transaction costs on the transfer. This method operates within the §7702 framework by ensuring that the asset exchange does not trigger an investment control event, maintaining the investor control doctrine compliance of both policies.

Tolani Flow® §7702(g) Compliance Architecture

Beyond the three proprietary features, Tolani Flow® provides a dedicated compliance monitoring infrastructure: actuarial monitoring of CVAT and GPT compliance throughout the policy's life; premium scheduling designed to maintain non-MEC status under §7702A; Power of Attorney architecture that satisfies the investor control doctrine; and a team of lawyers, accountants, investment advisors, and insurance professionals who maintain active oversight of the policy's §7702 compliance status.

8.3 Comprehensive Comparison Matrix

DIMENSION	STANDARD LIFE INSURANCE	STANDARD PPLI	TOLANI FLOW® PPLI
Investment Options	Limited - predefined subaccounts only	Broad - hedge funds, PE, real estate, bonds, equities	Maximum - includes private company shares, family businesses, non-standard assets
Investment Management	Insurer-defined options	Customisable via asset manager delegation	Fully customisable; Power of Attorney preserves practical control within §7702 investor control rules
Transfer of Existing Assets	Not possible - cash premiums only	Generally not possible	Yes - 'premium in kind' transfer of existing assets into policy
Designated Custodian	Not applicable	Option to choose custodian	Option to choose custodian; custodian relationship continuity preserved
Liquidity	Policy loans / partial withdrawals	Policy loans / partial withdrawals (non-MEC only)	Policy loans, partial withdrawals, and asset-level credit facilities



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Private Placement Life Insurance: Purpose, Advantages & Suitability

Policy Proceeds	Paid in cash at death	Paid in cash at death	Policyholder choice of cash or investment assets
Tax Efficiency	Tax-efficient death benefit only	Tax-efficient in all scenarios; full investment tax deferral	Tax-efficient in all scenarios; Asset Exchange Method eliminates CGT on transfers
§7702 Compliance Monitoring	N/A - not a §7702 structure	Dependent on advisor quality; no structural safeguard	Dedicated actuarial and legal §7702 compliance monitoring built into service structure
§7702(g) Risk Mitigation	N/A	Risk present; depends entirely on advisor vigilance	Structural and advisory safeguards; POA architecture mitigates investor control risk
CRS Reporting Burden	Standard insurance reporting	Simplified vs. investment account	Potential non-reportable under Zero Cash Value approach
Confidentiality	Standard policy confidentiality	Reduced disclosure vs. direct ownership	Maximum reduction in reportable account profile; Zero Cash Value dual benefit
Multigenerational Design	Terminates at insured person's death	Terminates at insured person's death	No termination - §7702-compliant insured person changes extend structure indefinitely
Probate Avoidance	Yes, via beneficiary nomination	Yes, via beneficiary nomination or trust	Yes, via beneficiary nomination or trust; no jurisdiction-by-jurisdiction probate
Asset Protection	Standard insurance protection	Legal ownership by insurer provides creditor protection	Full legal ownership protection plus structural asset exchange shielding
Multi-Jurisdiction Support	Typically single jurisdiction	Multiple jurisdictions via offshore carriers	16 offices globally; 53 countries served; jurisdiction selection advisory included



8.4 The Verdict

The comparative analysis demonstrates that Tolani Flow® PPLI is a systematically superior implementation of PPLI principles. Three structural innovations overcome the primary limitations of the standard model. The dedicated §7702(g) compliance architecture addresses the enforcement risk that is present in all PPLI structures but structural in none except Tolani Flow®. The Zero Cash Value approach's dual benefit - CRS privacy and inherent §7702 CVAT compliance - is a particularly elegant structural feature that converts a privacy mechanism into a compliance advantage simultaneously.

9. ILLUSTRATIVE CASE STUDIES

The following case studies are illustrative constructs. All names, nationalities, and specific financial details are anonymised and fictionalised. They are designed to demonstrate the practical application of PPLI principles across different client profiles. They do not represent specific client engagements.

Case Study A: Multigenerational Asset Consolidation - The Khalid Family

Background: A Gulf-based patriarch in his mid-70s holds a portfolio with current market value of \$200 million, comprising commercial real estate across three jurisdictions, private equity stakes in four operating companies, and a liquid portfolio of equities and bonds. The cost basis is approximately \$80 million, representing \$120 million in unrealised gains. The family has two adult children and four grandchildren across two countries.

SCENARIO	PORTFOLIO VALUE	CAPITAL GAINS TAX	ESTATE / INHERITANCE TAX	§7702 COMPLIANCE	NET WEALTH TO HEIRS
Without PPLI	\$200M	\$18M (on realisation)	\$40M (estimated at 20%)	N/A	Approx. \$142M
With Tolani Flow® PPLI (Feature #1)	\$200M	\$0 (deferred; avoided on exchange)	\$0 (policy outside estate)	Active monitoring by TF® team; §7702(g) risk mitigated	\$200M

The estimated benefit versus an unstructured estate: \$58 million in saved taxes, duties, and probate costs - plus a material reduction in CRS reporting obligations, the preservation of the family's confidentiality requirements, and the elimination of §7702(g) risk through Tolani Flow®'s compliance monitoring architecture.

Case Study B: Cross-Border Expat with UK Inheritance Tax Exposure - The Mehta Family

A successful entrepreneur domiciled in the United Kingdom holds combined investable assets of \$45 million across the UK, Singapore, and the UAE. UK domicile status creates a 40% IHT exposure on UK-sited assets (approximately \$28 million), with an estimated IHT liability of \$6.4



million. A Tolani Flow® PPLI structure is established, with UK-sited assets transferred as premium in kind, removing them from the UK taxable estate. The combined effect: elimination of the \$6.4 million IHT liability, simplified CRS reporting from three separate jurisdictional account disclosures to a single insurance policy report, and full portability when the family later relocates to the UAE.

Case Study C: Business Owner with Succession Challenge - The Chen Family

A manufacturing enterprise owner wishes to pass a \$80 million business to the active child while providing an equivalent inheritance to the passive child. A Tolani Flow® PPLI structure is established with a significant death benefit component alongside the investment accumulation mandate. The passive child receives the PPLI death benefit - funded by a combination of premium payments and accumulated investment growth - equal in value to the business. The business remains intact under unified management. Both children receive economically equivalent inheritances. Family harmony is preserved, and the §7702(g) compliance monitoring ensures the death benefit qualification is maintained at all times.

Case Study D: Zero Cash Value Confidentiality and §7702 CVAT Compliance - The Patterson Family

This case is drawn from the Tolani Flow® PPLI White Paper (Tolani, 2025). A family with a \$200 million policy under the standard approach accumulates a cash surrender value of \$50 million, creating a reportable CRS account. Under the Tolani Flow® Zero Cash Value approach, the cash surrender value is set to zero. The dual consequence: first, no reportable CRS account, providing enhanced privacy; second, zero cash value means the CVAT test (§7702(b)) is satisfied structurally - a zero cash value can never exceed the net single premium required to fund future benefits. What functions as a privacy feature simultaneously functions as a §7702 compliance architecture, demonstrating the integrated design elegance of the Tolani Flow® framework.



10. CONCLUSION AND POLICY RECOMMENDATIONS

10.1 Summary of Findings

This paper has presented a comprehensive academic analysis of Private Placement Life Insurance as an estate planning instrument, incorporating for the first time a rigorous analysis of IRC §7702's role as the foundational legal architecture and IRC §7702(g) as the enforcement provision that makes specialist structuring a legal imperative rather than merely a best practice.

PPLI is the optimal estate planning structure for HNW families with complex, multi-jurisdictional wealth for five reasons: it simultaneously addresses the five most critical estate planning challenges within a single, compliant framework; it operates within the CRS and FATCA regulatory architecture; it delivers investment flexibility unavailable in conventional insurance products; it provides probate-free, immediate, tax-free wealth transfer through beneficiary nomination; and - when correctly structured within the §7702 framework - it can be designed as a permanent dynasty vehicle with no defined termination date and minimal §7702(g) risk.

10.2 The Case for Tolani Flow® PPLI

The Tolani Flow® model represents a materially superior implementation of PPLI principles. Its three proprietary innovations address the structural limitations of standard PPLI. Its dedicated §7702(g) compliance architecture addresses the enforcement risk that every PPLI structure faces but that only specialist advisory infrastructure can mitigate. The Zero Cash Value approach's dual CRS-privacy and §7702 CVAT-compliance benefit is, this paper argues, the most structurally elegant single innovation in the PPLI field currently documented in practitioner or academic literature.



10.3 Recommendations

- 1. For family offices and HNW families:** Conduct a formal PPLI suitability assessment with §7702-knowledgeable advisors. Evaluate the specific operational benefits of the Tolani Flow® model, including its §7702(g) compliance architecture, relative to standard PPLI.
- 2. For wealth managers and financial advisors:** Develop proficiency in IRC §7702 and §7702(g) as part of PPLI advisory competency. The quality of §7702 compliance advice is the single most important determinant of whether a PPLI policy delivers or destroys its intended tax efficiency.
- 3. For academic researchers:** The §7702(g) enforcement dimension of PPLI has been largely absent from academic literature. Empirical research on the frequency of §7702(g) triggers, the effectiveness of different compliance architectures, and the long-term performance of PPLI structures under varying interest rate regimes represents a high-value gap.
- 4. For policymakers:** Clear regulatory guidance on the investor control doctrine, the CRS classification of PPLI products, and the interaction between §7702(g) and offshore PPLI structures would significantly reduce compliance uncertainty. The 2021 rate amendment demonstrated Congress's willingness to update §7702's technical parameters - further guidance on the §7702(g) enforcement standards in the PPLI context would serve the legitimate wealth planning community.

"The best gift for your family is income streams that flow forever. Passing on wealth without a plan is like a mountain without trails - confusing and perilous. Proper estate planning paves a clear path for the next generation."

- Dr. Sanjay Tolani - Tolani Flow® PPLI White Paper



10.4 Final Observations

IRC §7702 was enacted in 1984 with a specific legislative intent: to preserve the integrity of life insurance as an instrument that provides genuine insurance protection while allowing tax-advantaged accumulation. PPLI, when correctly structured, is the fulfilment of that legislative intent at the highest level of sophistication available in the insurance market. Its compliance with §7702 is not incidental - it is the foundational architecture on which every dollar of its tax advantage rests.

§7702(g) is the guardian of that architecture. It ensures that the tax advantages of life insurance flow only to structures that genuinely meet the definitional requirements Congress established. For families who work with specialist advisors within the §7702 framework - and particularly through structures like Tolani Flow® that build §7702 compliance monitoring into their operational design - §7702(g) is not a risk. It is a confirmation that the structure is working exactly as intended.



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Dr. Sanjay Tolani

Ph.D. (Finance) | CFP (Canada) | FLMI | Founder, Tolani Flow®

Founder & Principal, Tolani Family Office | CEO, Goodwill World

Author of 13 Financial Planning Books | Mentor to 200,000+ Financial Professionals Worldwide

sanjay@sanjaytolani.com | www.tolaniflow.com