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| RESEARCH ARTICLE

Helping Legal Tax Planning with Insurance and Trust: A Predictive Analysis Based on the Introduction of Inheritance Tax in China

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| ABSTRACT
With the rapid development of China's economy and the accumulation of social wealth, the introduction of an inheritance tax has become a significant issue for regulating wealth distribution and achieving social equity. This paper reviews the history of modern inheritance tax in China, examines international experiences with inheritance tax collection, and analyzes the feasibility of implementing an inheritance tax in China based on the current economic landscape and wealth distribution. It also identifies key elements that should be considered in the implementation of an inheritance tax in China, providing a reference for future system design. Furthermore, this paper discusses the legitimate use of insurance and trusts as tax-saving tools in the context of an inheritance tax. It highlights how insurance can facilitate tax-free inheritance by designating beneficiaries, while trusts offer a tax optimization strategy for wealth inheritance through independent property management. The aim is to address the collection of inheritance tax with reasonable and legal tax-saving strategies.

| KEYWORDS
Inheritance tax, insurance, trust, tax saving, wealth inheritance.

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1. Introduction
The collection of taxes and fees by state institutions aims to generate funds to address public needs, serving as a mandatory fiscal revenue method grounded in state authority. Through tax policy, the government can redistribute a portion of private wealth to the national level. The tax system is primarily divided into two categories: direct taxes and indirect taxes.

As a form of direct taxation, inheritance tax can provide the government with additional financial resources for public services and the construction of social security systems. The functions of inheritance tax include encouraging innovation and self-reliance; its existence may motivate heirs to create wealth through their own efforts rather than relying solely on inherited assets. In alignment with the goal of common prosperity, adjusting inheritance tax can improve income distribution and help narrow the gap between the rich and the poor. To alleviate the pressure on social security systems, particularly in light of the aging population, inheritance tax can serve as a tool to address the challenges of elder care. Therefore, the collection of inheritance tax is essential.

Based on the high likelihood of implementing inheritance tax, reasonable tax planning has emerged as a significant topic. The distinctive characteristics of insurance and trusts position them as legal tax savings. This paper will analyze their utility from both theoretical and practical perspectives.

2. The Feasibility and System Design of Levying Inheritance Tax in Mainland China

Throughout the tax structures of various countries around the world, the proportion of inheritance tax is typically not substantial and is not considered a primary source of revenue. However, as a direct tax, inheritance tax plays a crucial role in promoting equitable income distribution and has become an effective tool for many nations to address income inequality. The history of inheritance tax can be traced back to the Netherlands in the 17th century, and it has evolved over the centuries across the globe. In contemporary times, the rapid growth of China's economy and the pursuit of common prosperity have created a solid foundation for the introduction and implementation of inheritance tax.

2.1 Experience of Foreign Inheritance Tax Collection

2.1.1 Total Inheritance Tax System

The international methods of collecting inheritance tax are diverse, with most countries favoring the use of a progressive tax rate. This tax structure not only offers adaptability but also provides some flexibility regarding the tax exemption amount. The inheritance tax collection system can be broadly categorized into three types: total inheritance tax, divided inheritance tax, and comprehensive inheritance tax. Total inheritance tax is levied on the entire estate left by the deceased, adhering to the principle of first, distribution later'.

The distinctive feature of this inheritance tax collection model is that it overlooks the close relationship between the beneficiaries and the deceased, instead focusing solely on the overall value of the estate. In international practice, several countries, including the United States, the United Kingdom, and South Korea, have adopted this tax system. For instance, the United States employs a federal inheritance tax based on this model, which implements a progressive tax rate. Additionally, some states impose their own inheritance taxes or supplementary inheritance taxes.

In the UK, the inheritance tax collection system is gradually moving towards simplification, which includes the consideration of gifts made within the seven years prior to the deceased's death.

Although the overall inheritance tax model has demonstrated advantages in simplifying the tax system and reducing management costs, its effective implementation requires relevant technical support and institutional guarantees, including property assessment, records of deceased individuals, and foreign exchange management.

2.1.2 Split-Estate Taxation System

Japan's inheritance tax system employs a segmented tax mechanism, meaning that the tax is levied only after the heir accepts the inheritance. This system takes effect upon the death of the decedent and imposes a tax on the net value of the inheritance received by the heir or the grantee of the estate. The tax exemption threshold for Japan's inheritance tax is established as a basic exemption amount, calculated as 30 million yen plus an additional 6 million yen for each legal heir. This indicates that if the total value of the estate does not exceed 36 million yen, there is no obligation to pay inheritance tax. Japan's inheritance tax system considers the economic capacity of the heirs, reflecting a sense of fairness.

Denmark's inheritance tax system employs a distinct approach, taxing the inheritance of each heir individually. According to Danish regulations, the executor serves as the taxpayer and is responsible for declaring and paying the inheritance tax. The tax is determined based on the assessed value of the inheritance, with the net inheritance subject to taxation after deducting any applicable tax exemptions and legal debts. Additionally, Denmark's inheritance tax system considers the familial relationship between the heir and the decedent, as well as the heir's economic status.

The inheritance tax imposed by France on residents utilizes a sub-heritage tax system, implementing a progressive tax rate based on the degree of blood relationship between the heir and the decedent, as well as the economic burden on the heir. France's inheritance tax system permits a certain amount of tax exemption to be deducted when calculating taxes, particularly offering a lower tax rate for inheritances received by immediate family members. For non-residents, the scope of taxation in France is restricted to immovable property located within the country.

The inheritance tax system is often considered a fairer method of taxation, as it accounts for the familial relationship between the heir and the decedent, as well as the heir's ability to pay. In contrast, the total inheritance tax system is simpler to manage and collect, as it taxes the total value of the inheritance only once. However, the sub-heritage tax system incurs higher costs and complexity in management and collection due to the necessity of calculating each heir's share separately.

2.1.3 Mixed Heritage Tax System

Italy has established a comprehensive inheritance tax system that integrates the total inheritance tax with the gift tax. In this system, taxpayers are categorized into two groups: one includes the executor and the estate manager, while the other consists of the heir to the estate or the recipient of the gift. The tax rates applicable to these two categories differ. The taxable base encompasses the total value of the property left by the deceased, as well as all assets donated by the individual.

In terms of tax rate setting, Italy's inheritance tax system distinguishes between two different applicable situations: one involves taxing the overall value of inherited or gifted property, while the other applies to heirs or grantees who are not directly related to the deceased. For lineal relatives or spouses closely related to the deceased, the tax rate is relatively low. This design allows Italy to adjust the tax rate based on the degree of blood relationship, thereby achieving a certain level of vertical equity in taxation.

2.1.4 Progressive Rate

The design of a progressive tax rate causes the tax burden to increase alongside the growth of the taxable base. This mechanism is commonly employed in personal income taxes and other property taxes. This tax rate structure promotes vertical fiscal equity, ensuring that as an individual's or family's income or assets rise, their relative tax burden also increases. A progressive tax rate can more accurately reflect the economic circumstances of taxpayers and utilize the tax system to adjust wealth distribution, thereby fostering social equity.

In the United States, the inheritance and gift tax employs a unified incremental tax rate structure, with rates ranging from a minimum of 18% to a maximum of 50%. This tax applies to inheritances that exceed a specified value threshold. Additionally, the United States exempts estates valued at less than $600,000 from inheritance tax. For non-U.S. residents, a flat inheritance tax rate of 44% is applied to their assets located within the United States.

The inheritance tax system in Japan calculates the tax amount based on the value of the inheritance received by the heirs, reflecting the unique characteristics of this system. The tax rates are categorized into 13 different brackets, ranging from an initial rate of 10% to a maximum rate of 70%.

Germany has implemented a hierarchical inheritance tax system with rates ranging from 7% to 50%. This structure clearly demonstrates the use of steep incremental tax rates alongside a unified tax rate of 45% for both inheritance and gift taxes.

2.1.5 Proportional Tax Rate

A proportional tax rate refers to a tax system in which all taxpayers pay taxes at the same rate, regardless of the size of their tax base. This tax rate structure is straightforward, resulting in lower costs for collection and management.

2.2 The Feasibility of China's Inheritance Tax Collection

2.2.1 Economic Growth and the Rise of High-Income Groups

Since the implementation of the reform and opening-up policy, China's economy has experienced sustained and rapid growth, leading to a significant increase in the income levels of its citizens. This transformation has not only established a solid financial foundation for the introduction of an inheritance tax but has also provided ample tax revenue for effective taxation implementation. According to data released by the National Bureau of Statistics, from 2014 to 2022, China's GDP consistently surpassed several key trillion-yuan milestones, reaching a new stage of 120 trillion yuan in 2022.

2.2.2 The Accumulation of Personal Wealth and the Expansion of High-Income Groups

Over the past decade, the size of China's high-income groups and their income levels have experienced significant growth. According to the National Bureau of Statistics, in 2023, the per capita disposable income of high-income groups reached 95,000 yuan, an increase from 90,100 yuan in 2022. The economic situation of these high-income groups has significantly surpassed the social average.

2.2.3 Reference and Application of International Experience

As a modern form of taxation, the inheritance tax has been in existence for over four centuries, having first been introduced in the Netherlands. Currently, more than 100 countries worldwide have adopted an inheritance tax system. This includes developed nations such as the United States, the United Kingdom, France, Germany, Japan, and Canada, as well as developing countries and those with transitioning economies, such as South Korea, the Philippines, Angola, Brazil, Chile, Hungary, and Russia. Historically, China has also implemented an inheritance tax. The rich international and domestic experiences in this area provide valuable references for our country in designing and implementing an inheritance tax system. These insights can help us incorporate the strengths of various approaches while avoiding potential shortcomings.

2.3 China's Inheritance Tax Collection System Planning

First of all, let us discuss the inheritance tax system and how its tax rate is determined. China is still in the early stages of exploring the introduction of an inheritance tax. From the perspective of equity, an incremental tax rate is generally regarded as more favorable than a flat tax rate, and a segmented inheritance tax system offers more advantages than a comprehensive inheritance tax system. However, if a segmented inheritance tax system is implemented alongside an increasing tax rate, the portion of the inheritance received by each heir may fall below the tax exemption threshold, potentially resulting in a significant decrease in inheritance tax revenue.

Secondly, we will discuss the tax category of inheritance tax. According to the in 1946, individuals who leave property within the territory of the Republic of China, as well as citizens of the Republic of China residing abroad with inherited assets, are required to pay inheritance tax in accordance with the law (Zhang & Sun, 2009). This provision reflects both the taxation of domestic inheritances (territoriality principle) and the taxation of overseas assets held by national citizens (personal principle). The method of taxation that combines both territorial and personal principles is noteworthy due to its broad scope and effectiveness in regulating overseas property.

Finally, regarding the inheritance tax exemption and tax cuts, Article 11 of the "Inheritance Tax Law" of 1946 clearly states that when determining the total value of the estate for calculating the estate tax, the following items should be deducted from the total: tax payable, outstanding debts, funeral expenses, estate management costs, and the expenses associated with executing the will. Additionally, key components of China's social security system—including pension insurance, medical insurance, unemployment insurance, industrial injury insurance, maternity insurance, and the housing provident fund—should also be included in the tax exemption category for inheritance tax.

In the initial implementation stage of the inheritance tax, it is advisable to establish the tax exemption threshold at no less than 4 million yuan. This exemption not only effectively addresses the imbalance in wealth distribution but also aligns with other policy objectives, making it a pragmatic choice (Huang et al., 2024).

This chapter explores the extensive experience of tax systems and tax rates related to foreign inheritance tax collection. It also discusses the necessity of implementing an inheritance tax in China, suggesting that the introduction of such a tax will soon become a reality. Additionally, it offers practical recommendations for developing an effective inheritance tax collection system in China.

3. Research on Domestic and Foreign Insurance Tools and Tax Planning

Insurance serves as a risk management tool, transferring potential risks that individuals or businesses may encounter to insurance companies through financial means. Within an insurance contract, the policyholder pays a premium to the insurance company. In return, the insurance company promises to provide a specified amount of economic compensation or indemnity to the policyholder or beneficiary, as stipulated in the contract, upon the occurrence of the risk outlined therein. Insurance types are diverse and can be categorized based on the scope of protection into personal insurance, property insurance, liability insurance, credit guarantee insurance, and more.

3.1 History of Insurance Industry

The origins of insurance traced back to the Kingdom of Babylon in 2500 BC, where a special tax was levied by the king to fund relief for fires affecting monks, judges, village chiefs, and others. Similarly, ancient Egyptian stonemasons established a funeral mutual aid organization to pool funds for funeral expenses. In 1792 BC, the 'Code of Hammurabi' formalized the principle of shared compensation for losses, marking the world's earliest insurance law. The genesis of commercial insurance was marine insurance, with ancient Romans charging merchants a reserve fund of 24-36% to cover ship and cargo losses from 260 to 146 BC.

True modern marine insurance emerged in Italy by the mid-14th century. In 1347, the captain of the Italian merchant ship 'Saint Collera' signed an agreement with merchant George Luckevelen, signaling the birth of modern commercial insurance. The first insurance policy was issued in Florence, Italy, in 1384, heralding the modern insurance system. The 17th-century European Renaissance saw Britain evolve into a global empire, facilitating the expansion of marine insurance worldwide. The UK subsequently enacted the Marine Insurance Act to solidify its dominance in marine insurance.

According to the Allianz Global Insurance Development Report 2024, the global insurance industry is projected to grow by 7.5% in 2023, marking the fastest growth since 2006. Global premium income reached 6.2 trillion euros, with life insurance premiums at 2620 billion euros, property insurance at 2153 billion euros, and health insurance at 1427 billion euros. The growth in 2023 is more balanced across life, property, and health insurance compared to the 2022 growth, primarily driven by property insurance.

3.2 Tax Planning Using Insurance

Insurance can play a role in tax planning, such as purchasing a personal pension or health insurance to benefit from preferential personal income tax policies and using life insurance, insurance trusts, and other common wealth preservation tools for inheritance tax planning. This paper focuses on the role of life insurance in inheritance tax planning.

3.2.1 Tax Planning for Life Insurance

Life insurance, a subset of personal insurance, insures an individual's life, with survival or death as the condition for payment.

The claim that life insurance avoids inheritance tax primarily refers to the beneficiary receiving tax-free insurance proceeds after the insured's death, assuming a beneficiary has been designated. Whether life insurance can avoid inheritance tax hinges on whether it is considered part of the estate.

According to Article 42 of the 'Insurance Law of the People's Republic of China,' insurance proceeds are considered part of the estate in certain scenarios: when there is no designated beneficiary, or the designation is unclear; when the beneficiary predeceases the insured with no other beneficiaries; or when the beneficiary legally loses or renounces the right to the proceeds, with no other beneficiaries. Otherwise, the insurance money is not treated as part of the estate.

There are two main strategies for using life insurance to plan for inheritance tax: asset transfer before death and compensation acquisition after death. Pre-death tax avoidance often involves annuity insurance for future generations, transferring assets to descendants annually, thus reducing the estate's total value post-mortem. Post-death tax avoidance involves purchasing life insurance to ensure that the compensation paid after death is not included in the estate, thereby reducing the overall inheritance tax burden.

However, it should be noted that the prerequisite for using insurance to planning taxes is that the funds used to purchase insurance must be legally obtained. If the funds are proven to be illegally obtained, they will be recovered by law, and the insurance contract will be invalidated.

3.2.2 Insurance Tax Planning-Taking the United States as an Example

While China currently does not impose an inheritance tax except in Taiwan, many other countries, including the Netherlands, Britain, France, Germany, Japan, and the United States, levy substantial inheritance taxes. This section examines whether life insurance is included in the scope of inheritance tax in these countries, using the United States as a case study.

American insurance has a rich history, dating back to the first policy in 1762. With over 200 years of development, the U.S. insurance industry plays a significant role globally, influencing laws, regulations, market supervision, and company operations.

In 2022, the United States, along with China, Japan, the United Kingdom, and France, had life insurance premium income exceeding 100 billion euros, accounting for over 5% of the global total. The U.S. led as the world's largest life insurance market, with a premium income of 777.2 billion euros, representing 29.65% of the global total.

The tax model of the world's heritage tax is mainly divided into three types: total heritage tax, sub-heritage tax and mixed heritage tax. The U.S. employs a sub-heritage tax system characterized by "first division, then tax," applying different tax rates to various heirs, ensuring fairness (Yu et al., 2022).

The U.S. Revenue Service defines an estate as the sum of a decedent's assets and interests at death, including but not limited to cash, securities, real estate, insurance, trusts, annuities, and business interests. Deductions are allowed for basic funeral expenses, tax exemptions, and certain inheritances by spouses (Luo, 2023).

Purchasing life insurance in the United States can be divided into two scenarios. Scenario 1: When foreigners purchase life insurance, regardless of the beneficiary's identity or nationality, if the policyholder is non-American, the benefits from life insurance claims are exempt from inheritance tax. Scenario 2: When U.S. residents purchase life insurance, if it is a standard life insurance policy and the policyholder is a natural person, the death benefit is included in the estate for inheritance tax purposes upon the policyholder's death. The death benefit is, in fact, exempt from income tax, but it is still counted towards the estate's value for inheritance tax purposes. If the total estate's value, including the death benefit, is within the tax exemption limit, no inheritance tax is due; however, if it exceeds this limit, inheritance tax must be paid.

To avoid including the death benefit in the total inheritance tax and thus avoid inheritance tax, two strategies can be employed: transferring the policy ownership to an adult child or establishing an Irrevocable Life Insurance Trust (ILIT). The trust holds the insurance, and upon the insured's death, the death benefit is paid to the trust, from which the beneficiary can withdraw funds. Trust-holding insurance also offers protection against divorce and litigation and provides asset isolation. The subsequent text will continue to discuss the role of trusts in tax planning.

This chapter explores the role of insurance in tax planning, focusing on the feasibility of using life insurance for inheritance tax planning. It then delves into the U.S. regulations on inheritance tax and life insurance, offering detailed planning strategies.

4. Research on Trust System and Tax Saving Strategy at Home and Abroad

The trust system refers to the system in which the property owner gives the property to the trustee for possession, use, and disposal based on the trust but agrees to give the profit wealth to a specific person or use it to achieve a specific purpose. Its characteristics include the separation of ownership and beneficial rights of trust property, the independence of trust property, the limited liability of the trustee, and so on. After hundreds of years of development, it has formed a relatively perfect legal system in Europe, the United States, and other countries. With its unique property transfer and property management, the trust has become an important tool for high-net-worth people to carry out wealth inheritance and tax planning.

4.1 The Development History of Trust System at Home and Abroad

Trust system has a long history of origin and development overseas, and it has experienced a unique evolution process in different countries and regions. Taking the United Kingdom and the United States as examples, both the United Kingdom and the United States are creative in the safe inheritance and management of their assets. They have adopted and established a trust system, placing the property under the name of the trustee, which not only avoids external risks but also realizes the continuation of the family's will. With the passage of time, these practices have been gradually legalized in both countries, have become an indispensable cornerstone in the field of property management in both countries and have laid a solid foundation for the rapid development of the trust industry.

In contrast, China's trust system started late, but the pace of development is steady. After the 1911 Revolution, with the introduction of the trust system and the trust industry, China's trust industry gradually started. Initially, the trust institutions were mainly concentrated in the Shanghai area, and all experienced multiple stages of rise, prosperity, and decline. After the founding of the People's Republic of China, the trust industry once stagnated. It was not until the establishment of the China International Trust and Investment Corporation in 1979 that it marked the official recovery of the modern trust industry in China. Subsequently, trust companies have been set up, and the trust industry has gradually become an important part of the financial service system. However, due to the lack of a unified trust law, the development of the trust industry has undergone many rectifications in modern times. The promulgation of the "Trust Law" in 2001 provided a legal guarantee for the development of the trust industry and promoted the standardization and rapid development of the trust industry. In recent years, trust companies have actively explored transformation, focusing on serving the real economy and meeting the diversified wealth management needs of residents, and the trust industry has continued to grow.

4.2 The Development Status of the Domestic Trust Market

According to the latest data released, in the first half of 2024, the trust industry is facing greater operating pressure, and the overall performance of the industry is under pressure. According to the unaudited financial data disclosed by many trust companies, 53 trust companies have achieved a total operating income of 32.206 billion yuan, down 26.5 % from the same period last year, achieved a net profit of 16.862 billion yuan, down 28.93 % from the same period last year. It shows that the trust industry has encountered great challenges in the process of transformation, and the year-on-year decline in revenue and net profit is relatively large. The phenomenon of performance differentiation is significant.

Despite facing challenges, the trust industry is actively encouraging business transformation and innovation. The shift from traditional financing to asset management has been gradual, with trust companies offering expert asset management services and formulating pertinent management guidelines to meet the business requirements of the capital side. The business of asset securitization has been appraised, and a number of trust companies have taken part in the establishment of ABS product issuance.

In addition, trust companies have also actively explored in wealth management, green trust, supply chain finance, standard asset management business, and digital transformation. For example, some trust companies lay out the professional wealth management of high-net-worth clients, family offices, and family and family service trusts, relying on the advantages of the parent company, strengthening the research of the energy industry, and realizing the green trust in new energy and other fields to become bigger and stronger (Zhang & Huang, 2023).

4.3 Tax-Saving Strategies for Different Types of Trusts

As a unique legal arrangement, trust has the characteristics of property isolation, flexible management, and orderly inheritance, which provides a natural advantage for avoiding inheritance tax. After the establishment of the trust, the trust property is separated from the own property of the principal, trustee, and beneficiary and becomes an independent trust property that is not directly affected by the inheritance tax. Therefore, by establishing a trust, high-net-worth people can transfer their property to the trust name to achieve effective isolation and inheritance of property, thereby avoiding the potential inheritance tax burden. This paper focuses on the specific strategies of using trusts to avoid inheritance tax from three aspects: family trusts, trust clause, and other financial instruments.

4.3.1 Establishment of Family Trusts

A family trust is a trust business in which a trust company is entrusted by a single individual or family to provide customized transaction management and financial services for the protection, inheritance, and management of family wealth as the main trust purpose. Under the framework of a family trust, the principal can transfer his property to the trust, which is managed and distributed by the trustee according to the agreement in the trust document. Because trust property does not belong to the category of heritage, it is not subject to inheritance tax. By setting up family trusts, high-net-worth people can ensure the orderly inheritance of their property within the family and avoid the impact of inheritance tax on family wealth.

Case one

The Trump family has a significant strategy in terms of inheritance tax avoidance, especially through the establishment of family trusts (such as GRAT trusts) to achieve this goal. In 1995, the Trump family began to use the GRAT trust. They divided the property of the real estate empire into two parts and put them into two GRAT trusts set up in the name of Fred and his spouse. In addition, Mr Trump has reduced the tax on gifts and annuities by lowering valuations and diluting equity when putting equity in trusts. In this way, the Trump family successfully reduced the taxable value of the $900 million real estate empire to $41 million, thereby avoiding nearly $500 million in inheritance tax.

4.3.2 Flexible Use of Trust Terms

When setting up a trust, the principal can flexibly design the trust terms according to their own needs to achieve specific tax planning goals. For example, inheritance tax can be avoided by setting terms such as beneficiary conditions, distribution methods, and time. For example, a trust can be set up to gradually distribute trust property to beneficiaries within a certain period of time after the death of the principal, to delay the payment of inheritance tax, or through the establishment of charitable trusts, part of the trust property will be used for public welfare undertakings, to enjoy tax incentives while achieving social feedback.

Case two

Steve Jobs, as an important shareholder of Apple and Disney, made a careful trust arrangement for his huge property during his lifetime. After Jobs's death, at least three real estates and a large number of stocks (including 5.55 million Apple stocks and 138 million Disney stocks) were not directly distributed through inheritance but were placed under the name of a trust.

When Jobs's widow sold his shares in Disney and Apple, although he still had to pay capital gains tax, the trust arrangement had helped the family avoid higher inheritance tax. Specifically, the trust fund management of Jobs' estate effectively avoids the probate tax. Although a certain proportion of tax still needs to be paid, it is far lower than the inheritance tax required to directly inherit the estate.

4.3.3 Combined with Other Financial Instruments

Trust is not an isolated financial instrument. It can be combined with other financial instruments, such as insurance and funds, to form a more complex and effective tax planning scheme. For example, insurance compensation can be included in the scope of trust property, and double tax avoidance can be achieved through insurance trusts or combine the trust with equity, real estate, and other assets and hold and manage these assets through the trust to avoid inheritance tax and other related taxes and fees.

Case three

Ms. Zhang is an elderly person living alone, and she has no relatives to inherit her property. In order to protect her estate and avoid inheritance tax, she chose to create a life insurance trust. Under this arrangement, Ms. Zhang used her funds to purchase life insurance and designated the trust as the beneficiary. Once Ms. Zhang dies, the life insurance company will pay a certain amount of insurance to the trust. The trust will use the insurance money for charity, education fund, or other beneficiaries in accordance with the instructions set out by Ms. Zhang in the trust document. By creating a life insurance trust, Ms. Zhang can transfer her property to a trust-managed fund and avoid the high inheritance tax levied on individuals who have no relatives to inherit. At the same time, she can also support the charity she is interested in through the beneficiaries of life insurance policies in the form of charitable donations.

With the vigorous development of China's economy, the demand for wealth inheritance and tax planning among China's high-net-worth people is growing. As an important tool for wealth inheritance and tax planning at home and abroad, trust is gradually receiving attention when it is imperative to levy inheritance tax in China. This paper introduces the development history of the trust system at home and abroad, the development status of the domestic trust market, and three different types of trust tax-saving strategies. It discusses the development process of the trust system after the Xinhai Revolution and how the domestic market is currently facing greater operational and transformation pressures. The response measures and introduces in detail the three different types of trusts that can be used by high-net-worth people in the face of high inheritance taxes to reasonably and legally avoid inheritance taxes.

5. Conclusion

Through life insurance, the establishment of a family trust, and flexible use of trust terms, inheritance tax can not only provide additional financial resources for the country but also promote the fair distribution of social wealth and achieve a more harmonious social order. When China considers the introduction of inheritance tax, it is necessary to comprehensively consider factors such as economic growth, accumulation of personal wealth, international experience, and social equity and formulate key factors such as tax rates, taxation categories, and tax exemptions that are suitable for national conditions. Insurance and trust as a legal tool for tax savings, its rational use will provide more financial freedom and security for individuals and families under the premise of complying with the law.

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