CHARITABLE GIFT OF LIFE INSURANCE

IMPORTANCE OF CHARITABLE PLANNING

Charitable giving is an important aspect of the planning process that allows individuals (especially those with a high net worth) to continue to give to their favorite causes while potentially reducing their estate tax liability or income tax liability during life. There are a few ways that life insurance can be used to accomplish these goals.

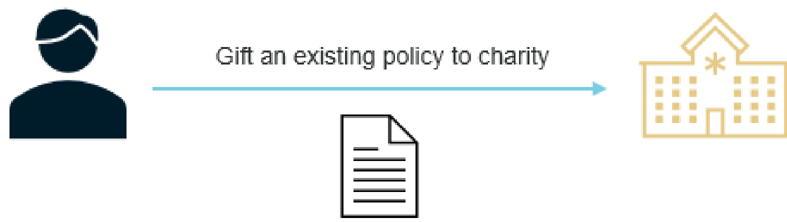
BENEFITS OF CHARITABLE PLANNING WITH LIFE INSURANCE

- Leave a legacy to a charity you care about[1]
- Potentially reduce your taxable estate[2]
- Potentially benefit from income tax deductions[3]

USING LIFE INSURANCE TO PLAN FOR CHARITABLE GIVING

GIFTING AN EXISTING LIFE INSURANCE POLICY

Individuals may gift a policy on their own life to a charity. In this situation, there may be a level of flexibility as to when the charity can receive the payout whether they choose to access the cash value or wait for the death benefit proceeds. When a policy is transferred and all rights to the policy are relinquished, the insured may be able to receive a tax deduction. Generally speaking, the deduction is the lesser of cost basis in the policy or its fair market value.



DESIGNATING A CHARITY AS A BENEFICIARY

A policyowner can retain ownership of a life insurance policy and designate a charity as a beneficiary for some or all of the death benefit. While the charity will not receive the gift until the insured passes, the owner still maintains control of the cash value and the ability to adjust the beneficiary should their personal needs or wishes change. This allows flexibility for the donor to maintain control of the policy. In this scenario, the donor would not receive any immediate income tax deductions. However, the death benefit will result in an estate tax charitable deduction.
*Note that if the policyowner wants to name a charity the beneficiary on a new policy, the issue of 'insurable interest' may play a factor in the underwriting and approval of the policy.

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PREMIUM PAYMENTS TO A CHARITY-OWNED INSURANCE POLICY

A donor may request that a charity purchase a life insurance policy, which will be paid for via annual gifts of premium. Individuals can make contributions of premium or pay premiums directly for a charity-owned life insurance policy on their own life. A benefit here is that the premium payments generally allow for an immediate tax deduction. With this option, the carrier may require the face amount to reflect the insurable loss the charity would realize should the charitable contributions stop.

KEY CONSIDERATIONS

Life insurance can be an efficient way to gift funds to a charity allowing for possible tax savings and deductions. Not all charities will be willing to administer the ownership of life insurance, so be sure to check with the organization you're interested in prior to engaging any planning. Further, state laws may prohibit a charity from purchasing life insurance on a donor as a violation of insurable interest and/or disallow the state deduction for limiting the use of funds donated. As with any financial plans, be sure to work with your financial professional and tax advisor to determine if utilizing life insurance for charitable planning is right for you.

1 – Specifically donations to eligible §501(c)(3) organizations
2 – §2503 deals with the inclusion of gifted assets in the taxable estate. A gift of life insurance has the benefit of removing that asset from the estate but could be included if the donor passes away within three years. However, even if death occurs within three years, the death benefit will be eligible for an estate tax deduction to remove this asset.
3 – Gifts of premium made in cash are generally deductible up to 60% of Adjusted Gross Income (AGI). However, premium paid to the carrier directly are generally classified as "for the use" of the charity and limited to 30% of AGI

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