



## Charitable Giving

# Charitable Gift of a Life Insurance Policy

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# Charitable Giving

## CHARITABLE GIFT OF A LIFE INSURANCE POLICY

### The Rationale...

- ◆ Life insurance can be used to make a substantial, cost-effective gift to charity.
- ◆ A life insurance gift allows heirs to inherit other assets.
- ◆ Life insurance proceeds are paid to the charity without delay.
- ◆ A life insurance gift is private, whereas a gift in a will is a matter of public record.
- ◆ An outright gift of a policy to charity creates a current income tax charitable deduction equal to the lesser of the policy's fair market value or the donor's basis in the policy.
- ◆ Death proceeds paid to charity from an estate are deductible for federal estate tax purposes.
- ◆ Remaining premiums paid by a donor are deductible when a charity owns the policy, or when the donor gifts premium amounts directly to the charity.

### The Choices...

There are three basic options when making a charitable gift of a life insurance policy:

- ◆ The policy owner gives an existing policy to charity, assigning all incidents of ownership to the charity by naming the charity both owner and beneficiary of the policy.
- ◆ The donor applies for a new policy on his or her own life with the charity as the policy owner and beneficiary (subject to state insurable interest laws).
- ◆ The donor names the charity as a beneficiary of a policy the donor continues to own.

### The Tax Impact...

- ◆ A gift of an **existing life insurance policy** to charity qualifies for an income tax charitable deduction, provided the donor itemizes deductions and assigns all rights to the charity by naming the charity owner and beneficiary.



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- ◆ The donor's deduction is the lesser of the fair market value of the policy or the donor's tax basis in the policy.
- ◆ The deduction is reduced if the policy is subject to a loan.
- ◆ The donor receives an income tax charitable deduction for premium payments the donor makes after a policy is transferred. If premiums are paid directly to the insurance company, the deduction is limited to 30% of the donor's adjusted gross income. But if the donor makes annual cash gifts to pay the premiums, the donor may deduct an amount up to 50% of adjusted gross income that year. Stricter limits apply in the case of gifts to a private foundation.
- ◆ When a donor wants to retain ownership and control of an **existing policy**, the donor can simply add the charity as beneficiary. This will not provide an income tax charitable deduction, but it will create an estate tax charitable deduction for the proceeds that go to the charity at the insured donor's death.
- ◆ If the gift is a **new life insurance policy**, the donor should transfer funds to the charity to pay premiums. The charity then becomes applicant, owner and beneficiary of the new policy on the donor's life. The initial premium transferred to the charity is generally deductible, and the policy's death proceeds won't be included in the donor's gross estate at death because the donor never held any incidents of ownership.

## Other Considerations...

- ◆ The laws in most states make it clear that a charitable organization has an insurable interest in a donor, but the donor's attorney should always check the state law.

## The Bottom Line...

Because death benefits paid to a charity at the donor's death typically far exceed the premiums paid for the policy, life insurance can create a gift that is much larger than might otherwise have been possible. A gift of life insurance permits a donor to make a generous charitable contribution while retaining other assets.



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## CHARITABLE GIFT OF A LIFE INSURANCE POLICY

### Summary

#### WHY MAKE A LIFE INSURANCE GIFT?

An insurance policy has the potential to create a substantial, cost-effective gift to charity through the policy's death benefit. The result is a gift that is much larger than the donor may otherwise have been able to make.

Also, unlike a charitable bequest made in a will, a life insurance gift does not become a matter of public record and is made without the delays of probate.

Premiums paid by the donor after a lifetime gift of a policy to charity are deductible for income tax purposes. When the charity is named as the policy beneficiary, the death proceeds paid to the charity are deductible for federal estate tax purposes.

#### HOW CAN A DONOR MAKE A GIFT OF LIFE INSURANCE?

A donor has three basic choices in making a charitable gift of life insurance.

1. The donor gives an existing policy to charity. In this case, the donor assigns all incidents of ownership to the charity, making the charity the policy's owner and beneficiary.
2. The donor applies for a new life insurance policy and designates the charity as owner and beneficiary. Although a majority of states recognize a charitable organization as having an insurable interest in a donor, an individual considering this gift should have an attorney check the applicable state law pertaining to insurable interest.
3. The donor names the charity as the beneficiary of a policy that the donor continues to own.



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## CHARITABLE GIFT OF A LIFE INSURANCE POLICY

### WHAT ARE THE TAX CONSIDERATIONS?

A charitable gift of an existing life insurance policy can generate an income tax charitable deduction provided the donor assigns all rights. When considering a charitable gift of an existing policy, the donor has two choices:

- Make an irrevocable gift of the policy to charity. The donor receives an income tax charitable deduction equal to the value of the policy or the donor's cost basis in the policy, whichever is less.
- Name the charity as beneficiary while retaining ownership and control of the policy. No income tax deduction is available for this gift. At the time of the donor's death, the policy proceeds will be included in the donor's estate and the donor will receive an estate tax charitable deduction for the money that goes to charity.

If the gift is a new policy, the donor should first transfer funds to the charity. The charity then becomes applicant, owner and beneficiary of the new policy issued on the life of the donor. The donor receives an income tax deduction for the initial premium amount paid by the donor. Also, the death proceeds of the policy won't be included in the donor's estate at death because the donor never held any incidents of ownership.

### WHAT'S THE CONCLUSION?

Because death benefits paid to a charity at the donor's death typically far exceed the premiums paid for the policy, life insurance can create a gift that is much larger than might otherwise have been possible. A gift of life insurance permits a donor to make a generous charitable contribution while retaining other assets.



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