John Hancock INSURANCE

Charitable Planning with Life Insurance

Using Life Insurance in Charitable Planning

Planning Concerns

You are a high-net-worth individual with an established pattern of support and involvement with specific charities. As such, you are looking for a way to provide the greatest benefit to your favorite charities.

Solution

Life insurance can help you make a gift to charity or replace a charitable gift made for the benefit of your family.

How It Works

You can transfer an asset directly to a charitable organization during your lifetime or at death, and at the same time, reduce your taxable estate. You can also make an indirect gift by using a charitable trust or charitable life estate that provides benefits to both you and the charity. Moreover, assets you transfer to charity can be replaced at a discount for your family through the use of life insurance. What's more, the savings from a charitable income tax deduction can even be used to fund a much needed life insurance policy.

Ways to Use Life Insurance in Charitable Giving

Your specific planning objectives will dictate how life insurance may work for you, but here are some ways that life insurance can be used in charitable giving:

- **Donating an Existing Life Insurance Policy to Charity.** A gift of a life insurance policy on your life (or the joint lives of you and your spouse) can benefit a charity significantly, though the benefit is delayed until death. If there are ongoing premiums due on the policy, the charity must pay them to keep the policy from lapsing. And when a gift of an existing policy and all its rights are transferred to the charity, a charitable income tax deduction may be available.[1]
- **Naming a Charity As Policy Beneficiary.** A charity can be named as beneficiary of a new or existing life insurance policy. No current charitable income tax deduction is allowed since you will still have full ownership rights, primarily the right to change the beneficiary designation. However, a charitable estate tax deduction is available for the full value of the proceeds transferring to charity at death. The appropriate amount of death benefit in this scenario must reflect the risk of loss to the charity (insurable loss) upon the your passing, measured by prior gifts, services or other support provided to the charity.
- **Charity-Owned Life Insurance.**[2] You can also make cash gifts equivalent to the premium amount on a new life insurance policy on your life, owned by a charity.[3] Like any cash gift, an income tax deduction is available for the amount of the cash given directly to charity. Similar to naming a charity as a beneficiary (above), there must be a measurable insurable loss to the charity when naming the charity the owner and beneficiary of a policy.

Benefits

When making charitable gifts, you and the charity may benefit in a number of different ways. Talk to your financial professional to learn more.

- The charity receives a gift it can count on to further its cause.
- In most cases, the charity benefits from the full value of the asset transferred since transfer taxes may not apply.
- You may benefit from the savings associated with a charitable income tax deduction.
- You may be able to avoid a lump-sum capital gains tax on a highly appreciated asset.
- You may achieve significant gift tax savings and reduce estate taxes.
- You may be able to retain an income stream from the transferred asset for life or for a period of years.

Considerations

- Consult your own tax advisor to determine the deductibility of a specific asset for charitable planning purposes.
- The amount of selected death benefit must reflect an insurable loss to the charity based on an established pattern of support and involvement with the charity, and is subject to full underwriting.

This piece is for marketing purposes. The amount of life insurance coverage that you may qualify for would be subject to medical and financial underwriting requirements and may be more (or less) than applied for.

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1. Please see the Comprehensive Charitable Planning Client Guide for details on deduction calculations and limitations.
2. The Tax Increase and Prevention Reconciliation Act of 2005 (TIPRA) created new code section IRC 4965, which imposes an excise tax on tax-exempt organizations that engage in prohibited tax shelter transactions for tax years ending after May 17, 2006. "Prohibited tax shelter transactions" include any reportable transaction, any listed transaction or any transaction that is "substantially similar" to one of those. The excise tax is imposed whether or not the transaction is determined to be abusive. In April 2010, the U.S. Treasury Department released a "Report to Congress on Charity-Owned Life Insurance (ChOLI)," which analyzes the federal tax law implications of certain ChOLI arrangements and the tax issues that they present. In particular, the report addresses transactions where a life insurance contract is purchased by a charity with money provided by an unrelated lender or investor. The report warns that these types of transactions may be prohibited or restricted in the future.
3. Section 101(j) of the Internal Revenue Code imposes income tax on the death benefit of life insurance contracts owned by the employer of the insured unless certain exceptions apply. All such exceptions include satisfaction of notice and consent requirements set forth in the section.

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