



Charitable Giving through Life Insurance

Charitable giving programs can be funded in a number of ways, but none offer the unique advantages and the flexibility of life insurance. Typically, the amount of a policy's death benefit is many times the total of premiums paid, resulting in "leveraged dollars." Instead of your clients making annual donations to help fund their charities' missions, they could leave amounts large enough to have buildings or endowments in their name.

Perhaps more importantly, charitable gifts of life insurance typically avoid or reduce some combination of income, estate, gift, and capital gains taxes.

The following are simple techniques that illustrate the benefits of using life insurance in charitable giving.

1. GIFTING INSURANCE POLICY DIVIDENDS TO A CHARITY.

If your client has an older dividend-paying whole life insurance contract, this strategy is easy to implement. All the client has to do is contact the insurance company and request the policy dividends to be paid in cash, and then donate those dividends to a charity. These cash gifts can be deductible up to 50 percent of their adjusted gross income.

2. CHANGE THE CURRENT BENEFICIARY TO A CHARITY.

This technique is also easily established. Your client names a favorite charity as the beneficiary for either the entirety or a portion of the policy proceeds. This allows the client to retain control of the policy as the ownership has not changed and the beneficiary designation is revocable at any time. Your client will not be able to deduct the premiums paid on this policy, but they will receive a full charitable estate tax deduction for the proceeds.

3. GIVE AN EXISTING POLICY TO A CHARITY.

Do your clients have policies they no longer need? Perhaps a policy was purchased when the children were small, or before the mortgage was paid in full. Your clients may want to consider gifting their older policies to charity. Their estate is effectively reduced by the face amount of the proceeds. In addition, they will generally receive an income tax deduction equal to the lesser of the cost basis or the fair market value of the contract. Caution needs to be exercised when there is a

policy loan on the contract and your client should consult their tax advisor and the charity prior to transferring ownership.

4. BUY A NEW POLICY FOR THE CHARITY. This can provide a very large gift in proportion to the amount of the premiums gifted to the charity. The premiums should provide current tax deductions as long as there are "no strings" attached to the gifts and the charity possesses all ownership rights in the contract.

5. BUY LIFE INSURANCE TO REPLACE THE VALUE OF AN ASSET DONATED TO CHARITY.

Your clients may be in position to donate highly appreciated assets to charity, but the concern about their children's and grandchildren's future well-being may be holding them back. To overcome this, your clients can replace the value of assets with life insurance so their heirs can receive inheritance income tax free. If the policy is purchased inside a wealth replacement trust, the death benefit can also be estate tax free.

6. BUY LIFE INSURANCE TO BACK A PLEDGE OR FUTURE DONATION TO CHARITY.

Pledging a large amount to a hospital can mean a lot to your client. The best way to fund a future donation or pledge is by purchasing life insurance and naming that charity as the beneficiary. Life insurance provides a low-cost way to provide a large benefit to charity. As the pledge is paid off, your client can decide whether to leave the charity as beneficiary of the entire life policy, or redirect a portion of the proceeds to their heirs or another charity.

The preceding summary is intended to be a general discussion of the topic presented, and is based on our current understanding of applicable tax laws, regulations and rulings. In actual practice, the transaction discussed may be more complex and will require the attention and expertise of professional advisors. In no way should this summary be construed to constitute tax or legal advice. For Advisor Use Only.