

# LIFE INSURANCE PRESENTS OPTIONS FOR CHARITABLE GIVING

If you are like many charitable donors who are left wishing they could do more to help a favorite charity, life insurance can be a worthwhile gifting option. Charitable gifts of life insurance allow you to maximize the dollars donated to a charity or not-for-profit, and they typically avoid or reduce some combination of income, estate, gift, and capital gains taxes. With life insurance, you may be able to have a more significant impact on a not-for-profit, and perhaps establish a trust large enough to have an endowment or building in your name.

The following techniques illustrate the benefits of life insurance in charitable giving. In all of these scenarios, it is important that you speak with your tax advisor, in addition to your life insurance specialist, to determine the tax implications associated with these strategies.

## **Gift Insurance Policy Dividends to a Charity**

If you have an older, dividend-paying whole life insurance contract, one option is to simply request that the policy dividends be paid in cash, and then donate those dividends to a charity. These cash gifts can be deductible up to 50 percent of the donor's adjusted gross income.

## **Change the Current Beneficiary to a Charity**

In this scenario, you can name a favorite charity as a beneficiary for either a portion of or the entire policy proceeds. This allows you to retain control of the policy because the ownership has not changed, and the beneficiary designation is revocable at any time. You will not be able to deduct

the premiums paid on this policy, but you will receive a full charitable estate tax deduction for the proceeds.

## **Give an Existing Policy to a Charity**

Many individuals have policies that they no longer need. Perhaps a policy was purchased when your children were young, or before the mortgage was paid in full. You may want to consider gifting the older policies to charity. Your estate is effectively reduced by the face amount of the proceeds. In addition, generally, you will receive an income tax deduction equal to the lesser of the cost basis or the fair market value of the contract. However, caution needs to be exercised when there is a policy loan on the contract and it is important to consult with your tax advisor and the charity prior to transferring ownership.

## **Buy a New Policy for the Charity**

Purchasing a new policy 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.

## **Buy Life Insurance to Replace the Value of an Asset Donated to Charity**

In some cases, potential donors are in the position to donate highly appreciated assets to a charity, but the future well-being of their children and grandchildren may be holding them back. To overcome

this, you can replace the value of assets with life insurance so your heirs can receive inheritance income tax free. If the policy is purchased inside a wealth replacement trust, the death benefit can also be tax free.

## **Buy Life Insurance to Back a Pledge or Future Donation to Charity**

One of the best ways 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 a charity. As the pledge is paid off, you can decide whether to leave the charity as the beneficiary of the entire life policy, or redirect a portion of the proceeds to heirs or an additional charity.

Charitable giving through life insurance can be an affordable way to increase your donation to an alma mater, local hospital, or other charity. Talk through the options that will work best for you, and the not-for-profit, with a life insurance specialist and tax advisor.



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