

Charitable Giving Through Life Insurance

Essentials 2018

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." Rather than making annual donations to help fund their charity's missions, it's possible to leave amounts large enough to make a serious impact in the planning goals of their chosen charity.

Benefits of Giving to a Favorite Charity

- Avoidance of probate delays or red tape.
- Charity will receive future income from planned gifts, which may help them achieve long-term goals.
- Publicity from large gifts can help attract other donors.

Simple Techniques Using Life Insurance in Charity Giving

1. **Gifting Insurance Policy Dividends To A Charity**

With an older dividend-paying whole life insurance contract, this strategy is easy to implement. All that is necessary is to 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 is also easily accomplished. A favorite charity is named as the beneficiary for either all or a portion of the policy proceeds. The ownership of the policy does not change and the beneficiary designation is revocable at any time. There is no income tax deduction for premiums paid on this policy, but it qualifies for a full charitable estate tax deduction for the proceeds.

3. **Give an Existing Policy to a Charity**

This is for policies that are no longer needed. Perhaps a policy was purchased when the children were small, or before the mortgage was paid in full. Gifting these policies to charity effectively reduces the taxable estate. In addition, an income tax deduction is generally available for 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 the tax advisor and the charity should be consulted prior to transferring ownership.

4. **Buy a New Policy for the Charity and Make Gifts so it can Pay the Premiums**

This can provide a very large gift in proportion to the amount gifted to the charity. The gifts to pay the premiums should provide current tax deductions as long as there are "no strings" attached to the gifts.

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

Donating highly appreciated assets to charity can provide income and estate tax benefits, but can reduce the amounts left to heirs. To overcome this, the value of the donated assets can be replaced with life insurance so heirs can receive the inheritance income tax free. If the policy is purchased inside a wealth replacement trust, the death benefit can also be estate tax free.



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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 both the charity and the donor. An efficient way to ensure payment of 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, the charity can be left as beneficiary of the entire life policy, or a portion of the proceeds redirected to heirs or another charity.

Considerations

Charitable gifts of life insurance typically avoid or reduce some combination of income, estate, gift, and capital gains taxes.

Essentially

Life insurance is an excellent vehicle to achieve charitable giving goals. It provides the flexibility to donate as little or as much as you desire in a very cost effective manner.

