

Taking Charitable Giving to Another Level

Did you know that you can gift a new or existing life insurance policy to your favorite charity? When properly designed, a **charitable life insurance** program may improve your overall financial situation and offer tax benefits, all while supporting a charitable cause.

Generally, there are three methods used to gift a life insurance policy to a qualifying charity: a **charitable bequest**, a **charitable gift**, and a **charity-owned policy**. Regardless of the strategy, policy ownership and **beneficiary** arrangements play an important role in the planning process. A consultation with a qualified legal professional can clarify your goals and expectations, provide information on the limitations on charitable deductions, and help you achieve the desired results, while avoiding unnecessary complications.

A Comparison of Gifting Strategies

A **charitable bequest** is ideal if you would like a charity to benefit from the proceeds of an existing life insurance policy but do not wish to surrender control during your lifetime. By changing the designated beneficiary to a desired charity, you retain the benefits of owning a policy because **incidents of ownership** still exist in the policy. There is no immediate income tax benefit for this type of charitable gift. Upon your death, however, even though the proceeds will be included in your gross estate, a charitable deduction for the full value of the policy proceeds is allowed.

If you wish to receive an *immediate* income tax deduction for a gift of an existing policy, consider a **charitable gift**. By changing the beneficiary *and* ownership designations to a favorite charity, you can obtain an immediate gift tax charitable deduction for the policy. This deduction is based on the lesser of your cost basis or the value of the policy. You may also qualify for an income tax deduction.

If you make regular cash contributions to a charity, you may be able to leverage smaller gifts into a larger endowment. With a **charity-owned policy**, a life insurance policy—where permitted by state law—is purchased by and made payable to a charity of your choice. Policy premiums are technically paid by the charity. To offset this cost, you make annual cash gifts to the charity, and as a result, you may be eligible to deduct a portion of your charitable donations from your income taxes. A gift tax charitable deduction for the full value of the annual cash gift is allowed. This strategy creates a “win-win” situation for you and the recipient charity.

Know the Insurable Interest Laws

Regardless of your gifting strategy, be aware of the insurable interest laws in the state where the policy was originally purchased. Although the donor makes contributions to the charity in cash, which is then used by the charity to pay premiums on the life insurance policy, the life insurance policy insures the

donor's life. Insurable interest is typically considered to be an interest based on family, marriage, or financial obligation; consequently, the charity's insurable interest in the policy may be called into question, thereby jeopardizing the tax benefit and placing the policy proceeds in the donor's estate. However, a case for insurable interest can be anticipated and incorporated into the trust documents.

The Best of Both Worlds

If you are charitably inclined and are seeking tax advantages, the gifting of life insurance can offer unique planning opportunities. The potential for charitable income tax deductions or an estate tax reduction, combined with supporting a worthy cause, may make this type of gift appropriate for you. Usually, such charitable life insurance gifting strategies can be accomplished with few legal challenges and little publicity. Careful planning, with the guidance of a qualified legal professional, can help ensure that your charitable life insurance program is structured according to your wishes.

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