

Charitable Gifts of Life Insurance

Southwestern Michigan Estate Planning Council
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General Benefits

- **Life Insurance Transferred to Charity**
 - Provides Leverage
 - Is Simple
 - Charity is Not an Estate Beneficiary
 - Minimizes Administrative Expenses
 - Avoids Fluctuation in Asset Values for Non-Variable Life Insurance
 - Charity Not Involved In:
 - Will Contests
 - Elections Against the Will
 - Creditor Issues
 - Probate

General Benefits

■ Direct Transfer

	DURING LIFETIME	AT DEATH
Gift Policy Ownership to Charity	Yes	No
Charity as Primary Beneficiary	Yes	Yes
Charity as Contingent Beneficiary	No	Yes
Gift Annual Premium to Charity	Yes	No
Retain Control Over Policy	No	Yes
Income Tax Deduction	Yes – See Example	No
Assures Gift Will Be Finalized (Medicaid Eligibility)	Yes	No

Income Tax Savings Example

■ Donation of Life Insurance Policy

- John Donates \$5,000 per year to his favorite Charity
- John Wishes to Perpetuate Annual Gift after his Death
- John Does Not have an Estate Tax Problem
- John Owns a Life Insurance Policy
 - Face Amount \$100,000
 - Cash Surrender Value \$35,000
 - Basis \$30,000
 - Annual Premium \$1,000
 - Income Tax Bracket 33%

Income Tax Savings Example

■ Endowment to Perpetuate Donation

- Annual Gift \$5,000
- Multiplier 20
- Endowment \$100,000

- Should Earn More than 5% and Grow

Income Tax Savings Example

■ Income Tax Savings on Donation

■ Basis in Policy	\$30,000
■ Top Tax Bracket	<u>33%</u>
■ Federal Tax Savings	\$9,900

■ Annual Premium	\$1,000
■ Top Tax Bracket	<u>33%</u>
■ Federal Tax Savings	\$330

- Avoids Income Taxes Upon Surrender
 - Cash Surrender Value Exceeds Basis

Income Tax Savings Example

■ Tax Notes

- Deduction is the lesser of: Basis or Policy Value
- Must Donate Entire Interest in Policy
- Different Results if a Policy Loan
- 50% Limit on Gift to Public Charity
- 30% Limit on Gift to Private Foundation
- Excess Contributions Carry Forward 5 Years
- May have a Positive Impact on §6166 or §303
- Donate Cash to Charity and Charity Pays Premiums
- Valuation Substantiation Required
 - Form 8283 Required
 - If Policy Value > \$5,000 a Formal Appraisal is Required

Wealth Replacement –

Other Assets to Charity and Life Insurance to Family

- **Tax Deferred Assets to Charity at Death**
 - Including
 - IRA, 401k
 - Annuity
 - Installment Contract
 - Can Save Family Income Taxes

Wealth Replacement –

Other Assets to Charity and Life Insurance to Family

- **Difficult to Value Assets to Charity**
 - Including
 - Works of Art
 - Real Estate
 - Collections
 - Closely Held Business Ownership
 - Can Avoid Difficult Valuation Issues
 - Can be Gifted During Lifetime or at Death

Wealth Replacement – Other Assets to Charity and Life Insurance to Family

- **Donate Appreciated Securities During Lifetime**
 - Avoids Income Taxes on Sale
 - Securities can Fund a CRT
 - Charitable Remainder Trust

Beyond the Basics

- **Charity as Revocable Beneficiary of Group-Term Life Insurance**
 - Charity the Beneficiary for the Entire Year
 - No Table 1 Income Tax Costs to Employee
 - For Insurance over \$50,000
 - Watch Insurable Interest Rules
 - See Reference 1 – Brink and Clontz Article

Beyond the Basics

- **Charitable Remainder Unitrust (CRUT) on Steroids**
 - A Portion of the CRUT is Invested in Life Insurance
 - Specific Tax Rules Must be Followed
 - See PLR 9227017 and PLR 8745013
 - Example
 - A Two Life Unitrust CRUT for Husband and Wife
 - An asset of the CRUT is Life Insurance on the Husband
 - On Husband's death the value of the CRUT increases significantly
 - Wife's distributions also increase significantly
 - Partial Tax Deduction for Premiums Donated to CRUT
 - See Reference 2 Leimberg and Gibbons Article

Beyond the Basics

- **The Charitable Thank You**
 - Client wants to Leave money to Someone Financially Secure
 - Consider a Donation to Charity on Behalf of that Beneficiary (Saves 45% Estate Tax)
 - Further Consider a Lifetime Gift (Income Tax Savings)

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