Giving Today to Guarantee Tomorrow: Charitable Gifts of Life Insurance

A gift of life insurance can represent a substantial future gift to a favorite charity at relatively little cost to you.

Prepared for:

Brought to you by:

MRW Financial Brokerage

Life Insurance, Annuities and Long-Term Care

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Why Consider a Charitable Gift?

People give to charities for a variety of reasons. They give:

1. Because they have compassion for the less fortunate.
1. From a belief that they owe something back to society.
2. To support a favored institution or cause.
3. For the recognition attained by making substantial charitable donations.
4. To benefit from the financial incentives our tax system provides for charitable gifts.

According to the Giving USA Foundation, individual giving accounted for 69% of all contributions to charitable organizations in 2019.

Source: Giving USA FoundationTM - Giving USA 2020

Regardless of your reasons for giving, a gift of life insurance can represent a substantial future gift to a favorite charity at relatively little cost to you.

How Can Life Insurance Be Given to a Charity?

Make a Charity the Beneficiary of an Existing Policy

If you have a life insurance policy you no longer need, you can name the charity as the beneficiary of the policy, meaning that the charity will receive the policy's death benefit after you die. While there are no current tax benefits to this approach, the value of the policy will be removed from your estate for federal estate tax purposes.

Make a Charity the Owner and Beneficiary of an Existing Policy

Instead of simply naming the charity as beneficiary of an existing life insurance policy, you transfer full ownership of the policy to the charity. The charity will then receive the policy's death benefit after you die. In addition to removing the value of the policy from your estate for federal estate tax purposes, this approach also provides you with current federal income tax deductions.

Help a Charity Purchase a New Insurance Policy on Your Life

If you wish to make a substantial future gift to a charity at a relatively low cost to you, another alternative is to consider purchasing a new life insurance policy and name the charity as the policy owner and beneficiary. You then arrange to pay the premiums through gifts to the charity. This approach provides federal income tax deductions and the policy proceeds are not included in your estate for federal estate tax purposes.

Important Note:

Most states through their "insurable interest" laws allow a charity to be the owner and/or beneficiary of an insurance policy on a donor's life. Since state laws do vary, however, it is important to consult with a professional advisor before making a gift of life insurance to a charity.

Income Tax Benefits of Life Insurance Charitable Gifts

While generally not the primary motivation behind charitable giving, it is important to understand how the tax savings generated by charitable gifts of life insurance can fit into your overall financial and estate planning.

Federal Income Tax Deduction

Gifts to a **qualified public charity** are deductible up to a maximum of 50% of the donor's adjusted gross income (AGI). If the value of the life insurance gift exceeds the donor's AGI limit, the excess can be carried over and deducted for up to five consecutive years. The donor must itemize in order to receive a federal income tax deduction for charitable gifts.

Type of Life Insurance Gift:	Charitable Income Tax Deduction:
Charity named as beneficiary of an existing life insurance policy	None. Since you continue to own the policy, you cannot deduct the premium payments.
Charity named as owner and beneficiary of an existing life insurance policy	**At the time of the gift:** You can generally deduct the lesser of your cost basis in the policy or the value of the policy at the time of the transfer. **Future premium payments:** If you make cash gifts to the charity for it to use in paying future premiums, the value of those cash gifts is eligible for the charitable income tax deduction in the year made.
Charity named as owner and beneficiary of a new life insurance policy	If you make annual cash gifts that a charity uses to purchase an insurance policy on your life, each cash gift is eligible for the charitable income tax deduction in the year it is made.

Substantiation

In each year for which a gift is made, whether the gift of a life insurance policy or cash gifts to pay policy premiums, you should receive a receipt from the charity that shows your name, the date the gift was made, a description of the life insurance policy (including the policy number, name of the insurance company and the face amount of the policy) and whether you received any goods or services in return for the gift. If you did receive goods and services in return for the gift, the receipt should state what they were and provide an estimate of their value.

Gift and Estate Tax Benefits of Life Insurance Charitable Gifts

Federal Gift Tax

Irrevocable gifts to charity are **not** subject to federal gift taxation. This means that the gift of an existing life insurance policy and/or future gifts to a charity to pay the premiums for an insurance policy on your life will not be subject to the federal gift tax.

Federal Estate Tax Deduction

If a charity is the policy owner and beneficiary of a policy on your life, the policy proceeds will pass directly to the charity at your death, meaning that the proceeds will not be included in your estate for federal estate tax purposes.

If you own a policy on your life and name a charity as beneficiary, the value of the policy proceeds will be included in your estate at your death. A federal estate tax deduction, however, is allowed for charitable gifts made at death, meaning that the value of the policy proceeds will not be included in your estate for federal estate tax purposes. There is no limit on the size of the federal estate tax charitable deduction.

State Law

The deductibility of charitable gifts of life insurance may vary by state. You should consult with your professional tax advisor to avoid any unforeseen tax consequences.

Life Insurance Charitable Gift: Making a Charity Beneficiary of an Existing Life Insurance Policy

If you prefer to retain ownership of an existing life insurance policy, you can name a charity as the beneficiary to receive the policy proceeds after your death. There are several options available:

- Name the charity as the primary beneficiary of the policy.
- Name an individual, such as your spouse, the primary beneficiary and name the charity as the contingent or secondary beneficiary. With this arrangement, the charity will receive the policy proceeds only if the primary beneficiary predeceases you.
- Create a charitable remainder trust to receive the policy proceeds at your death, with the trust then providing income to one or more named individuals for a specific term of years. At the end of the term, the assets remaining in the trust then pass to the charity.

Advantages

- You retain control of the life insurance policy and can change the beneficiary in the future, should your future financial needs change.
- The cost to you to provide your gift may be less than the amount the charity ultimately receives.
- Your estate will receive a charitable estate tax deduction equal to the policy proceeds paid to the charity after your death.

Disadvantages

- You receive no current charitable income tax deduction for policy premium payments.
- Since you retain the right to change the policy beneficiary, the charity cannot depend on receiving the policy proceeds for long-term planning needs.

Life Insurance Charitable Gift: Transfer Ownership of an Existing Life Insurance Policy to a Charity

If you own an existing life insurance policy that you no longer need, you can transfer ownership of the policy to a charity and receive a current charitable income tax deduction for the lesser of your cost basis or the current value of the policy. If premiums on the policy are still payable, there are two options available:

- Stipulate that the policy itself is the entire charitable gift, in which case the charity may surrender the policy for its cash value or accept a reduced paid-up amount of insurance. In either case, you are relieved of future premium payments.
- Pledge to make unrestricted annual gifts to the charity for the charity's use in paying the premiums. The charity will then ultimately receive the policy's full death benefit and you'll receive a charitable income tax deduction for each annual gift to the charity. The end result is that the policy is kept in force with pre-tax instead of after-tax dollars.

Advantages

- You receive a current income tax deduction equal to the lesser of your cost basis or the value of the policy.
- If you agree to make annual cash gifts to the charity for premium payment purposes, those gifts are eligible for the charitable income tax deduction. If you make those gifts in the form of appreciated property (e.g., stock), the charity can sell the property and avoid paying capital gains tax.
- The cost to you to provide your gift may be less than the amount the charity ultimately receives.
- The policy death benefit will not be included in the value of your estate.

Disadvantages

- The transfer of the policy is irrevocable, meaning that you cannot change your mind in the future.
- You have no guarantee that the charity will use any future gifts for premium payment purposes. It is, however, to the charity's advantage to keep the policy in force and eventually receive the entire death benefit.

Life Insurance Charitable Gift: Help a Charity Purchase a New Insurance Policy on Your Life

By helping a charity purchase a new insurance policy on your life, you may be able to create a significant legacy at a relatively low cost. You enter into a new life insurance contract with the charity named as both the owner and beneficiary of the policy. You then agree to make annual tax-deductible gifts to the charity in an amount equal to the premium and the charity, in turn, makes the premium payments to the insurance company.

A gift of life insurance can enable you to make a much larger charitable gift than you might otherwise be able to afford. You can select a life insurance policy with a premium amount that fits your budget. In the future, those premium gifts can result in a substantial death benefit, 100% of which is received by the charity to use in accomplishing its objectives.

Advantages

- The annual cash gifts you make to the charity for premium payment purposes are eligible for the charitable income tax deduction. If you make those gifts in the form of appreciated property (e.g., stock), the charity can sell the property and avoid paying capital gains tax.
- The cost to you to provide your gift may be less than the amount the charity ultimately receives.
- The policy death benefit will not be included in the value of your estate.

Disadvantages

- The charity owns the policy, meaning that the policy values will not be available to you should your future financial security needs change.
- You have no guarantee that the charity will use your gifts for premium payment purposes. It is, however, to the charity's advantage to keep the policy in force and eventually receive the entire death benefit.

Another Role for Life Insurance…The Wealth Replacement Trust

The Problem:

There can be significant tax advantages in giving appreciated assets to a charity. Examples include real estate and securities. If you were to sell an appreciated asset, the gain would be subject to capital gains tax. By donating the appreciated asset to a charity, however, you can receive an income tax deduction equal to the fair market value of the asset and pay no capital gains tax on the increased value.

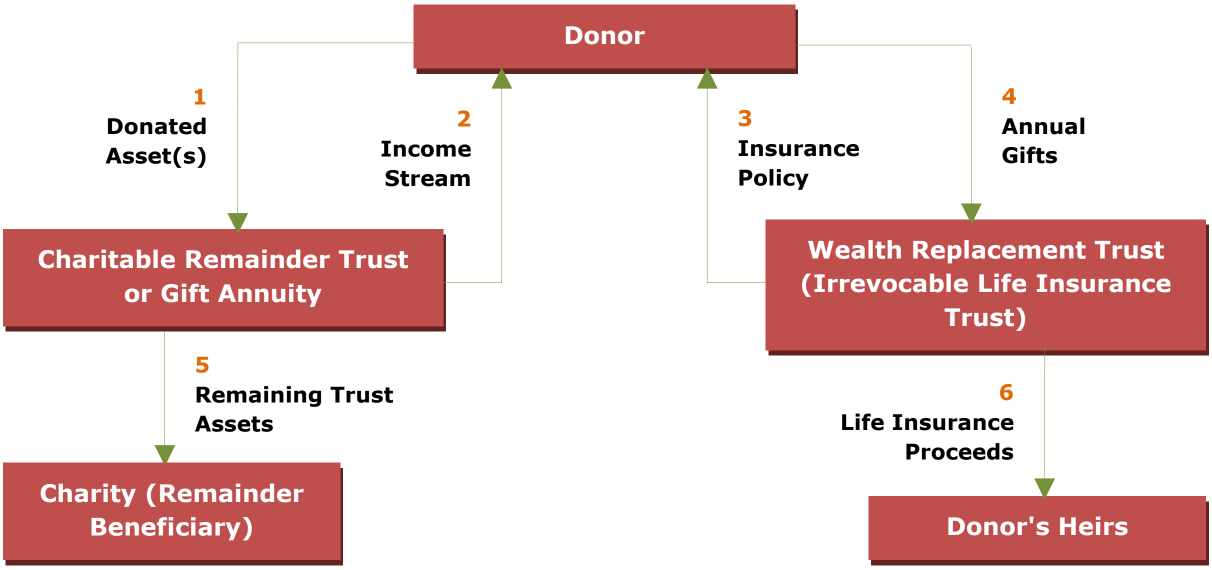
> For example, Donor A purchased $25,000 of publicly-traded stock several years ago. That stock is now worth $100,000. If she sells the stock, Donor A must pay capital gains tax on the $75,000 gain. Alternatively, Donor A can donate the stock to a qualified charity and, in turn, receive a $100,000 charitable income tax deduction. When the charity then sells the stock, no capital gains tax is due on the appreciation.

When a donor makes substantial gifts to charity, however, the donor's family is deprived of those assets that they might otherwise have received.

A Potential Life Insurance Solution:

In order to replace the value of the assets transferred to a charity, the donor establishes a second trust - an irrevocable life insurance trust - and the trustee acquires life insurance on the donor's life in an amount equal to the value of the charitable gift. Using the charitable deduction income tax savings and any annual cash flow from a charitable trust or charitable gift annuity, the donor makes gifts to the irrevocable life insurance trust that are then used to pay the life insurance policy premiums. At the donor's death, the life insurance proceeds generally pass to the donor's heirs free of income tax and estate tax, replacing the value of the assets that were given to the charity.

The Wealth Replacement Trust in Action



1. The **donor** transfers the donated asset(s) to an irrevocable **charitable remainder trust or gift annuity** and receives a current income tax deduction based on the value of the charity's remainder interest.
2. The **donor** receives an income stream for life or a term not to exceed 20 years.
3. The donor establishes an **irrevocable life insurance trust**, which purchases insurance on the donor's life.
4. The donor uses the income stream, together with the charitable deduction income tax savings, to make **annual gifts** to the irrevocable life insurance trust, which then pays the life insurance premiums.
5. At the donor's death, the remaining trust assets revert to the **charity** for its use.
6. The **donor's heirs** receive the life insurance proceeds, free of estate tax.

Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, VSA, L.P. is not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

Life insurance contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. All contract guarantees are based on the claims-paying ability of the issuing insurance company. Consult with your licensed financial representative on how specific life insurance contracts may work for you in your particular situation. Your licensed financial representative will also provide you with costs and complete details about specific life insurance contracts recommended to meet your specific needs and financial objectives.

NOTE ABOUT THE FEDERAL ESTATE TAX: Whether your estate is actually subject to the federal estate tax will depend on the size of your estate, the year you die and whether future Congressional action modifies the estate tax rules.

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