Gifts of Life Insurance:

If a donor gives an existing insurance policy on his or her life which has been paid in full, irrevocably naming a charity (CFPA for example) as the policy's owner and beneficiary, the donor may be eligible for an income tax deduction for the policy's present value, an amount roughly equivalent to its cash surrender value.

A donor also gives a policy on which premium payments are still outstanding, or purchase a new policy. If the donor names CFPA as the policy's irrevocable owner and beneficiary, he or she may be eligible for an immediate income tax deduction on the policy's present value, and also for subsequent income tax deductions when he or she pays the policy's premiums in future years.

Considerations:

1) The simplest way to use life insurance in charitable giving is for a donor to give an existing policy or buy a new policy on the donor's life to give. In this case the donor will receive a tax deduction.

2) The donor could make the charity the whole or partial beneficiary of a policy. This would give the donor the flexibility to change the beneficiary if so desired. However the donor would not receive an income tax deduction but the proceeds would not be included in his or her estate.

3) If the donor is younger and would like to honor his parents, he could do the same as above with a policy he buys on his parents. The life expectancy is shorter on the parents.

4) Life insurance can be used to replace a gift given to a charity - usually a large gift. Many people would like to give cash, stocks or real estate to charity either outright or in some other technique but want their family to also be taken care of. Often the premiums for the life insurance can be paid partially or in full with the tax savings from the gift or the income generated from the gift. If the life insurance is owned by the children or an irrevocable trust, the proceeds should be income and estate tax free.

Here are 2 examples:

Mary is age 70 and in good health. She is wealthy enough to have a taxable estate. Mary has $500,000 in an IRA. When Mary dies, the IRA will be subject to both income and estate taxes. As much as 60 to 70% could be lost to taxes.

Mary would like to make a significant gift to her favorite charities. She is advised to consider leaving the IRA to charity since a good portion would be lost to taxes. By leaving the IRA to charity, the whole $500,000 would go to charity and none to taxes.

She takes out a life insurance policy so her children would get the full value of the IRA. She could buy a policy at her age with a death benefit of $500,000 for $10,000 a year. If her IRA generated just 4% per year, she could withdraw enough money to pay the premium and the tax on the withdrawal and still have money left over. The net result:

	IRA left to Children	IRA left to Charity with Wealth Replacement
Taxes @ 60%	300,000	0
Charity	0	500,000
Family	200,000	500,000

This works even better when appreciated property, stock or real estate is donated.

2nd Scenario

Mary has $500,000 of cash. She would like a fixed income and also leave a substantial gift to charity. She decides to donate the $500,000 to charity in a gift annuity. At age 70 the annuity would pay her $28,500 for the rest of her life. Of that payment $19,659 is tax free for the next 15.9 years. It is all taxable income after that. She would also receive an immediate income tax deduction of $187,414.

When Mary dies, the remaining assets in the annuity stay with the charity. Since she does not need all of the income and she wants to take care of her children, Mary buys a life insurance policy to replace the gift. The premium would be $10,000.

Mary would get income of about 4%, charity would get a significant gift and the children would get the $500,000 tax free.