

Keys to Effective Charitable Giving

GIFT OF LIFE INSURANCE

When properly used, a gift of life insurance can provide a unique leveraging opportunity for one to accomplish his charitable goals and establish a legacy for the advance of the gospel worldwide. Gifts of life insurance can generate some significant tax advantages, are simple and cost effective to implement and can be made by using an existing or new policy.

Who could benefit from a gift of life insurance?

- **A Person with an Obsolete Policy.**

Many individuals may no longer need the protection of life insurance. Their mortgages are paid off, children are out of school, a business has been sold or is adequately protected, their heirs are financially secure and the death benefit is not needed. Some individuals hold life insurance for wealth replacement for estate taxes. With the increase in the federal estate tax exemption, those people may now find they no longer need the insurance to pay such taxes; thus, the policy has become obsolete. (With proper planning, estate taxes can be optional.) If a person has obtained life insurance to pay for estate taxes, he owns a policy that is obsolete.

- **A Single Person, Unmarried, Widowed, Childless Couples, etc.**

Gifting could be an attractive option to individuals who may not have close heirs to leave the death benefits of a life insurance policy to or have heirs who are already financially secure.



- **A Middle Aged and Younger Person**

A life insurance policy could be an ideal way to amplify a person's charitable giving for individuals who want to make a significant gift but lack the resources to do so—people with high income and limited assets.

- **A Person Needing Wealth Replacement**

For individuals who want to replace assets they have gifted to charity, insurance can be the tool to provide for heirs.

- **A Person Desiring to Leave a Spiritual Legacy**

For individuals seeking greater stewardship to help underwrite kingdom work, life insurance may be an excellent tool to help them reach their charitable goals.

The following are some of the options available to friends of Jesus Film Project®.

Gift of an Existing Policy

Name the Ministry as a Revocable Beneficiary

A person can simply name the ministry as the beneficiary of the death benefit of one or more policies. The donor has the option of changing the beneficiary during his lifetime. When the death benefit is paid to the ministry, the gift will qualify for an estate tax deduction. Because the gift is revocable, there is no income tax benefit. (Note: To the extent that a life insurance policy's value exceeds its cost basis, it is liable for capital gains tax. If gifted, rather than sold, then any value or gain over its cost basis could be fully tax exempt; see your tax advisor.)

Name the Ministry as an Irrevocable Beneficiary

A person can make a gift of a fully paid-up policy. The donor will be entitled to an income tax deduction for the lesser of the replacement value or his basis in the policy. The gift of the policy must be irrevocable for one to receive the income tax benefit. A gift can also be a policy with outstanding premiums. The charitable tax deduction will be determined by a similar valuation; consult your agent and tax advisor. When the donor continues to make the premium payment on the policy, it qualifies as a charitable income tax deduction each time and should be made directly to the ministry for the maximum tax benefit. Future premiums can be paid by appreciated assets such as stock, which could lead to a "double deduction."

Policies with low outstanding loans may be gifted, but they are treated as a partial sale and partial gift akin to a "bargain sale." The tax deduction is prorated and similar valuation issues apply; consult your agent and tax advisor.

If the value of the charitable deduction exceeds \$5,000, then a qualified appraisal

must be obtained from a qualified independent appraiser in order to substantiate the value of the charitable gift. A written valuation can often be obtained from one's insurance company. (Neither the donor nor the insurance agent who issued the policy can perform the appraisal, as per IRS regulations.) The donor must file and the ministry must sign an IRS Form 8283 for the donor's tax return.

Name the Ministry as a Contingent Beneficiary

A person can name the ministry as the secondary beneficiary of a policy. If the heirs named as beneficiaries in the policy do not survive the donor, then the ministry will be the recipient of the death benefit. There is no income tax deduction with this option, but the estate is entitled to an estate tax deduction for the portion received by the ministry.

Use Insurance to Fund a Charitable Trust, Gift Annuity, Donor-Advised Fund, etc.

A person can use an existing policy in the creation of a Charitable Remainder Trust (CRT), Charitable Gift Annuity (CGA), Donor-Advised Fund (DAF), etc. in much the same way they would with appreciated assets. The issues of irrevocability, valuation and income tax deductibility mentioned above apply.

Gift of a New Insurance Policy

Name the Ministry as a Beneficiary

A person can purchase a policy for the benefit of the ministry. The donor amplifies or leverages their gift to the ministry. In other words, for a small amount of premiums, he or she can leave a significant gift when he goes to be with the Lord. A gift of a new policy provides an immediate income tax deduction. Also, if a donor contributes for or pays future premiums, if any, then those gifts are entitled to income tax deductions.

Use Insurance as Wealth Replacement for Your Beneficiaries

A person can purchase a policy for his heirs to replace assets he has gifted to the ministry. (Example: CGA, CRT, outright gift.) If the heirs have full ownership of the policy, the proceeds will not be subject to estate taxes. The donor can make tax-free gifts of up to \$14,000 per heir so the heirs can make the premium payments. (This will be true as long as the heirs are not required to use the gift to pay the premiums.) As an alternative to the heirs owning the policy, a person can utilize a "Life Insurance Trust" or "Wealth Replacement Trust" to hold/own the policy. This will ensure that the death benefit is not included in the taxable estate for estate tax purposes.

The use of life insurance could be, for many people, an excellent tool to not only provide for their families and heirs, but also to help accelerate the work of the Great Commission. If you think you might be able to benefit by making a gift of life insurance, you are invited to contact us today. A team of professionals, specifically trained to answer your questions and help you review the options that best meet your needs is ready to serve you. (All information is provided without cost or obligation and any communication is treated in strict confidence. The ministry does not sell or recommend any insurance products.)

*The information above is for general education and not professional tax or legal advice.
Please contact a professional tax advisor about your specific situation.*