

LIFE INSURANCE GIFTS

Whether your client donates an older policy that your client no longer needs, takes out a new policy to fund a major charitable project or your client's family fund, or settles on some other arrangement, life insurance offers a unique way to leverage relatively modest annual payments into a sizable charitable gift. The following methods are the most common for using life insurance to support a nonprofit or your client's fund at a Community Foundation.

Name a Nonprofit or a Community Foundation as the Successor Beneficiary

Your client may currently own a policy naming his or her spouse or another individual as the beneficiary. Your client could name a specific nonprofit, a Community Foundation, or your client's fund at a Community Foundation as the successor beneficiary in the event this person predeceases your client. While this option offers no immediate tax benefits, it does have the advantage of removing the life insurance proceeds from your client's taxable estate.

Name a Nonprofit or a Community Foundation as Primary Beneficiary

If your client purchased a policy several years ago but your client's chosen beneficiary no longer needs the protection, your client can designate a specific nonprofit, a Community Foundation, or your client's fund at a Community Foundation to receive the benefit. Under this option, your client's estate would receive a charitable deduction and the death benefit would pass to the nonprofit or Foundation tax-free.

Donate an Existing Policy

If your client has an older insurance policy which your client no longer needs and would like a current income tax deduction, your client can donate it to a specific nonprofit or to a

Community Foundation. As long as all of the rights of ownership are transferred to the nonprofit or Community Foundation, your client will receive a current income tax deduction. Examples of policies that may no longer be needed:

- Business insurance after the business has been sold
- Income replacement insurance after you have retired
- Estate insurance when your estate is no longer subject to estate tax
- Mortgage insurance after the mortgage has been repaid

Purchase a New Policy and Donate It

Your client can purchase a new policy on your client's life and name a nonprofit or a Community Foundation as the owner. The premiums are paid annually by your client's contributions to the nonprofit or Community Foundation, which are tax deductible. In the event your client ceases paying the annual premium, the nonprofit or Community Foundation reserves the right to cash in the policy or convert it so that it provides paid-up coverage.

Purchase a Life Insurance Policy for Wealth Replacement

A Wealth Replacement Life Insurance Trust is a special type of irrevocable life insurance trust that creates tax-free life insurance dollars for your beneficiaries upon your death to replace assets that you gave to charity during life. With proper structure and procedures, transfers to the trust to pay premiums are not subject to gift tax.

Distributions of death benefits through the trust to your heirs should not be includable in your client's taxable estate.

*Please note that the information contained herein is not intended to provide specific legal or financial advice and should not be relied upon as a substitute for such professional advice. Leave 10 Kitsap encourages you to seek professional legal, estate planning and financial advice before deciding on a course of action.