

Life insurance can be an excellent way to make a charitable gift.<sup>[1]</sup> Life insurance allows you to make a substantial gift to a charity at a lower cost, with potential tax rules that benefit individuals who give life insurance gifts.

## Why Life Insurance Charitable Giving?

First, life insurance allows you to use leverage in the form of a low payment (premium) versus a larger payout (death benefit). Premiums tend to be small in terms of the benefit beneficiaries receive from life insurance. If you continue to pay the premiums, the charity will receive the guaranteed life insurance proceeds when you pass away. (These guarantees are subject to state law and the insurance company's claims paying ability.)



Second, gifting life insurance can have certain income tax benefits or estate tax benefits as well. If you properly structure your life insurance gift, you can typically take a deduction equal to the Fair Market Value (FMV) of the policy or your adjusted tax basis. Upon transfer to the charity, the income tax charitable deduction will be equal to that basis or FMV.

**What are the Disadvantages?** By making a transfer of your life insurance policy to a charity, you will be reducing the value of your estate to your other heirs. This can be easy to solve however if you simply take out an additional life insurance policy: one to provide for your heirs and one to benefit the charity.

## Ways to Give Life Insurance Gifts

First, the simplest way is to change your life insurance beneficiary to the charity of your choice so that the charity receives the death benefit. The owner of the policy (you) would designate the charity, allowing you to give a larger gift at passing than you would otherwise. Further, this method allows you to access any cash value in the policy later if necessary. However, this method does not allow for a charitable tax deduction during your lifetime because you have maintained control of the policy. When you pass and the charity is still the beneficiary, the amount of the death benefit will reduce your Gross Estate for Estate Tax calculation purposes.

Second, consider making the charity the *owner* of the policy. This will allow you to deduct the FMV as above and receive a charitable income tax deduction. The downside to this is that you will no longer be in control of the policy and able to change its beneficiary. This guarantees the Charity will get the death benefit which is why you get the tax benefit. The Episcopal Community Foundation for Middle and North Georgia is happy to discuss this option with you!

Finally, a creative alternative is to allow the charity to take out life insurance on you. During your life, any payments to the charity to cover the premiums for this life insurance will be a charitable tax deduction to you year by year.

In this way it can be seen that gifting life insurance can be an effective way to benefit your favorite charity.

*The legal and tax issues discussed above are complex; be sure to consult your Tax Advisor for further details.*

[1] *Life Insurance and Charitable Giving*, Broadridge Investor Communication Solutions, Inc. Copyright 2023.



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