

Life insurance policies



By the Charitable Strategies Group at DAFgiving360™

Can you donate a life insurance policy to charity?

If you're philanthropically inclined, you can contribute your life insurance to a 501(c)(3) public charity, like a donor-advised fund. By contributing your policy during your lifetime, you're able to use the value of your policy to benefit your favorite causes, while also claiming a current-year income tax deduction (if you itemize) and potentially reducing your estate tax liability. You can also name a charity now to be a beneficiary of your policy after your lifetime, helping to extend your charitable legacy.

What are the different ways you can donate life insurance?

There are two primary methods to contribute life insurance to charity, and each one has different timing and tax benefits.

1

Transfer the policy ownership and beneficiary interest to your favorite charity, which is generally possible with permanent life insurance. After taking ownership, the charity may opt to surrender the policy for its cash value. (Life insurance companies often allow a policy owner to “surrender” their policy — in other words, cancel it to receive a cash value, minus any surrender charges and fees.)

Tax benefits to this method:

- a. Life insurance is considered an ordinary income asset, meaning that surrendering a policy for its cash value would trigger ordinary income taxes for you on the policy’s appreciation. But, by contributing your policy directly to charity, you potentially avoid the tax you would otherwise incur if you surrendered the policy yourself and donated the proceeds. And because U.S. public charities are tax-exempt, the charity can surrender the policy for its full, untaxed value, maximizing the impact of the contribution.
- b. Assuming you itemize your deductions, you may also claim a current-year tax deduction for the policy contribution. Because life insurance is an ordinary income asset, the deduction is limited to the lesser of the policy’s value or your adjusted cost basis in the policy (generally, premiums paid to date).
- c. An added benefit is that the policy’s value could potentially be removed from your gross estate, lowering your estate’s eventual tax burden.

2

Retain ownership of your policy but name a charity as a full or partial beneficiary. In this situation, the charity would receive a designated payout from the insurance company after your lifetime. While you wouldn’t be able to claim a charitable income tax deduction during your lifetime in this situation, your estate would be entitled to claim a charitable estate tax deduction for the beneficiary proceeds distributed to charity at your death.

This method can offer you more flexibility in case your circumstances change (you can change the beneficiary named on your policy), and it can be appealing to those who might not otherwise be able to make a significant gift during their lifetimes. Keep in mind that you may need to continue paying policy premiums for the remainder of your life.

More advanced donation strategies exist, including options that replace income. If you’re interested in exploring those strategies, contact your tax advisor or estate planning attorney.

What types of life insurance can you donate?

You can donate both permanent life insurance (including whole life and universal life) and term life insurance to charity, but the donation options differ.

Permanent life insurance policies hold cash value that can be surrendered. A cash value policy (in particular, a paid-in-full cash value policy) can be an appealing donation because you have the option of gifting during your lifetime, not just at the end of it. And by gifting during your lifetime, you may be able to take advantage of the tax benefits described above.

On the other hand, term life insurance donations have their limitations. While term policies can still be used to benefit charity, gifting during your lifetime is not an option. You can only name a charity as an end-of-life beneficiary. And because term policies are only active for a specified period, you should investigate whether the term policy could expire during your lifetime.

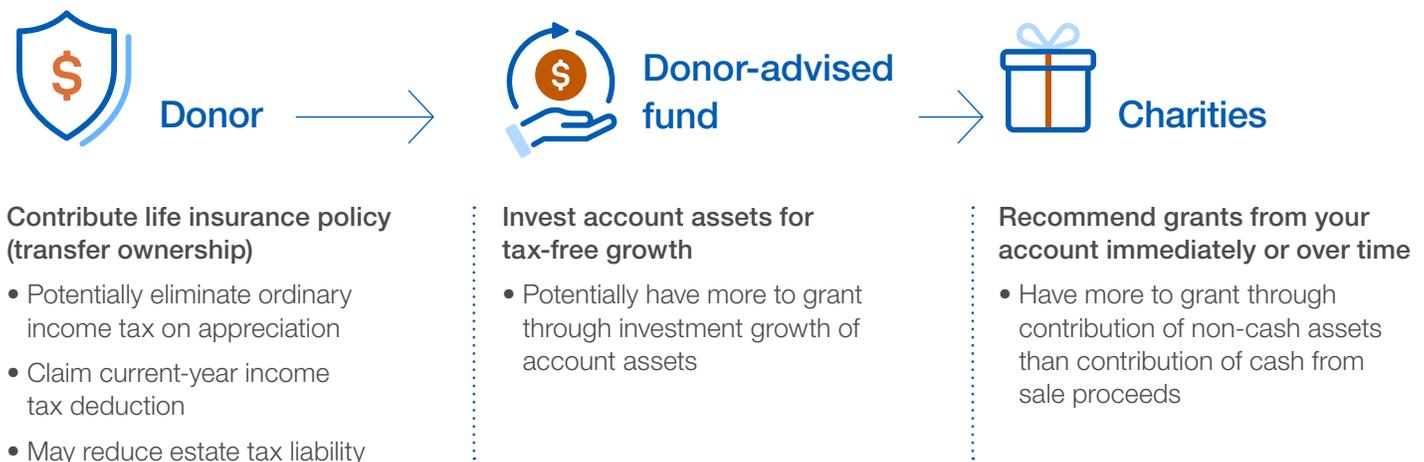
Can you donate life insurance to a donor-advised fund?

A donor-advised fund (DAF) account, like the one offered by DAFgiving360, is a simple, efficient, and tax-smart giving solution. By [contributing to a donor-advised fund](#), you can potentially reduce tax burdens, invest contributed assets for tax-free potential growth, and recommend grants to qualified U.S. public charities immediately or over time.

Donor-advised funds like DAFgiving360 are public charities themselves. Subject to prior due diligence review, DAFgiving360 can accept your policy as a charitable contribution and surrender it for a cash value. The funds are then made available for you to recommend investments and grants.

Once you have [an account open](#), you may also name your account as a beneficiary of your policy. Recommended grants to charities after your lifetime would then be based on your account's succession plan or granting history.

HOW DOES DONATING LIFE INSURANCE TO A DONOR-ADVISED FUND WORK?



Case study: Maximizing a gift during a donor's lifetime

Years ago, Shannon invested in permanent life insurance, ensuring that her family would be cared for after her lifetime. Now in retirement, Shannon realizes she's accumulated more wealth than her family needs, even without the life insurance policy, and she decides she wants to make a charitable impact during her lifetime.

Shannon learns that the value of her life insurance policy can be used as a charitable contribution. Alongside her financial advisor and tax advisor, she explores her policy surrender options and how she can maximize charitable impact.

Option 1: Surrender policy herself and then contribute the post-surrender proceeds. Shannon's policy has a \$500,000 surrender cash value, with \$200,000 in basis (premiums Shannon has paid over the years) and without a loan against it. Because life insurance is an ordinary income asset, if Shannon were to surrender the policy herself and then contribute the proceeds, she'd incur income tax on \$300,000 (the policy gains). Assuming a 24% income tax rate, the post-surrender charitable contribution would be reduced from \$500,000 to \$428,000. (For simplicity, this hypothetical example assumes no surrender charge or other fees.)

Option 2: Contribute policy directly to charity, which then surrenders policy for its cash value. If Shannon would transfer the policy ownership to her desired charity and let the charity handle the surrender (rather than Shannon surrendering the policy herself), she would eliminate the taxable income. And, as a tax-exempt entity, the charity would not pay income tax when surrendering the policy. Unlike the first option, the charity would receive the full \$500,000 value. (Again, for simplicity, this hypothetical example assumes no surrender charge or other fees.)

Policy cost basis: \$200,000
Federal income tax rate: 24%

Policy surrender value: \$500,000

	Option 1: Surrender policy herself and then contribute the post-surrender proceeds	Option 2: Contribute policy directly to charity, which then surrenders policy
Income taxes paid on policy gains	\$72,000	\$0
Remaining value for charity	\$428,000	\$500,000
Tax savings	\$30,720	\$48,000

(VS)

Donating the policy directly results in **\$72,000** more going to charity.

Additional tax savings is up to **\$17,280**.

This hypothetical example is only for illustrative purposes.

The example does not take into account any state or local taxes or potential surrender fees.

The tax savings shown is the tax deduction, multiplied by the donor's marginal income tax rate (24% in this example), minus the income taxes paid. In Option 2, the deduction is limited to the \$200,000 policy basis.

Other considerations when donating a life insurance policy

1

Loans against the policy can complicate the charitable contribution.

If there are loans taken out against the insurance policy, you may be subject to IRS “bargain sale” rules, which can generate taxable income to you and lower the value of your charitable deduction.

2

Annual limits apply to charitable deductions.

If you itemize deductions when filing taxes, your deduction for a during-life contribution of a cash value life insurance policy is generally limited to 50% of your adjusted gross income (AGI). Any deduction amount above this AGI limit may be carried forward for up to five additional tax years, subject to AGI limits in each year.

3

Qualified appraisal requirement rules may apply.

To claim a charitable income tax deduction for during-life contributions of permanent life insurance policies, you must not only itemize income tax deductions, but you also must obtain a qualified appraisal from a qualified appraiser if the claimed deduction is greater than \$5,000. You also must file IRS Form 8283 with taxes for the tax year that the life insurance gift is made.

4

You may potentially minimize your gross estate’s tax exposure.

Your life insurance is included in your gross estate after your lifetime. By donating your policy during your lifetime, or by retaining your policy’s ownership and naming a charity as a policy beneficiary, you can reduce the value of your gross estate, potentially minimizing its eventual tax exposure.

5

Donors must work directly with their policy administrator to update ownership and/or beneficiary information.

It can take time to finalize the policy ownership transfer through your policy administrator (insurance company), which could result in a delay to making the gift. If you’re planning to make your contribution near year-end, consider starting the process early to avoid any deadlines for yearly tax deduction eligibility. Please note that most charities want to know if you are planning to donate a life insurance policy, whether during or at the end of your lifetime. Some due diligence review prior to acceptance may be required by the recipient charity.

Make an informed decision with our team of professionals

It's simple to contribute to your donor-advised fund account, but life insurance and other non-cash assets can be nuanced. The Charitable Strategies Group at DAFgiving360 is an experienced team with specialized knowledge on contributing complex assets to charities. Our team can support you and your advisors with unbiased guidance through each step of your contribution, from the initial consultation through processing the surrender of your policy.

If you'd like to learn more about the advantages of contributing appreciated non-cash assets, review our [online resources](#), or call us at 800-746-6216.

If you'd like to learn more about how DAFgiving360 can support your philanthropic efforts, we encourage you to read more about our [donor-advised fund accounts](#).

**For questions or assistance
with charitable planning:**

Visit our website



Call DAFgiving360 at
800-746-6216



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Please be aware that gifts of appreciated non-cash assets can involve complicated tax analysis and advanced planning.

A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Consult a tax advisor for more information.

Contributions of certain real estate, private equity, or other illiquid assets may be accepted via a charitable intermediary, with proceeds transferred to a donor-advised fund (DAF) account upon liquidation. Call DAFgiving360 for more information at 800-746-6216.

DAFgiving360™ is the name used for the combined programs and services of Donor Advised Charitable Giving, Inc., an independent nonprofit organization which has entered into service agreements with certain subsidiaries of The Charles Schwab Corporation. DAFgiving360 is a tax-exempt public charity as described in Sections 501(c)(3), 509(a)(1), and 170(b)(1)(A)(vi) of the Internal Revenue Code.

Contributions made to DAFgiving360 are considered an irrevocable gift and are not refundable. Once contributed, DAFgiving360 has exclusive legal control over the contributed assets.

DAFgiving360 does not provide legal or tax advice. Please consult a qualified legal or tax advisor where such advice is necessary or appropriate.

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