THINK BEFORE DONATING THAT POLICY TO CHARITY

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Wealthy seniors sometimes wish to donate a large life insurance policy to their favorite charitable organization. They do this:

- To receive a deduction on their income tax return for the amount of the cash value of the policy; and
- To reduce the size of their gross estate for federal estate taxation purposes.

Once the gift is made, the charitable organization is charged with the duty of continuing the premium payments (though the donor often gives sums each year to the organization to offset these payments). Before you donate that policy, however, don't miss out on a great opportunity for advantageous financial planning.

Instead of simply donating the policy, you should first determine the fair market value of the policy by obtaining a quote for the sale of the policy. If the fair market value (the amount of the quote) is higher than the cash surrender value, the client may have an opportunity to take a larger tax deduction on his Federal income tax return. Further, once the policy is given to the nonprofit organization, the organization should sell the policy, giving it immediate cash to use as it pleases. Under this scenario, there would be no continuing premium obligations.

This is a win-win situation. The donor gets to consider taking a larger deduction on the donor's income tax return for the gift, and the nonprofit organization gets to receive cash immediately (instead of having to wait for the donor to die before receiving the cash). The nonprofit organization has the additional benefit of not having to worry about keeping up expensive premium payments during the donor's lifetime, and the donor gets to see the contribution go to work while still living!