

# ESTATE PLANNING NEWS



## Charitable Gifts of Life Insurance: Seven Planning Ideas

### CONTENTS

Feature Article  
Announcements  
Tip of the Month  
Entertainment



Life insurance can be an excellent tool for making charitable gifts. Consider the following benefits:

- 1) Life insurance can be leveraged. For a relatively small annual cost (*i.e.*, the premium), a donor may confer a benefit far in excess of what would otherwise be possible.
- 2) The gift need not disrupt the transfer of other assets (*e.g.*, family business, real estate, etc.) to other beneficiaries.
- 3) The gift is guaranteed so long as premiums are paid. The charity receives a fixed amount (*i.e.*, death benefit) regardless of how long the donor lives or how the market performs.
- 4) The gift is less prone to attack by disgruntled heirs because it is controlled by contract. *(continued on page 3)*

[Law Office of Nicole A. Davidson](#)

P.O. Box 125, Alamo, CA 94507-0125

Tel/Fax: 925-932-5555 • Cell: 510-919-8389

E-mail: [nicoledavidsonlaw@gmail.com](mailto:nicoledavidsonlaw@gmail.com)

Website: [nicoledavidsonlaw.com](http://nicoledavidsonlaw.com)

# Estate Planning News

## Announcements

Nicole and her husband, George, proudly announce the birth of their son:

*Heathcliff Caspian Salter*  
*April 8, 2008 at 7:28 a.m.*  
*7 lbs, 10 ounces; 19.25 inches*

Nicole returned to the office on April 14. She will work part time for a couple weeks, then resume full time hours on April 28.



## Tip of the Month

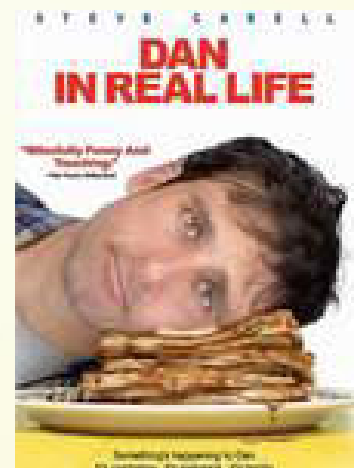
### **2008 Federal Exclusions and Exemptions**

Annual per donee gift tax exclusion	\$12,000
Annual gift tax exclusion for gifts to non-U.S. citizen spouse	\$128,000
Lifetime gift tax exemption	\$1 million
Estate tax exemption	\$2 million
Generation skipping transfer tax exemption	\$2 million
Maximum tax rate	45%

## Entertainment

### **Dan in Real Life (2007)**

Advice columnist and widowed father of three Dan Burns (Steve Carell) has met someone new. Marie (Juliette Binoche) is beautiful, she's smart -- and she just happens to be the girlfriend of Dan's brother Mitch (Dane Cook). With a publicly recognized moral compass, Dan finds himself torn between reaching for happiness and keeping the peace in his family. This romantic comedy is good for a few laughs.



# Estate Planning News



Your children are not your children.  
They are the sons and daughters of Life's longing for itself.  
They come through you but not from you,  
And though they are with you yet they belong not to you.

-- KAHLIL GIBRAN  
*The Prophet*

## Charitable Gifts of Life Insurance

(Continued from page 1)

5) There is no delay or transfer cost. No administration is required when a charity is designated as beneficiary, and proceeds paid to qualifying charities are exempt from income tax and estate tax.

### **Planning Ideas**

There are many methods for including life insurance in a charitable gift plan.

**1) Gift a policy or premiums.** Make an absolute assignment of a currently owned policy, donate a new policy, or have the charity purchase a policy insuring the donor's life while the donor pays the annual premiums. The donor receives a current income tax deduction.

**2) Use dividends from an existing policy.** Assign all annual dividends to charity. This eliminates out-of-pocket contributions, yet still creates a deduction as dividends are paid. Amplify the gift by using the dividends to purchase a new policy, with the charity as irrevocable owner and beneficiary.

**3) Name a charity as beneficiary.** Although this will not yield an income tax deduction, it will result in a federal estate

tax deduction for the full amount of the proceeds payable to the charity.

When a charity is designated as the beneficiary of group term life insurance for coverage over \$50,000 (which is generally reportable as income according to Table I or P.S. 58 rates), a donor not only makes a significant gift to the charity, but he also avoids income tax on the economic benefit for the amount over \$50,000.

**4) Leverage appreciated gifts.** Most estate planning techniques become even more effective when coupled. By giving appreciated long-term capital gain property to the charity (*e.g.*, stocks, real estate, mutual funds, etc.), the donor avoids capital gains tax and receives an income tax deduction. That cash can then be used to fund a life insurance policy, creating an even larger gift.

**5) Wealth replacement.** The most popular way of indirectly using life insurance in charitable planning may be an immediate or deferred gift of land, stock, or other property.

(continued on page 4)

# Estate Planning News

## Charitable Gifts of Life Insurance

(Continued from page 3)

Retirement plans are among the best assets to give to charity because they are inefficient in passing wealth to heirs. This is because they are subject to income and estate tax, in some cases leaving only 20% to 30% of the asset to the intended beneficiary. Thus, families may choose to leave the retirement plans directly to charity and then use life insurance to “replace” the wealth contributed.

A variation to consider is taking a distribution from the retirement plan and using it to purchase a life insurance policy in an irrevocable life insurance trust (ILIT). The donor then gives the remaining plan assets to charity. Not only does the charity receive a gift, but the donor’s heirs may receive more than they would have had the donor attempted to give them the retirement plan assets.

**6) Create a charitable remainder trust (CRT).** A CRT can be powerful for donors who have a highly-appreciated asset and desire increased income. The asset (typically non-income generating, property tax-draining land or low-yielding stock) is donated to a CRT, which can sell the asset without capital gains tax. The donor receives both an income tax deduction and an income stream from the CRT. Whatever remains in the CRT when the donor dies will benefit charity.

If the donor is interested in wealth replacement, she can use the income tax savings and/or income stream to purchase a life insurance policy equal to the original gift, owned in an ILIT. This

allows the donor’s heirs to receive the full value of the assets without paying income or estate taxes.

Life insurance can also be used inside the CRT to: (a) increase the trust’s remainder value, providing a larger gift to charity; and/or (b) increase trust corpus when the first spouse dies, creating a larger income for the surviving spouse.

**7) SERP/NQDC Swaps.** While many business owners and executives have accumulated significant sums in their supplemental executive retirement plans (SERPs) or non-qualified deferred compensation plans (NQDCs), most are unaware that, between income taxes and estate taxes, non-spouse family members might only receive about 25% of the plan benefits. If an executive can forgo the supplemental income, he may exchange the SERP or NQDC for a split dollar life insurance policy. Properly structured, this allows the executive to bypass income and estate tax while leveraging insurance.

### **Conclusion**

If you would like to incorporate life insurance in your charitable giving plan, ask your estate planning attorney, tax professional, financial advisor, and/or life insurance agent to determine which techniques are most appropriate in light of your goals, and those of your selected charity.

[Law Office of Nicole A. Davidson](#)  
P.O. Box 125, Alamo, CA 94507-0125  
Tel/Fax: 925-932-5555 • Cell: 510-919-8389  
E-mail: [nicoledavidsonlaw@gmail.com](mailto:nicoledavidsonlaw@gmail.com)  
Website: [nicoledavidsonlaw.com](http://nicoledavidsonlaw.com)