



Donation of Life Insurance

A donor can designate a charity as a life insurance beneficiary. When the time comes, the nonprofit organization receives the proceeds.

Policy proceeds distributed to a nonprofit are exempt from estate taxes.

Types of Life Insurance Policies That Can Be Donated.

Term Life Policies

A term life insurance policy is not ideal to donate to a nonprofit organization because they usually have been in force for a shorter amount of time than Whole Life policies.

Permanent Life Policies

A permanent Life Insurance policy makes more sense to donate to a charity as it is more likely to make it to the nonprofit. This type of policy stays in force for life, as long as you continue to pay the premiums. The nonprofit may also choose to surrender the policy for cash if you transfer the policy in your lifetime.

How to Donate a Life Insurance Policy.

There are a few ways you can donate a life insurance policy to a charity. Be aware that the tax consequences vary depending on the method you use. Plus, the insurance company might require that you have a history of giving to a particular charity in order to donate your life insurance policy to it.

Before getting into the ways a policy can be donated, it's important to understand four key components of an insurance contract.

1. Insured:

The person whose life is covered by the insurance contract.

2. Owner:

The person who owns and controls the contract. The owner can make material changes to the contract such as changing beneficiaries.

3. Payor:

The person, company or trust that pays for the life insurance policy.

4. Beneficiary:

The recipient of the death benefit, which is paid out when the insured dies.

Knowing how these roles work can help prevent confusion about how the donation process works.

Gift Dividends From a Life Insurance Policy

You have another option if you want to get a charitable contribution tax deduction but don't want to transfer ownership of your life insurance policy. If you have a permanent life insurance policy, you might be receiving dividends from the insurance company. You can have the current year dividend directed to a charity.

As with all gifts or donations, please consult your financial advisor or attorney to decide what is best for your needs.

(Source: ForbesAdvisor)