GIFTS OF NONTRADITIONAL ASSETS

LIFE INSURANCE

Giving life insurance may offer you benefits and a chance to make a gift where other options are not feasible. Policies may no longer be needed or serve the purpose for which they were originally intended, such as a business that no longer exists, or for children or loved ones who may not need the additional income. You may also be able to establish an endowment type gift that may not have seemed possible under other circumstances.

There are several ways a life insurance policy can be used to make a charitable gift, such as:

1. ***Naming a charity as a beneficiary on an existing life insurance policy.*** Because you have the option of changing or revoking the designated charitable beneficiary, no charitable contribution is allowed.
2. ***Transferring ownership of a policy to a charity.*** This allows you to claim a charitable deduction for the approximate cash surrender value of the policy. For example, you may be able to transfer ownership of a policy to First Pres for the benefit of the ministry, mission or cause you choose. Once the gift is made, it is owned by the charitable organization and cannot be revoked.
3. ***Purchasing a new policy in order to make a charitable gift.*** A policy you have given to a charity that continues to require premium payments may allow you to declare premiums you continue to pay as tax deductible gifts. (Applicable in most states. Check with your lawyer or financial advisor.)

EXAMPLE: LIFE INSURANCE GIFT

When he turned 65, John and his wife, Ann, reviewed their assets and determined they had enough to support them through retirement. They no longer needed the life insurance protection John had originally acquired to provide for Ann, so they gave the policy to their church. After John's lifetime, the life insurance proceeds will benefit their church which they have supported throughout the years with many volunteer hours. John and Ann claimed a charitable contribution in the year they made the gift, and they may also claim deductions for the contributions made to their church to pay the policy's premium. By using insurance, they are delighted to have made a gift far larger than they imagined was possible.

It’s easy to make a gift from your retirement assets. Obtain a change of beneficiary form and indicate the amount or percentage of your assets that you wish to give to a charitable beneficiary.

RETIREMENT PLANS

When planning your estate, assets that have increasing importance are retirement plans, including IRAs, 401(k)/403(b), Keogh, and other retirement accounts. These accounts, which can become quite sizable over the years, will be included as part of your estate at your death. Beneficiaries of account balances will be subject to federal income tax upon receipt. Possible estate and income taxes can result in the loss of a substantial portion of your retirement savings. By designating a charitable beneficiary for your retirement account(s), you and your heirs may reduce income and estate tax liabilities.

Another option is to name a charitable trust as beneficiary to provide lifetime income (or income for a number of years) to a person you select, such as your spouse. After the person’s lifetime, the balance of the trust will benefit the charity you select. Your estate may be entitled to a charitable contribution deduction.

You can also establish a charitable trust during your lifetime using assets from your retirement account. Withdrawals from your retirement account will be subject to income tax, but you may create a charitable contribution deduction, further reducing the income tax due on the withdrawal.

EXAMPLE: GIFT OF RETIREMENT ASSETS

Sharon’s $600,000 estate (which includes a $100,000 IRA), leaves $500,000 to her five children, $50,000 to her church’s program for aid to the homeless, and $50,000 to a charity which ministers to battered women and displaced families. Although there is no federal estate tax on an estate this size, when the proceeds of the IRA are distributed, they are subject to federal and state income taxes (assuming a 28 percent tax, that’s a minimum $28,000 loss from Sharon’s estate). Yet, if Sharon leaves the same amount to charities, but uses the IRA account for her gifts instead of other assets, the full income tax liability will be avoided, thus providing more for her children

REAL ESTATE

Real estate can provide unique gift opportunities, regardless of whether it has increased or decreased in value. Sizeable capital gains often occur when property that has been held for many years is sold. An outright gift of real estate will result in tax savings since you may receive a charitable income tax deduction for the appraised value of the property. Capital gains tax is avoided if the charity sells the property.

A gift of real estate property should be readily marketable, but a sale should not be prearranged. A contribution that exceeds the annual charitable deduction limit may be carried forward for up to five additional years.

If the property has decreased in value, it is better to sell the property outright and make a gift of the proceeds. You may be entitled to a capital loss to deduct from your taxable income, as well as the charitable deduction for the amount of the gift.

You may make a gift of your home or farm property and still retain the use of it during your lifetime. This allows you to claim a charitable deduction for the gift while retaining all the benefits of ownership. After your lifetime, the charity will have complete control of the property. A portion of the value of the property is deductible as a charitable donation in the year of the gift.

The vacation home that you no longer use could provide needed support for First Pres ministries and missions.

EXAMPLE: REAL ESTATE

Mary Smith no longer uses a vacation home that she and her husband purchased years ago. The original cost was $100,000, but it is now worth $300,000. Mary would like to donate the property to her church to establish an endowment fund. She will get to take a charitable tax deduction of $300,000 and avoid paying capital gains taxes. In addition, the property will not be part of her taxable estate and she is able to make a legacy gift to her church.

First Presbyterian above all, love
CHURCH OF WEST CHESTER