

Title: Donating a Policy to Charity

Good Afternoon:

It is my pleasure to be introduced to you. Your accountant referred you to me because of the frustrating, yet required process when donating a life insurance policy to a non-profit. I understand it is not pleasant to hear you won't be getting the deduction you were expecting for your policy donation to the school but the process I will bring you through will get you everything you are entitled to.

Unfortunately, your cash value is not the number the IRS looks at when taking donations into account. To think about it in a simplistic way, they aren't eager to let you take a deduction for something you have never paid tax on. In other words, the special rules which allow your life insurance cash value to grow tax free is what is preventing you from fully deducting that same cash value.



The tax rules state that the deduction is for the cash value or your basis in the contract, whichever is *lower*. Even though your cash value is \$100,000, the premiums paid into your policy total \$22,000. The \$78,000 of tax free growth is not deductible. On the other hand, if your cash value was only \$10,000 then that would be your limit.

Additionally, the rules say that if your donation exceeds \$5,000 you must also have an appraisal. The purpose of this is to prove that the policy is not worth less than the cash value and the basis, though that is almost never the case. Life insurance simply got caught up in the appraisal rules for everything else. Because of the nature of your policy, I already know off the top of my head what the fair market value of your policy is but we still have to go through the formal process.

Fortunately, I have relationships with multiple life insurance appraisers around the country and I know which ones to go to for which purposes. You don't want to pay more than you need to but you also definitely don't want to cheap out when you shouldn't. For a case like this, there is a specialist I work with who charges a very modest flat fee. It is my responsibility to collect all of the forms and paperwork, get them to him, coordinate with the non-profit and bring this all together for you to hand to your CPA.

Again, sorry for the disappointment but probably better to deal with this now than have the IRS come back next year with tax and penalties for an improper deduction.

I look forward to the process and please don't hesitate to call or email my with any questions.

Sincerely,

Bill

Letters of Explanation

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group

