



What Can I Do With a Life Insurance Policy That I No Longer Need?

By: Joe the Investor

If you have had a life insurance policy at an earlier stage of life that you no longer need, the typical method of dealing with it is to let it expire or take the cash surrender value if it applies. There is another option that may be available: You can donate the insurance policy to charity. There are a number of conditions that would have to line up for this idea to work.

The Charity Has to Accept the Insurance Policy

The concept is that if you donate your insurance policy to charity, they will eventually get the payout which will be the donation. Since it is a life insurance policy and you are still alive, there will be a time delay before the payout comes to fruition. The ideal policies that charities would like are those that are about to expire or payout soon. In the meantime, the premiums have to be paid to keep the life insurance policy alive. If you the donor keep paying, you can get charitable tax credits for the premiums after the transfer, but if you stop paying, the charity does not get any payout. The charity will typically want to pay the premiums, but they will only do this if the payoff is worthwhile. The charity also has to be willing to accept this kind of gift as it may be too complicated or overwhelming for certain organizations. Having large one time donations can be problematic for cash flow management for the charity.

The Value of the Insurance Policy Has To Be Verified

The value of the insurance policy has to be valued based on its terms and conditions. This would include the premiums, health conditions, riders and special rules that may exist in the policy. This valuation would have to be done by an insurance underwriter or actuary.

Your Income Has to be High Enough

If you succeed in donating the insurance policy, you would be able to claim an amount up to 75% of your income in the year that you donate the insurance policy. You also have up to 5 years to carry forward the amount if you cannot claim it right away. If your income is not high enough or you cannot use the credits, there will not be any benefit to making a large donation. Even if all of the ducks line up, you are receiving a fraction of the donation in terms of the tax credit – typically between 15% and 29% of the amount donated.

The Insurance Policy Has to be Paid Up

The insurance payout has to be intact in order to donate it to a charity. If it is not, the value will not be as worthwhile.

Tax Liability on Sale

If the cash surrender value is higher than the adjusted cost basis (ACB) of the sale, there may be a tax liability on the sale which would negate any advantage of donating the insurance policy.

Sources:

<https://www.advisor.ca/tax/tax-news/how-to-donate-a-life-insurance-policy/>

<https://advico.ca/charitable-giving-and-life-insurance/>