Naming a Charity as Beneficiary of Group Term Life

Prepared for: Sample

Prepared by: Brentmark

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Amount of Group Term Coverage:	$5,000,000
Donor's Age at End of Calendar Year:	51
Monthly Cost (Per $1000):	$0.23
Donor's Income Tax Bracket:	24.0%
Amount of Taxable Coverage:	$4,950,000.00
Reportable Monthly Income from Excess Coverage:	$1,138.50
Reportable Income from Coverage for One Year:	$13,662.00
Annual Income Tax Savings:	$3,278.88

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This calculation determines the amount of annual income tax savings possible by naming a charity as the revocable beneficiary of group term life insurance in excess of the first (already income tax free) coverage. Usually, the cost of up to $50,000 of group term life insurance coverage is not reportable as income but cost of coverage in excess of $50,000 of coverage is taxable to the employee under so called "Table I" rates.

This technique, specifically sanctioned by Internal Revenue Code Section 79(b)(2)(B) has a number of advantages. First, it is simple. Nothing more is involved than making a revocable assignment of the death benefit to a qualified charity. Second, the tactic "freezes" Table I income tax costs for every year that the charity remains a beneficiary. If, in some later year, a noncharitable beneficiary named for the amount in excess of $50,000, the insured employee will then have to report income but will not have to report any income for the years in which the charity was named the beneficiary.

No income tax deduction is allowed since only a fraction of the insured's interest is given. To qualify for this "income freeze," the charity must be named the sole beneficiary of the excess portion for the entire tax year. Any question about this being a partial interest gift can be avoided by naming the charity the beneficiary of all the entire proceeds rather than merely the excess over $50,000 although this is probably a fractional interest in the group insurance so the partial interest rule should not apply. We suggest being conservative that the charity be named the beneficiary of the entire amount. Insurable interest should not be a problem in most states but should be checked.

As noted above, the cost of group-term life insurance protection in excess of $50,000 is not taxable to an individual who names--even revocably--a qualified charity as the beneficiary of the excess coverage. Although no income tax deduction will be allowed for the gift, no income tax is reportable regardless of how much the employer has paid.