John Hancock
LIFE INSURANCE

Sales Strategy

Comprehensive Charitable Planning

Charitable Planning Opportunities Using Life Insurance

Giving to charity can provide many benefits and opportunities. Of course, the charity benefits from the donation that can be used to help further its cause. However, the donor can also receive tax benefits as well as the satisfaction that comes with making the gift. The ways in which gifts can be made to charity vary and can be tailored to achieve specific planning objectives. For instance, an asset can be transferred directly to the charitable organization during a donor's lifetime or at death, to reduce the taxable estate. The gift can also be made indirectly using a charitable trust that provides benefits to both the donor and the charity.[1]

HOW CHARITABLE GIVING WORKS

When making charitable gifts, the donor and charity benefit in a number of different ways. Some of those benefits include:

- The charity receives a gift it can count on to further its cause.
- The charity benefits from the full value of the asset transferred since no taxes apply.
- The donor, as donor, may benefit from the savings associated with a charitable income tax deduction.
- The donor may be able to avoid a lump-sum capital gains tax on a highly appreciated asset.
- Income, gift, and estate taxes may be minimized.
- An income stream can be generated from the asset given away.
- The donor can diversify a concentrated stock position without incurring immediate taxation.

TAX BENEFITS FROM MAKING GIFTS

Gifts of almost any type of asset can be made to charity including cash, securities, real estate, and even life insurance. However, tax benefits will be limited based on the type of asset transferred, the type of charity to benefit, the type of trust being used, if any, as well as the donor's adjusted gross income (AGI) level.

Please see the Comprehensive Charitable Planning Client Guide for more details on charitable income tax deduction calculations, a description of the types of charities that exist, and the different ways charitable gifts can be made.

THE ROLE OF LIFE INSURANCE

Keep in mind that assets transferred to a charity can be replaced at a discount for family members through the use of life insurance. In fact, the savings from a charitable income tax deduction can even be used to fund a needed life insurance policy.

PLANNING OPPORTUNITIES USING LIFE INSURANCE

Making charitable gifts may help to preserve the donor's personal wealth and address the following planning concerns:

A Concentrated Stock Position. If a donor is concerned about increasing income generated from an investment portfolio, but prefers not to diversify assets in order to avoid capital gains taxes, a Charitable Remainder Trust (CRT) can provide diversification without a lump-sum tax bill. That is, the transfer of highly appreciated stock to a tax-exempt CRT does not cause recognition of capital gains. And, when the trust sells the asset to diversify, there is no taxable gain to the trust either. The trust makes income payments to a non-charitable beneficiary, typically the donor. A portion of the income may be used to fund life insurance to replace and possibly leverage the value of the asset for heirs, outside the taxable estate. A charitable income tax deduction is also available and is based on the stated percentage of income to be paid as well as the government growth rate (AFMR rate) assumption published in the month the gift is made to the CRT.

CASE STUDY: PETER AND VIRGINIA ANTHONY

Facts: Peter (75) and Virginia (72) Anthony own highly appreciated stock currently worth $2,000,000. The value of their current estate is $7,500,000. They have been actively involved with the National Cancer Society (NCS). They are considering liquidating the stock in order to diversify their holdings. They would also like to generate an income from the liquidation and leave the remaining value to their four children upon death. However, if they sell the stock, even at today's low 15% capital gains tax, they must pay taxes of $270,000 currently before reinvesting the net proceeds from the sale.

Solution: Through their financial advisor, the Anthonys learned that by establishing a Charitable Remainder Annuity Trust (CRAT), the trust can diversify the assets for them without incurring taxation. They can receive income payments in a guaranteed amount from the trust for their joint lifetimes, and they can name NCS as beneficiary of the trust balance.[2]

When a CRAT is used, the trust income will be guaranteed since the income payment is based on a fixed-dollar amount regardless of the underlying performance of the trust assets.[3] Assuming a 7% annual income payment, the Anthonys can receive $140,000 of gross income annually from the trust. In addition, the Anthonys can achieve savings from the charitable income tax deduction of $612,400, assuming a current 5.6% federal rate used to calculate such gifts. Due to limitations on the amount of the deduction that can be taken in any given year, the Anthonys may carry the deduction over a six-year period. Their current AGI, including the income from the trust, is $340,000. Since a maximum of 30% of AGI can be deducted annually when stock is transferred to a public charity, the maximum annual amount the Anthonys can deduct of the $612,400 is $102,000. However, the remaining deduction can be carried over the next five years subject to the same limitations.

The Anthonys can also establish a Wealth Replacement Trust (WRT) that can be funded with a $2,000,000 life insurance policy on their joint lives to replace the asset for the children at their death. A John Hancock Performance SUL policy has an annual premium of $34,970. Since the Anthonys can take advantage of up to $88,000 in annual exclusion gifts, they can use a portion of the net trust income they receive to fund the life insurance premium, free of gift taxes.[4] Furthermore, after paying income taxes and making the life insurance payment, their net spendable income, including the tax savings from the deduction, in year one is $95,730. In year 10, their net spendable income is $57,033 since there is no further carry-over of the deduction beginning in year seven.

CASE STUDY: PETER AND VIRGINIA ANTHONY (continued)

HERE'S WHAT IT LOOKS LIKE:

COMPARISON OF BENEFITS AT ASSUMED LIFE EXPECTANCY — YEAR 15		
	SELL/REINVEST	CRAT AND WRT
Time Period	2007–2020	2007–2020
Income Payout Rate	7%	7%
Fair Market Value	$2,000,000	$2,000,000
Income Tax Deduction	—	$612,400
Capital Gains Tax on Sale	$270,000	—
Total Net Income (including tax savings)	$1,220,196	$1,606,269
Premiums Paid from Income	—	$524,550
Total Net Spendable Income	$1,220,196	$1,081,719
Value Included in Estate	$2,199,732	—
Life Insurance Death Benefit	—	$2,000,000
Net to Heirs after Estate Tax (50%)	$1,099,866	$2,000,000
Total Family Benefit	$2,320,061	$3,081,719
Endowment to Charity	—	$2,543,042
Total Gift to Family and Charity	$2,320,061	$5,624,761

The data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a representation of expected future results. Unless indicated otherwise, these values are not guaranteed. Deduction calculation is based on a 5.6% AFMR rate. The hypothetical growth rate assumed on assets is 8%.

Summary: Peter and Virginia will be able to make a $2,543,042 gift to NCS, a gift of $2,000,000 to their children without any gift or estate tax consequences, and reap the benefits of a sizeable income stream for the rest of their joint lives from the very assets they give away. Moreover, they are able to avoid a lump-sum capital gains tax and benefit from the savings generated from the charitable income tax deduction.

WEALTH TRANSFER PLANNING

If protecting and preserving wealth for future generations is a concern, a non-grantor Charitable Lead Trust (CLT) can help to reduce the taxable estate and transfer an asset to heirs at a discount. A non-grantor CLT has readily available funds outside the taxable estate that may be leveraged with life insurance to significantly increase the amount transferred to heirs. As long as the trust income payable to the charity is not compromised, and providing that there are sufficient assets available to pay any trust income taxes due, a portion of the trust assets in the CLT can be used to fund a life insurance policy on your client's life. Generally, when life insurance is included in CLT planning, the CLT should be established as a Charitable Lead Annuity Trust (CLAT) in which the income provided to the charity is an annual fixed-dollar amount. Also, income from the trust should not be used to fund the premiums.[5]

The donor simply transfers an asset to a CLT, immediately reducing the taxable estate. The CLT provides the named charity with income, typically quarterly. The trust balance is transferred to heirs at the end of the trust term. The transfer of the asset to a CLT is an immediate and completed gift based on the present value of the projected trust balance, net of income payments made to the charity, based on the government AFMR rate and income payout rate. The use of a non-grantor CLT may provide the donor with substantial gift tax savings, and a reduced taxable estate, while leveraging the wealth transferred to heirs.

CASE STUDY: CHIP AND CARLA WORCESTER

Facts: Chip (60) and Carla (60) Worcester have an estate worth $15,000,000 and are concerned about how much of the estate will be depleted by transfer taxes. They like the idea of helping a charity.

Solution: After speaking with their financial advisors they have learned about some of the benefits of establishing a non-grantor CLT. They have decided to transfer $1,000,000 of highly appreciated real estate as well as $1,000,000 of cash to a lifetime Charitable Lead Annuity Trust (CLAT) with a 7% income interest payable to the Native American Foundation, a public charity. Their children will receive the balance of the trust assets at the end of 10 years, the end of the trust term. Although a charitable income tax deduction is not available when the asset is transferred to a non-grantor CLT, the Worcesters can take a charitable gift tax deduction of $1,081,038, assuming a current federal rate of 5%. Effectively, this deduction discounts the value of the gift made to the children significantly, especially when federal rates are low. Therefore, the value of the current gift is $918,962, not $2,000,000. The gift is not subject to gift tax because the Worcesters can use part of their available lifetime gift tax exemption to cover the amount of the gift. If the trust actually earns a net 8%, the value of the trust in year 10 would accrue to $3,207,153. This means that $2,288,191 ($3,207,153 – $918,962) has completely avoided gift and estate taxes.

However, the trust can also use a portion of the assets to purchase life insurance and increase the amount ultimately transferring to the children. The trustee can take $20,000 per year assuming ten years of annual premium payments from of the cash in the trust to purchase a John Hancock Protection SUL-G policy with a guaranteed death benefit of $764,576. In this case, by year 10, $2,880,369 ($3,799,331 – $918,962) has escaped gift and estate taxation. A comparison of the net amount transferred to heirs with and without life insurance is as follows:

YEAR	WITHOUT LIFE INSURANCE (trust grows at 8% net)	WITH LIFE INSURANCE (trust balance grows at 8% net)	DIFFERENCE
1	$2,060,000	$2,814,076	$754,076
5	$2,421,499	$3,119,473	$697,974
10	$3,207,153	$3,799,331	$592,178
20	$7,721,514	$8,248,716	$527,202

This example assumes the use of a John Hancock Protection SUL-G life insurance policy with a guaranteed annual premium of $20,000 and that no policy loans and withdrawals are taken. A current hypothetical crediting rate of 5.05% is also assumed. Income that is generated after the 10 year trust term is assumed to be reinvested thereafter in a trust to benefit the children at the death of the surviving spouse.

MAXIMIZING CHARITABLE GIFTS

If a donor is interested in making his or her current charitable gifts go farther, it may be possible to have a charity own a life insurance policy on your client's life. The donor can then make gifts to the charity in the amount of annual premiums. The annual cash gifts will provide the donor with a charitable income tax deduction limited to 50% of AGI. The charity can then use the cash gifts to fund the policy. Note that the charity must own the policy outright in order for an income tax deduction to be available. If the charity is named as beneficiary of the policy, no deduction is permitted.

CASE STUDY: DONNY AND JESSICA PENDELTON

Facts: Suppose that Taylor Jameson, President of the Global Warming Foundation (GWF), is looking for ways to have his major league donors stretch the value of their respective contributions. He knows that donors like Donny (76) and Jessica (74) Pendelton, have supported GWF for many years with contributions of $100,000 per year and are interested in making their contributions go farther for the benefit of the foundation. Nat Tulley, Mr. Jameson's financial advisor, mentions the concept of having the foundation purchase a $2,000,000 John Hancock Protection SUL-G survivorship life insurance policy on the Pendelton's lives. Nat explains that GWF can use the annual donations made by the Pendeltons to fund the annual premiums of $40,019. He points out that the Pendeltons can continue to make the $100,000 annual tax-deductible contributions, a portion of which can be used by GWF to make the premium payments. Of course, if the Pendeltons stop making the annual contributions, GWF will need to find an alternative source to fund ongoing premiums.

HERE'S WHAT IT LOOKS LIKE:

		DIRECT CASH GIFTS		MAXIMIZING CASH GIFTS WITH LIFE INSURANCE			
YEAR	**AGE**	**CUMULATIVE CASH GIFTS TO CHARITY**	**CUMULATIVE BENEFIT TO CHARITY AT 7% GROWTH**	**CUMULATIVE CASH GIFTS TO CHARITY**	**ANNUAL PREMIUM**	**CUMULATIVE NET CASH** (net of Premium paid and growing at 7%)	**TOTAL BENEFIT TO CHARITY** (includes insurance proceeds and cash balance)
1	76/74	$100,000	$107,000	$100,000	$40,019	$64,180	$2,024,161
5	80/78	$500,000	$615,329	$500,000	$40,019	$369,081	$2,124,878
10	85/83	$1,000,000	$1,478,360	$1,000,000	$40,019	$886,735	$2,408,545
13(L.E)	88/86	$1,300,000	$2,155,049	$1,300,000	$40,019	$1,292,620	$2,772,373
15	90/88	$1,500,000	$2,688,805	$1,500,000	$40,019	$1,612,772	$3,012,487
20	95/93	$2,000,000	$4,386,518	$2,000,000	$40,019	$2,631,077	$3,830,697

The example assumes a John Hancock Protection SUL-G life insurance policy with a $2,000,000 death benefit with annual premiums due of $40,019. This example assumes a current hypothetical crediting rate and that no loans or withdrawals are taken from the policy.

The Pendeltons can now provide a guaranteed $2,000,000 gift to the same foundation that they have been contributing to for years without any additional out-of-pocket cost. By year 13, joint life expectancy, the life insurance leverages the donations by $617,324.

MANAGING LARGE INCOME TAX YEARS

For a donor who has substantial income in a single year due to the sale of a business, receipt of a large bonus, or perhaps taxation of stock options, a CLT may provide an immediate income tax deduction when established as a grantor trust. Although your client is responsible for the tax on the CLT income, it may be possible for taxes to be effectively managed. The trust balance can then be transferred to heirs at the end of the trust term.

It may also be possible for the trust to purchase a Single Premium Immediate Annuity (SPIA) using a portion of trust assets to guarantee the charity the income promised.[6] Life insurance can then be purchased using a portion of the remaining trust principal to leverage the amount transferred to heirs. When life insurance is used, however, the CLT is typically established as a CLAT so that the growth of the policy's cash values is not depleted to make income payments. Moreover, the charity benefits from the trust income, but your client benefits from transferring the asset at a discount to heirs. The discounted gift is then leveraged with life insurance.[7]

CASE STUDY: THEODORE WEBSTER

Facts: Theodore Webster, age 50, sold his business and has $1,500,000 of disposable cash. The gain on the sale of his business is $450,000. Theo will be a consultant to the company that purchased his business for the next 2 years and will earn a gross income of $1,500,000. Theo does not need the cash and prefers to minimize current taxes while planning for his three children and benefiting the Foundation Against Depression, a charitable organization that has helped him to be successful.

Solution: Theo can transfer $1,500,000 to a grantor CLAT with a 6% payout to the Foundation Against Depression. The CLAT will be set up for his lifetime. At Theo's death the remaining trust balance will transfer to his three children. The trustee of the CLAT is assumed to actively manage stacked treasuries with annual growth rate of 2% and income of 6%.

By contributing $1,500,000 to the CLAT today Theo can generate $1,242,589 in income and gift tax deductions. The income tax deduction is limited to 30% of his AGI. Therefore, the amount of the income tax deduction he can take this year is $450,000. Theo will be able to fully offset the gain on his business transaction with the income tax deduction from the charitable gift. And, the value of the gift Theo is considered to be transferring to his children has been reduced from $1,242,589 to $257,411. Theo will use $257,411 of his applicable gift tax exemption to cover the value of the completed gift.

The trustee of the CLAT can then use $25,862 of trust assets annually to purchase a John Hancock Performance UL policy on Theodore's life that provides a death benefit of $2,256,617 that will benefit the children at his death.

By establishing a Grantor CLAT, Theo can provide the charity with an income stream of $90,000 annually while Theo offsets his income taxes from the sale of the business. At the same time, Theo is able to make a gift today at a discounted gift tax value to his children that has the potential to grow for their benefit outside of the taxable estate. Further, the life insurance may leverage the gift outside the taxable estate as follows:

HERE'S WHAT IT LOOKS LIKE:

YEAR	WITHOUT LIFE INSURANCE (6% income, 2% growth)	WITH LIFE INSURANCE (6% income, 2% growth)	DIFFERENCE
1	$1,515,000	$3,744,203	$2,229,203
5	$1,587,804	$3,689,888	$2,102,084
10	$1,714,445	$3,626,992	$1,912,547
15	$1,894,009	$3,512,545	$1,618,536
20	$2,145,446	$3,393,633	$1,248,187
25	$2,494,224	$3,235,412	$741,188
28 (life expectancy)	$2,763,998	$3,106,766	$342,768

This example assumes the use of a John Hancock Performance UL life insurance policy with annual premium of $25,862. It is assumed that no policy loans or withdrawals are taken and that the trust balance in both scenarios grow at 2%.

GIVING LESS TO THE IRS

A client who prefers to dictate where his or her tax dollars go may be more interested in routing funds to a charity than to the government. A portion of the asset can then be replaced with life insurance funded with the tax savings from the gift. And since assets remaining in the estate at death may be subject to estate and potentially generation-skipping transfer (GST) taxes, your client may prefer to make a gift to charity rather than to the government. And when making a gift to charity, the asset and its growth are removed from the estate permanently.

CASE STUDY: VICTORIA SMITH

Facts: Victoria Smith (72), widow, has a $6,000,000 estate with a home worth $1,000,000. She has an annual income of $300,000 generated from her investments. She is very involved with a community foundation that helps to feed, clothe, and educate needy children. She has inquired about her options because she is interested in helping the public foundation financially and is aware that her heirs will lose half of their inheritance due to transfer taxes anyway.

Solution: Through her financial advisor, Victoria has learned that she can give her home away today and retain the right to live in it for the rest of her life. By giving the foundation a Charitable Life Estate in her home, she can receive a current income tax deduction for the present value of her home and use the savings from the deduction to purchase a life insurance policy to benefit her children. Since the policy will be owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds will not be includible in her taxable estate. The deduction is based on a 5% applicable federal mid-term rate used to calculate such gifts and takes into account life expectancy. The deduction calculated is $546,024 and potentially saves $191,108 in income taxes. The deduction will need to be carried over six years since she is allowed to deduct up to only 30% of her AGI in any given year, or approximately $90,000. Based on a 35% tax bracket, the annual deduction can save Victoria $31,500 per year for six years and can be used toward a John Hancock Protection UL-G 07 policy with a guaranteed death benefit of $415,986. If the home remains in her estate at her death, it will be subject to a 50% estate tax rate before her heirs receive it.

HERE'S WHAT IT LOOKS LIKE:

BENEFITS OF COMBINING A LIFE ESTATE WITH LIFE INSURANCE		NO CHARITABLE PLANNING
CHARITY'S BENEFIT — YEAR 15 (assumed growth of residence is 3%)	$1,557,967	$0
POTENTIAL INCOME TAX DEDUCTION TODAY	$546,024	$0
POTENTIAL TAX SAVINGS (assumed tax rate is 35%)	$191,108	$0
ANNUAL TAX SAVINGS (based on six years of carry-over deduction)	$31,500	$0
NET TO IRS	$0	$778,983
NET TO HEIRS (based on six years of carry-over deduction)	$415,986	$778,983
TOTAL TO CHARITY AND FAMILY	$1,973,953	$778,983

This example assumes the use of a John Hancock Protection UL-G 07 life insurance policy with a guaranteed annual premium of $31,500 for six years and that no policy loans or withdrawals are taken. The guarantee is subject to minimum premium requirements and the claims-paying ability of John Hancock. A 5% AFMR rate was assumed to determine the value of the charitable income tax deduction. This example also assumes a hypothetical growth rate of 3% on the home.

Summary: Victoria can achieve her charitable goals by making a gift of her home today and reserving the right to live in it for her lifetime. She will benefit from a charitable income tax deduction, the savings from which can be used to provide a gift to her children. By re-routing assets, Victoria can direct assets to both a charity and her children.

TAX-EFFICIENT ASSET REPOSITIONING

Withdrawals from assets in a donor's estate that are subject to double and sometimes triple taxation, such as a deferred annuity or an Individual Retirement Account (IRA), can be taken to fund gifts to charity or to replace assets given away to charity. By depleting these types of assets, the taxable estate is reduced. The income tax deduction associated with the charitable gifts can then be used to fund a life insurance policy to leverage the amount transferred to heirs, outside the taxable estate. Although the withdrawals from these assets will be income taxable, the savings from the deduction may offset these taxes.

CASE STUDY: ELSIE BOSWORTH

Facts: Elsie Bosworth is a 72-year-old widow with a large estate. As she has sufficient income, she has no need for her $650,000 IRA, which is growing at 7% net. Her intention is to transfer the IRA to her grandchildren upon her death. She is also very involved with her local parish and is interested in supporting it financially.

Solution: Elsie can retain the use of her home but deed the property to her parish by making a gift of her $650,000 home through a Charitable Life Estate. At the same time, she can reposition her IRA for the benefit of her grandchildren since the IRA will be depleted significantly by income, estate, and GST taxes at her death. She can take gross distributions from her IRA of $89,231 for five years. The net distributions of $58,000 can fund five annual premiums of $58,000 on a John Hancock Protection UL-G life insurance policy with a guaranteed death benefit of $656,358 on her life. The annual premium gifts are covered by her annual gift tax exclusions and her GST exemption.[7] The policy will be owned by an ILIT so that the proceeds will remain outside her taxable estate. The taxes from the distributions, approximately $31,231, can be offset by the charitable income tax savings of $31,500 generated by the $366,632 deduction from the gift of her home.

HERE'S WHAT IT LOOKS LIKE:

	LIFE ESTATE, IRA DISTRIBUTIONS, AND LIFE INSURANCE					
	REPOSITIONED IRA AND NEW LIFE INSURANCE				CHARITABLE LIFE ESTATE	
YEAR	IRA GROSS DISTRIBUTIONS	INCOME TAXES	NET IRA DISTRIBUTIONS FOR PREMIUMS	LIFE INSURANCE DEATH BENEFIT	VALUE OF HOME FOR CHARITY (assumed net growth rate of 3%)	INCOME TAX SAVINGS FROM CHARITABLE INCOME TAX DEDUCTION (at 35% tax and limited to 30% of $300,000 AGI)
1	$89,231	$31,231	$58,000	$656,358	$669,500	$31,500
2	$89,231	$31,231	$58,000	$656,358	$689,585	$31,500
3	$89,231	$31,231	$58,000	$656,358	$710,273	$31,500
4	$89,231	$31,231	$58,000	$656,358	$731,581	$31,500
5	$89,231	$31,231	$58,000	$656,358	$753,528	$31,500
6	$18,798	$6,579	$12,219*	$656,358	$776,134	$0
10	$24,070	$8,425	$15,646*	$656,358	$873,546	$0
15	$31,868	$11,154	$20,714*	$656,358	$1,012,679	$0

The data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a representation of expected future results. Unless indicated otherwise, these values are not guaranteed. Life insurance policy guarantees are based on minimum premium requirements and the claims-paying ability of John Hancock. *Minimum Required Distributions.

YEAR	NO REPOSITIONING OF IRA*	LIFE ESTATE AND IRA REPLACEMENT WITH LIFE INSURANCE	
	NET TO HEIRS (home and IRA net of 50% estate and 35% income tax)	NET TO CHARITY (value of home in year 15 at 3% growth)	NET TO HEIRS (net IRA balance at 7% plus guaranteed death benefit)
15	$779,360	$1,012,679	$802,258

This example assumes that the home grows at a hypothetical rate of 3% and that net IRA balance is subject to 50% estate tax and 35% IRD (Income in Respect to a Decedent) tax. *Assumes the full use of the GST exemption.

Summary: By providing her parish with an interest in her home, Elsie is able to achieve her objectives of benefiting her parish, retaining the use of her home for her lifetime, and directing $1,814,937 of wealth between the parish and her children.

REPLACING THE GIFT FOR FAMILY

Many times donors are hesitant about making significant gifts to charity because the asset will no longer be available for their heirs. Fortunately, when a gift is made to charity, the amount of the gift can be replaced at a discount for the benefit of heirs through the use of life insurance. The life insurance can be funded from a portion of the savings generated from the charitable income tax deduction or from income generated by a charitable trust.

CASE STUDY: JULIA SHAW

Facts: Julia Shaw is a 65-year-old widow with a favorite nephew. A dedicated and veteran social worker of 30 years, she is interested in helping the National Foundation Against Domestic Abuse (NFADA), a public charity. She has a large estate, with $300,000 of disposable cash. She strongly desires to direct her wealth to this cause as well as her nephew.

Solution: After discussions with her financial advisor, Julia became interested in the idea of making a gift to charity today, while providing a gift for the benefit of her nephew. She learned that she can make a cash gift of $300,000 to the charity. This gift can provide her with a charitable income tax deduction of $300,000. However, because her AGI is currently $100,000, she will be able to deduct up to $50,000 this year and carry-over the remaining deduction over the next five years, subject to the same limitations. The deduction is equivalent to $17,500 of tax savings. She can then purchase a John Hancock Protection UL-G policy for $315,817 with a guaranteed premium of $17,500 for six years to replace the gift for her nephew.

HERE'S WHAT IT LOOKS LIKE:

YEAR	CHARITABLE GIFT TO PUBLIC CHARITY (cash)	TOTAL CHARITABLE INCOME TAX DEDUCTION	AGI LIMITATION ON DEDUCTION (50% of $100,000 AGI)	TAX SAVINGS (at 35% tax rate)	PREMIUM	DEATH BENEFIT (guaranteed)
1	$300,000	$300,000	$50,000	$17,500	$17,500	$305,856
2	—	—	$50,000	$17,500	$17,500	$305,856
3	—	—	$50,000	$17,500	$17,500	$305,856
4	—	—	$50,000	$17,500	$17,500	$305,856
5	—	—	$50,000	$17,500	$17,500	$305,856
6	—	—	$50,000	$17,500	$17,500	$305,856
10	—	—	—	—	—	$305,856
15	—	—	—	—	—	$305,856

This example assumes the use of a John Hancock Protection UL-G 07 life insurance policy with six guaranteed premiums of $17,500 paid in full and that no policy loans or withdrawals are taken. Guarantees are subject to minimum premium requirements and the claims-paying ability of the insurer.

Summary: Julia is able to support NFADA and at the same time use the savings from the charitable deduction to replace the gift for her nephew, outside her taxable estate. In this case, her nephew will receive $305,856 more than the $300,000 that she has given away.

Other Planning Opportunities

FUNDING PERSONAL PLANNING NEEDS

Charitable gifts can also be made in order to fund personal planning needs. For instance, a CLT can be used in conjunction with a private split dollar (PSD) arrangement to minimize gift taxes associated with premium payments required on a life insurance policy. That is, an ILIT can own the life insurance policy, and your client can make loans of the premium to the ILIT under a PSD plan. When a PSD arrangement is used, the gift tax value of the arrangement is based on the economic benefit cost of the policy, which represents only a fraction of the premium in early years and at younger ages. At the same time, a CLT can be established for a term of years equal to the year in which the loan in the PSD arrangement is to be repaid. At the end of the CLT term, the CLT funds can be used to repay the PSD loan.

PLANNING IN A LOW INTEREST RATE ENVIRONMENT

When interest rates are low, the use of a CLT may produce higher income, gift, and estate tax deductions. This means that a CLT may help clients transfer more to charity and family while maximizing current tax savings, especially when trust assets are leveraged with life insurance.

THE TAX INCREASE AND PREVENTION RECONCILIATION ACT OF 2005 (TIPRA)

The Tax Increase and Prevention Reconciliation Act of 2005 (TIPRA) created new code section IRC 4965, which imposes an excise tax on tax-exempt organizations that engage in prohibited tax shelter transactions for tax years ending after May 17, 2006. “Prohibited tax shelter transactions” include any reportable transaction, any listed transaction or any transaction that is “substantially similar” to one of those. The exicse tax is imposed whether or not the transaction is determined to be abusive.

THE PENSION PROTECTION ACT OF 2006 (PPA)

The Pension Protection Act of 2006 (PPA), which became effective on August 17, 2006, includes a provision that requires tax-exempt organizations to report investor-owned life insurance transactions to the Treasury Department for review. The Treasury Department will study the transactions over a 30 month period to determine whether tax-exempt organizations are abusing these arrangements.

This material does not constitute tax, legal, or accounting advice, and neither John Hancock nor any of its agents, employees, or registered representatives are in the business of offering such advice. It cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. It was written to support the marketing of the transactions or topics it addresses. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstances from independent professional advisors.

1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. The Tax Relief and Health Care Act of 2006, which was signed into law by President Bush on December 20, 2006, includes a major change to the taxation of charitable remainder trusts (CRTs) which have unrelated business income (UBI), as defined in Section 512 of the tax code. The Act, which takes effect for tax years beginning after December 31, 2006, changes the penalty for CRTs that have unrelated business income. Instead of losing its tax-exempt status, a CRT that has unrelated business income will now be subject to a 100% excise tax on the unrelated business income. As a result of this legislation, Section 664 of the Internal Revenue Code has been amended. While the penalty is now less draconian than the loss of exempt status, it is still important for trustees of CRTs to minimize unrelated business income.
3. Trust principal must be used to make the payments if the trust does not generate sufficient income.
4. An annual exclusion gift is the amount of annual gifts that each individual can make to each of an unlimited number of people without paying federal gift taxes. In 2007, this amount is $12,000.
5. Income generated from a CLT should not be used to purchase the life insurance or the CLT may be characterized as a grantor trust, in which case the trust principal (including any life insurance) will be includible in the taxable estate. Trust income will also be taxable to your client if the trust is considered a grantor trust. See IRC §671-679.
6. A SPIA is a guaranteed income stream that is purchased from an insurer for a lump-sum payment. The guaranteed payment is subject to the claims-paying ability of the insurer. The SPIA income in this scenario is based on a lifetime income stream regardless of when death occurs, with no refund of principal during lifetime or at death. The SPIA contract and life insurance policy must be issued by different insurers to avoid adverse tax consequences.
7. Although there are a number of favorable private letter rulings (PLR) illustrating the gift, estate, and income tax benefits that can be provided when using a properly structured grantor CLT as a planning tool, a PLR is not authority and this technique remains relatively untested.
8. Transfers made during lifetime or at death, to a skip beneficiary, such as a grandchild, are subject to generation-skipping transfer (GST) tax. However, there is an exemption amount, currently $2,000,000, that can be transferred before the GST tax applies, if allocated properly and in a timely fashion.

Insurance policies and/or associated riders and features may not be available in all states.

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