

Frequently Asked Questions on Life Insurance Appraisals

1. Does the transfer/gift have to take place before an appraisal can be completed?

Yes. While the tax code says that a qualified appraisal can be completed as early as 60 days prior to the gift, life insurance doesn't practically work that way. For example, assume an appraisal is completed 40 days prior to the gift, and then 10 days later the donor withdraws all of the cash, now there is a tax fraud issue. So I can only use the date of transfer values for fair market and the cost basis.

2. If we can't get an appraisal until after the gift, how do we know what the income tax deduction will be?

The tax deduction for life insurance policies is the lesser of the fair market value (FMV) or the adjusted tax basis. So, you can make an estimate of the fair market value as roughly the accumulated cash value (ACV) and the adjusted basis which is generally the sum of all premiums paid since inception minus any withdrawals. (Sometimes there are additional adjustments for dividends and other items but this should be very close.) The company or agent may be able to tell you your exact adjusted tax or cost basis.

3. Are there any particular issues with life insurance that we should be aware of prior to making a gift?

The two biggest issues are loans and small policies. If there is a loan on the policy, it is likely there will be no allowable income tax deduction (seek advice from your own tax, legal, financial advisors) and/or will create recognition of income under bargain sale rules. On small policies, if the current accumulated cash value is less than \$5,000, you do not need to have an appraisal.

4. Are ALL of the "required items" listed on the insurance appraisal form absolutely necessary?

Yes, with some exceptions:

- If you don't have a copy of the Declarations Page, a simple sentence say the donor has been the owner since the date of issue will suffice. Some policies have been purchased by the donor from another person, company or trust and this can create tax basis issues for the appraisal.
- If the policy will be surrendered by the charity for cash, then no in-force ledger is needed.

5. Do I need to send a check BEFORE receiving the finished appraisal?

Yes. Having done this for 10 years, I quickly discovered that I was spending more time trying to collect on invoices than actually doing the appraisal. These donors were all well-intentioned, but various circumstances would arise that would require multiple follow up efforts – hence, the new policy. And I only accept checks as payment.

6. When the appraisal is completed, what does it include and where is it mailed?

The completed package will include the original signed appraisal, a receipt for payment, a completed IRS Form 8283, and my professional biography to conform to the qualified appraisal rules. The package is mailed to the Donee Charity to complete their section of the Form 8283. They should make any copies needed for audit purposes and then mail the completed "kit" to the donor. I am happy to mail the package to an advisor or the donor directly, but please indicate that on the Insurance Appraisal Form.

Appraisal Form for Charitable Gifts of Life Insurance

All of the following must be provided before an appraisal can be completed. Please send materials to the address listed below along with proper payment. Processing takes approximately 5 -8 business days. Upon completion, we will send the qualified appraisal and a completed IRS Form 8283 (Noncash Charitable Contributions) to the charity unless otherwise requested.

Today's Date: _____

DONOR INFORMATION:

Donor(s) Name as Shown on Most Recent Tax Return: _____

Mailing Address, City, State, Zip _____

Phone Number: _____

Donor(s) Social Security or Tax ID #: _____

CHARITY INFORMATION:

Charity's Legal Name and Tax-ID#: _____

Contact Name: _____

Mailing Address: _____

Charity's Phone Number: _____

REQUIRED DOCUMENTS: (Please return this form and ALL required documents in one package.)

- 1. Insurance Contract** – original declarations page or statement that donor has been the ONLY owner since the policy was issued.
- 2. Form 712, Part II**—completed and signed (please use the sample letter below)
- 3. Donor's adjusted cost/tax basis, as of gift date**— (the insurance company will provide this calculation when using the sample letter)
- 4. Current policy values**— the most recent annual policy statement showing net death benefit and net cash values, or a current in-force illustration prepared by the insurance company if you send the sample letter below. If policy has been or will be surrendered, this is not necessary.

FEE: The fee is \$350 for the first policy and \$200 for each additional policy, submitted at the same time (If an appraisal is required within 48 hours, an additional \$100 rush fee will apply to each policy). Please make check payable to Charitable Solutions, LLC and mail this form and all documents to the address above.

NOTE: All policy ownership interests must be transferred to the charity to qualify for a charitable tax deduction. No appraisal will be provided for a partial interest transfer or purchase of life insurance. This includes charitable split dollar life insurance or any variation in which any interest reverts to the donor, his/her heirs, or a trust established to benefit any non-charitable entity or person.

To Whom It May Concern:

On _____ the ownership on the above life insurance contract was donated to _____. We are currently completing the required IRS Forms for this gift and require the following items from you at this time:

- 1. Calculation of the donor's (prior owner's) adjusted cost/tax basis as of the date of the completed gift (as you know, this information is NOT on the Form 712 so must be reported in a separate memo.) More than ½ of insurance companies do not send this information, which requires multiple follow-up calls. PLEASE ENSURE THIS IS INCLUDED.**
- 2. Form 712 - Please complete Part II of this form as of the date of the completed gift.**
- 3. A current in-force illustration. This illustration should show the policy vanishing, if possible, in the earliest possible year, at both current dividend/interest rates and at a rate which is 1% less than the current rate.**

Please forward these items to my attention to the address below and feel free to call me at _____ (if you need additional information).

Thank you for your prompt attention to these requests,