DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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UIL: 170.12-03

Dear :

This letter responds to your request for information dated November 17, 2008. In your request, you asked for information regarding two situations related to the contribution of a term life insurance policy.

In Situation 1, you asked whether, consistent with the partial interest rule, a taxpayer holding a term life insurance policy may (1) turn in his old policy to the insurance company, and (2) in exchange, receive two brand new policies, one of which the taxpayer will donate to charity.

In Situation 2, you asked whether, consistent with the partial interest rule, a taxpayer holding a term life insurance policy may ask the insurance company to (1) reduce the death benefit of the existing term policy, and (2) in exchange, issue a brand new, second policy that the taxpayer will donate to charity.

A taxpayer is allowed a deduction for certain charitable contributions made during the taxable year. However, a charitable contribution deduction is disallowed if the contribution violates the partial interest rule. That is, a charitable contribution deduction is generally disallowed if the taxpayer contributes less than his or her entire interest in the donated property.

Moreover, a taxpayer may not divide his or her property in order to avoid the partial interest rule. For example, if a taxpayer wants to contribute to a charitable organization an income interest in property, and if the taxpayer then transfers a remainder interest in that property to his son and immediately thereafter contributes the income interest to a charitable organization, no deduction will be allowed for the contribution of the income interest. This would be a situation where the taxpayer divided his property to avoid the partial interest rule.

If a taxpayer exchanges an insurance policy for two new, separate and distinct insurance policies, and donates one to charity, that contribution would generally not violate the partial interest rule. Likewise, if a taxpayer has his or her insurer reduce the old policy's death benefits in exchange for the insurer issuing a new policy that is then contributed to charity, that contribution would generally not violate the partial interest rule.

This letter has called your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. See § 2.04 of Rev. Proc. 2009-1, § 2.04, 2009-1 IRB 7 (Jan. 5, 2009). If you have additional questions, please contact me or at .

Sincerely,

Karin Gross
Senior Technician Reviewer, Branch 1
(Income Tax & Accounting)