
An organization described in section 501(c)(3) of the Internal Revenue Code of 1954 will not lose its exempt status where it accepts, and pays premiums on, an insurance policy in which the assignor retains the right to select the method of payment of the proceeds of the policy due upon his death.

Advice has been requested whether the status of an organization exempt from Federal income tax as one described in section 501(c)(3) of the Internal Revenue Code of 1954 will be adversely affected under the circumstances described below.

The organization was assigned an insurance policy. It was given the right under the assignment to surrender the policy for its cash value, to exercise all other options and privileges of the policy, and to receive all benefits granted under the policy. The sole donor to the organization was the owner and insured under the policy. The organization agreed to pay the remaining premiums due on the policy. The donor reserved the right to select the method of settlement of the proceeds of the policy due upon his death. The insurance policy was irrevocably assigned and there is no way in which the donor can receive the proceeds of the policy. Acceptance of the policy did not materially affect the charitable programs of the organization.

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized or operated exclusively for charitable purposes unless it serves a public rather than a private interest.

The retention of the right by the donor-insured to select the method of settlement of the proceeds of the policy due upon his death will not affect the amount payable to the organization. At most, it will alter the manner of the payment of the proceeds. In every other respect the foundation has complete control over the policy.

Accordingly, the acceptance of the policy and payment of the premiums under the circumstances does not adversely affect the exempt status of the organization as one described in section 501(c)(3) of the Code.