



*a guide to*

# CHARITABLE GIFT ANNUITIES

**RiC**

*Did you know that you can make a gift to ministry that provides you with lifetime income and a tax deduction? It is called a Charitable Gift Annuity, and here is what you need to know.*

# What is a Charitable Gift Annuity?

A Charitable Gift Annuity is an agreement between you and a charitable organization. You gift cash or appreciated assets to a ministry in exchange for income for your life. Since a portion of the annuity is a gift to the ministry, you also receive a tax deduction.

## Benefits of a Charitable Gift Annuity

- You receive the satisfaction of making a significant charitable contribution.
- You receive income tax benefits both now and in the future.
  - A current income tax deduction is allowed for the portion that is considered a gift.
  - A part of each payment you receive will be tax-free.
  - When appreciated assets are transferred for a gift annuity, a portion of the capital gains tax will be avoided.
- You will receive income for life.

- You do not have management or investment worries, as well as no service fees to pay.
- The transfer will not be subject to estate taxes or probate costs at your death.
- There are no health or age limitations—though most annuities are issued to those 70 years of age or older.
- *Best of all, your gift supports a ministry you love. You can know that as you are taking care of your income needs, you are also helping provide for the financial future of your ministry.*

## Types of Annuity Agreements

The most common agreement is the *current gift annuity*. It is typical for individuals who are approaching or are already in their retirement years to consider this. It provides immediate lifetime income after the gift annuity agreement is established.

- A single life annuity pays income to you for as long as you live.

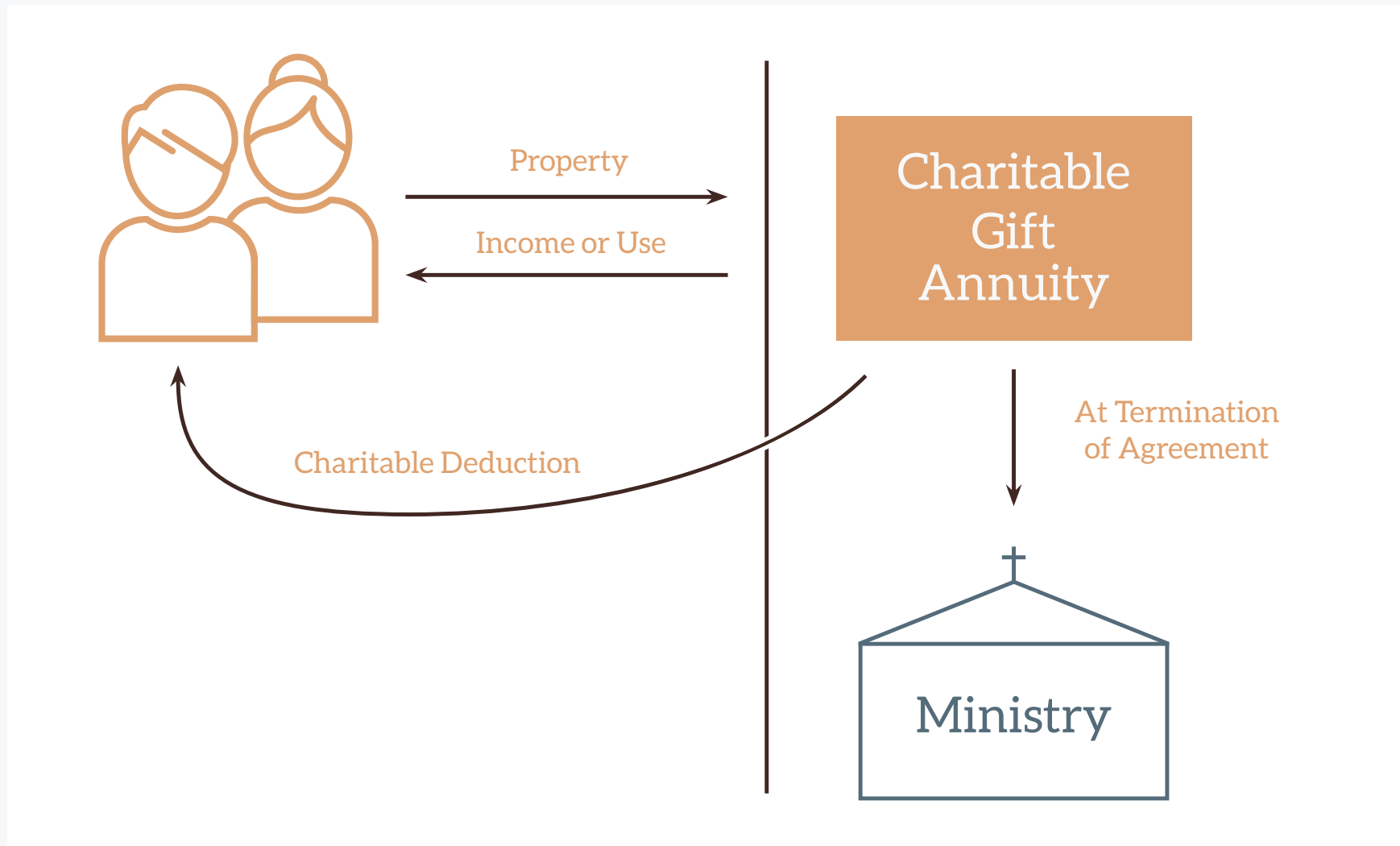
## What is a Charitable Gift Annuity (cont.)

- A joint and survivor annuity pays income to two beneficiaries, and at the death of the first beneficiary continues to pay the same income to the surviving beneficiary for life.
- A survivorship annuity provides income to you for as long as you live then pays income to a survivor for life.

A *deferred gift annuity* provides all the advantages of a current gift annuity but is designed for individuals who are planning for future retirement. Money is accumulated in the annuity agreement until retirement (a designated age) at which time payments begin.

The deferred annuity is also available as a single, joint and survivor, or survivorship agreement.

# How a Charitable Gift Annuity Works



# Taxation of a Charitable Gift Annuity.

## Charitable Contribution Deduction

When entering into a charitable gift annuity agreement, you receive a charitable tax deduction for your gift. When your annuity is funded with cash or assets that have not appreciated in value, you can deduct up to 60% of adjusted gross income in the year the annuity is established.

If your annuity is funded with appreciated assets, your contribution is deductible up to 30% of adjusted gross income.

If the amount of the deduction exceeds these percentages, any excess can be carried over for up to 5 additional years.

## Avoidance of Capital Gains Tax

When giving appreciated assets, capital gains tax is avoided on the portion attributed to the charitable gift. Any capital gains that do apply to the annuity portion (your income) will be prorated over your life expectancy, minimizing the impact of this taxation.

## Taxation of Income

A portion of each payment you receive is considered a return of your investment in the agreement and is therefore tax free. The tax-free portion is calculated using government tables. The remainder of the payment you receive is assumed interest earned on the investment and is taxed as ordinary income.

## Federal Gift & Estate Tax Implications

When you are the only beneficiary of your gift annuity agreement, there are no gift or estate tax implications. However, when another individual, other than a spouse, receives income from your annuity, the value of his or her income rights may be subject to tax.

# A Case Study

Mrs. Smith, age 75, generously gives to ministry. Several years ago, Mrs. Smith purchased stocks that have proven to be a very successful investment. However, Mrs. Smith would like to receive more income than the dividends the stock provides, and she would like to be relieved of investment responsibilities. Mrs. Smith is also concerned about her estate plan and would like to give a portion of her estate to ministry.

A charitable gift annuity, funded with \$50,000 in appreciated stock, provides Mrs. Smith the following benefits:

- She receives income each year of \$3,100—some is tax free.
- Mrs. Smith receives a current income tax charitable deduction of \$22,523, resulting in a tax savings of approximately \$6,305 in a 28% combined federal and state income tax bracket.
- Mrs. Smith originally paid \$20,000 for the stock. If she sold the stock, she would pay capital gains tax on \$30,000. With the gift annuity, capital gains tax is only payable on approximately 65% of her gain, and it is prorated over her life expectancy. This results in an additional tax savings of nearly \$2,200.

- The charitable gift annuity will not be part of Mrs. Smith's estate, avoiding tax, probate costs, and delays.
- With the charitable deduction tax savings, avoidance of capital gains tax, and tax-free income Mrs. Smith receives, she would have to earn an 8.2% return on a fully taxable investment, to equal the benefits of the charitable gift annuity.
- Additionally, Mrs. Smith has the satisfaction of knowing that she is making a substantial gift to ministry.

# How to Establish a Charitable Gift Annuity

First, complete an annuity application and send it along with your gift to the ministry. You will receive a gift annuity agreement, which is a legal contract, that will pay you income for life. The ministry will set aside an annuity reserve to secure payment of your annuity amount.

From your initial annuity payment date, you will receive income for as long as you live. You will also receive information to help you claim your income tax charitable deduction and report the annual income payments.



## Ready for a Personalized Illustration?

You can receive a personalized illustration of how a charitable gift annuity might fit into your overall plan of stewardship. Contact us to request an illustration by providing us some information about your financial plans. Requesting an illustration does not obligate you in any way, and there is no cost.

Contact:

**Andy Baker**

[andybaker@remember-the-children.org](mailto:andybaker@remember-the-children.org)

(317) 774-5090

# Frequently Asked Questions

## Q: Are gift annuities designed for wealthy people?

A: No. Wealthy people can often make outright gifts to ministry. The charitable gift annuity is designed for the person who wants to make a gift to ministry but also needs income from their capital. With a charitable gift annuity, you can do both.

## Q: Does my age make a difference in the rate of return I am paid?

A: Yes, it does. Rates are actuarially determined, based upon ages of the income recipients.

## Q: How do I collect my payments?

A: They will come to you regularly through the mail or by direct deposit to your designated account.

## Q: Is a gift annuity a desirable income plan for a widow?

A: Yes. Gift annuities provide fixed income without having to worry about investment management or fluctuating economy.

## Q: Can I establish as many annuities as I wish?

A: Yes. There is no limit to the number of annuities you can purchase. It is not uncommon for people to purchase a new one each year.

## Q: If I establish a gift annuity, can I withdraw the fund later?

A: No. The agreement is irrevocable. The terms of the annuity agreement must be definite to provide you fixed payments for life.

## Q: Will my annuity be part of my estate?

A: A single life annuity goes directly to the charity at your death, avoiding probate and estate costs. If the survivor of a joint-survivorship annuity is not a spouse, a portion may be included in your estate, but probate costs are avoided.

## Q: What happens if I lose my annuity agreement?

A: Your income continues, and a duplicate copy of the agreement will be sent upon request.

## Frequently Asked Questions (cont.)

**Q: What if the portion of my gift exceeds the maximum I can deduct from my income tax return this year?**

A: If your charitable deduction exceeds the amount deductible in the year of the gift, you may carry over the excess for up to five additional years.

**Q: I would like to receive a fixed income for the rest of my life, but I would also like to have my spouse assured of an income for life. Can this be done?**

A: Yes. It can be done. A joint and survivorship annuity covers the lives of two people and is computed using both your ages.

**Q: Is my income guaranteed?**

A: The security of your income is based upon the financial strength of the charitable organization issuing the annuity. Rates are established by professional actuaries, and funds are set aside in an annuity reserve account to secure your payments.

**Q: Is it a good idea to liquidate uncertain investments to purchase gift annuities?**

A: Since uncertain and unpredictable investments can provide worry and concern, it is sometimes better to have a gift annuity where the return is certain.

**Q: Can a gift annuity be established to pay an income to someone other than myself?**

A: Yes. You may designate anyone you wish to receive payments from a gift annuity.

**Q: Can a single life annuity be changed later to a joint or survivorship gift annuity?**

A: No. The type of annuity, once established, cannot be changed. This is the only way the annuity payments can be determined and fixed.

## Frequently Asked Questions (cont.)

**Q: Can I establish an annuity with stocks or other property rather than with cash?**

A: Yes, this is often done. In many cases, the tax benefits are even greater if the stocks or property have appreciated in value.

**Q: Are there taxable capital gains on appreciated assets funding a gift annuity?**

A: Yes, but the amount of the gain is smaller than it would be if you sold the asset. Taxable gain is spread over your life expectancy.

**Q: Is a two-life annuity available only for husband and wife?**

A: Any two persons can receive income from a charitable annuity. Payments are made to one for life, and then to a survivor for life, or payments can be made jointly and then to the survivor.

# For Professional Counsel:

## CITATIONS OF AUTHORITY CHARITABLE GIFT ANNUITIES

*Because this information is of a general nature only, and should not be interpreted as legal advice, we provide the following citations of authority for use by your legal and tax advisers and to verify its applicability to your specific circumstances.*

**Description.** Donor transfers money or property to charity in exchange for its promise to pay fixed amount annually to donor (and a survivor, if desired) for life. Transfer is part gift and part purchase of an annuity.

**Income tax.** Charitable deduction for excess of amount transferred over what it would cost to purchase comparable annuity from commercial insurance company, as determined by Treasury tables. Rev. Rul. 84-162, 1984-2 CB 200.

When gift annuity is funded with non-appreciated property, amount is deductible up to 60% of donor's adjusted gross income. IRC §170(b)(1)(A); Reg. §1.170A-8(b). 5-year carryover allowed for any "excess." IRC §170(d)(1), Reg. §1.170A-10(b).

When gift annuity is funded with appreciated property held long-term, amount is deductible up to 30% of adjusted gross income. IRC §170(b)(1)(C)(i); Reg. §1.170 A-8(d)(1). 5-year carryover allowed for any "excess." IRC §170(b)(1)(C)(ii).

Under election, donor can increase ceiling to 60% of adjusted gross income (with 5-year carryover for any "excess") by making the same gift, but:

(1) Reducing the amount of the deduction for all long-term property gifts during the year by the appreciation, and

(2) Similarly reducing the deduction for long-term property gifts being carried over from earlier years.

IRC §170(b)(1)(C)(iii); IRC §170(e)(1); Reg. §1.170A-8(d)(2).

**How beneficiary taxed.** Annuitant's return is part capital and part interest; only interest portion taxable. Determining amount received tax-free—the exclusion ratio.

$$\text{Exclusion ratio} = \frac{\text{investment in contract}}{\text{[determined under Rev. Rul. 84-162 (supra)]}} = \frac{\text{expected return [determined using tables in Reg. §1.72-9]}}{\text{[determined under Rev. Rul. 84-162 (supra)]}}$$

**Capital gains implications when appreciated property used to fund gift annuity.** There is capital gain when gift annuity is funded with appreciated property. Amount of gain is smaller than gain would be on outright sale of appreciated property. Gain is not all reportable in year of transfer for gift annuity—as it would be on a sale of property. Gain is reported ratably over annuitant's life expectancy when annuity is non-assignable and donor is sole annuitant or one of the annuitants in a two-life annuity. Reg. §1.1011-2(a)(4) and (c), Example 8.

### Estate tax.

One life (donor is annuitant). None. IRC §2039.

Two lives (funded with donor's separate property; donor is first annuitant and second individual is to be survivor annuitant). If second annuitant not living on donor's death, no amount included in donor's gross estate. If second annuitant survives, included in donor's gross estate is value of annuity paying same amount to survivor annuitant (at survivor's age at donor's death) as donor received during life. IRC §2039(b).

## For Professional Advisors (cont.)

Any estate tax paid by donor's estate attributable to annuity deductible by survivor over life expectancy. Reg. §1.691(d)-1(c).

Marital deduction. Annuity qualifies for unlimited marital deduction where spouse is only beneficiary. Reg. §20.2056(b)-1(g), Example 3.

**Federal gift tax** [IRC §2522(c)(2)(A)].

One life (donor is annuitant). No gift tax.

Two lives (funded with donor's separate property, donor is first annuitant and another is to be survivor annuitant). Gift to survivor of future and terminable interest; hence no annual exclusion or marital deduction.

**Suggestion.** Gift tax implications for survivor's interest can be avoided by donor reserving right to revoke survivor's annuity by his Will. Reg. §25.2511-2(c).