



GIVING THROUGH GIFT ANNUITIES

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and other contact information.]

The charitable gift annuity is a popular way to give and in return receive income and tax benefits that can help preserve or even enhance your current and future financial well-being.

How do gift annuities work?

After making a gift of cash or other appropriate property, you and/or others receive generous fixed payments for life. The frequency and amount of payments are determined at the time the gift annuity is funded. Once funded, the payment rate never changes regardless of how long the recipients live.

Generous tax savings

Because a portion of your gift annuity will be used for charitable purposes, you are entitled to a federal, and perhaps state, income tax deduction in the year of your gift. In addition, part of each payment may be received free of income tax or taxed at lower rates than other income for a period of time.

The amount used to fund your gift annuity may also be free of state and federal gift and estate taxes, if applicable.

Increased cash flow

A gift annuity allows you to receive attractive fixed payments for life. In addition to earnings on annuity funds, payments include a return of part of the amount used to fund your annuity.

Example: Pat Jordan intends to make charitable gifts through her will and other estate plans. She would prefer to make those gifts now, but is concerned she may need income from her assets for future living expenses.

After learning about the benefits of charitable gift annuities, she decides to make a \$10,000 gift to us in this way.

At her age, she will receive annual payments of \$720 (7.2% x \$10,000) for as long as she lives.

In summary:

- Pat transfers \$10,000 for a gift annuity agreement.
- She will receive \$720 each year for as long as she lives. For a number of years equal to her life expectancy, no federal income tax will be due on most of the payments she receives. After that, she will pay tax on the full amount of the payments.
- She may deduct about half of the amount she gives as a charitable gift for the year the gift is completed.*
- None of the amount used to fund her gift annuity will be subject to federal estate tax, if applicable.
- Pat enjoys knowing the gift portion of her annuity will be used for charitable purposes.

*The exact amount that is deductible varies by individual situation. In some cases, the deduction for the charitable gift annuity will be enough to allow the donor to enjoy greater tax savings from other deductible expenses. Check with your advisor at the time you make your gift.

A “double-duty” annuity

It is also possible for two people to enjoy payments.

Example: Mr. and Mrs. Clark want to include charitable gifts in their long-range plans. If they establish a gift annuity with \$50,000, their annual payments will be \$3,050 ($6.1\% \times \$50,000$). Payments will continue for as long as either of them lives.

The Clarks’ charitable income tax deduction in the year of the gift will be nearly half the amount of their gift annuity. Their deduction for the gift allows them to itemize more of their other deductions and save additional income taxes.

As in the case of Pat Jordan’s annuity, a portion of each of the Clarks’ payment is tax free over their life expectancy.

Providing for others

A gift annuity can allow you to make a charitable gift while helping to meet loved ones’ financial needs.

Example: Bob Martin would like to provide his mother with at least \$500 per month for life. He decides to arrange an income for her through a charitable gift annuity. The amount required to provide the desired monthly payments will depend on his mother’s age at the time the gift is funded.

If Bob funds a gift annuity with \$100,000, his mother will receive \$500 per month for life. The income tax deduction for the gift portion is almost half of the amount used to fund the gift annuity. Bob is, in

effect, making two gifts: A gift to his mother with the lifetime payments and a generous charitable gift.

Annuities and retirement planning

For those who would like an additional source of retirement income while also supporting their charitable interests, the gift annuity can be a very appealing choice.

As payment rates generally increase with age, annuities are appealing for many when making their retirement plans.

Consider what funding a series of gift annuities with \$25,000 each year for five years looks like:

Age	Gift Amount	Payment Rate	Annual Amount	Tax Free
78	\$25,000	6.0%	\$1,500	\$1,296
79	\$25,000	6.2%	\$1,550	\$1,345
80	\$25,000	6.5%	\$1,625	\$1,404
81	\$25,000	6.7%	\$1,675	\$1,460
82	\$25,000	7.0%	\$1,750	\$1,526

After five years, the \$125,000 in gift annuities will provide total payments of \$8,100 annually. A large portion of the amount given each year is tax deductible, and on average more than 75% of the payments are tax free for a period of time equal to the annuitant's life expectancy.

About gift annuity rates

Payment rates are reviewed periodically and are subject to change. Age, investment return assumptions, the number of payment recipients and other factors are considered when determining payment rates and tax benefits. Once you have completed a gift annuity, however, the payment rate will never change. Please check with us for current rate information.

Questions and answers about gift annuities

Q. How often are annuity payments received?

A. Typically, gift annuity payments are received quarterly. Other arrangements are possible.

Q. How are gift annuity rates determined?

A. Rates are based on age and other assumptions, including a recipient's life expectancy.

Q. Does the rate fluctuate with the stock market or interest rates?

A. No. The payment amount is set when a gift annuity is funded.

Q. If I fund a gift annuity, can I withdraw the funds later?

A. No. A gift annuity agreement is a permanent transfer in order to qualify for attractive tax and other benefits.

Q. What assets can be used to fund a gift annuity?

A. Cash or other property such as stocks, bonds or mutual funds may be used to fund a gift annuity. Payments may be greater than amounts of income currently being received from low-yielding assets.

Q. Is a gift annuity a type of trust?

A. No. A charitable gift annuity is a contract between the donor(s) and the charitable recipient. Payments are backed by all available assets of the charity.

Q. Can a gift annuity also provide an income for a surviving spouse?

A. Yes. Many couples have gift annuities that will make payments for as long as either of them lives. Payments can also be made to an additional person other than a spouse.

Q. Can I arrange for gift annuity payments for someone else?

A. Yes. Payments from a gift annuity can make a wonderful gift for a relative or friend.

Q. Can I fund more than one gift annuity?

A. Yes. Many people have more than one gift annuity. In fact, you may wish to create additional gift annuities and enjoy higher rates for the subsequent annuities. See the chart on Page 6.

About gift annuities for two people

Q. How many people can enjoy payments from one gift annuity?

A. Up to two people can benefit for life from a charitable gift annuity.

Q. Who can benefit from a two-life gift annuity?

A. Any two people may establish an annuity contract together. They need not be related.

Q. Is there a difference between the rate for one person and two people?

A. The rate is lower when two people receive payments because more than one person will

benefit for what is likely to be a longer period of time.

Q. Can a gift annuity for one person be changed later to benefit two people?

A. No. The number of people receiving payments must be decided at the time the annuity is funded.

Q. Can the second person named to receive payments be changed?

A. No. However, it may be possible to cancel payments to the second recipient.

Q. Must payments begin immediately?

A. It may be possible to delay the start of payments for one or more years and receive a higher rate when the payments begin. If you are interested in learning more about *deferred gift annuities*, contact us.

About taxes

Q. How much of my annual payment will be free from income tax?

A. This depends on the payment rate, the age(s) of the person(s) receiving payments when the annuity is created and other factors. The older the payment recipient(s), the greater the tax-free amount of each payment.

Q. What if the gift portion of my annuity is more than I can deduct on my income tax return for the year of my gift?

A. In that case, you can make use of the extra deduction for up to the next five tax years.

Q. If I use assets that have increased in value to fund a gift annuity, do I avoid tax on the capital gain?

A. Any amount payable will be due over your life expectancy, so you may not have to pay part of the capital gains tax. Another benefit is the ability to report the capital gain amount free of tax or at what may be lower tax rates than you pay on other income. Special rules may apply if someone other than you receives payments.

Q. Is the amount of my gift annuity subject to federal gift and estate taxes?

A. Federal gift and estate taxes are typically not a consideration because of the generous exemptions made available through tax law changes in recent years. Amounts used to fund gift annuities are not generally subject to estate tax.

For more information

We are happy to provide additional information about charitable gift annuities with no obligation. Check with your advisors before funding a charitable gift annuity to determine current laws that may be applicable in your circumstances.

Technical Advisory Section

The preceding pages of this booklet are intended to answer a number of common questions about gift annuities. This section provides further information and references that may be helpful to you and/or those who assist you in your estate and financial planning.

Contractual nature of the gift annuity

agreement: The charitable gift annuity is a contract between the donor and the issuing organization. It is not a trust arrangement. The organization promises to pay a fixed annuity amount; the consideration for this promise is the donor's transfer of property to the organization. The promise to pay the annuity is a general obligation and, in this sense, is backed by all the unencumbered assets of the organization issuing the gift annuity.

General tax information

Charitable gifts of cash and cash equivalents may be deducted in one year up to 60% of a donor's adjusted gross income (AGI).* The limit is 30% of AGI for gifts of long-term appreciated property unless a special election is made and the value of the donated property is reduced by the amount of the appreciation element. In that case, the donation will be subject to a higher AGI limit. See IRC section 170(b)(1)(C)(iii).

Gift amounts in excess of these limits may be deducted in as many as five succeeding tax years. See Internal Revenue Code (IRC) section 170(d)(1)(A).

Other tax considerations

How the donor's charitable deduction is

determined: When an individual creates a gift annuity, he or she is considered to have made a charitable gift equal to the difference between the amount transferred to fund the gift annuity and the present value of the annuity payments.

*AGI limit for qualifying gifts of cash is 100% for 2020. Check with your tax advisors for more information.

The present value of the payments is determined using the same IRS tables generally used to calculate the present value of any other type of annuity. This is typically done through the use of any number of commercially available software programs.

Tax-free portion of annuity payments: A certain portion of gift annuity payments is received tax free because it represents a return of the donor's investment in the contract (as that term is used in IRC section 72).

The investment in the contract is equal to the initial present value of the annuity payments. The donor (assuming the donor is the annuitant) recovers their investment in the contract ratably over their life expectancy, under Income Tax Regulation section 1.72-9. If someone other than the donor is the annuitant, the investment in the contract is recovered ratably over that person's life expectancy.

The tax-free portion of annuity payments is typically between 50% and 90% of the payment if the gift annuity is funded with cash. Once the annuitant reaches their life expectancy, the annuity payments become fully taxable.

Final year tax deduction when donor dies before life expectancy: For gift annuities entered into since 1986, if the annuitant dies before recovering tax free the full investment in the contract, a tax deduction is allowed on the annuitant's final income tax return equal in amount to the unrecovered portion of the investment in the contract.

Note that this is not a charitable deduction, but rather a deduction allowed under IRC section 72, which deals with annuities in general.

Capital gains tax consequences of funding a gift annuity with appreciated property: When appreciated property is used to establish a gift annuity, the donor realizes a gain under the bargain sale rules of Reg. section 1.1011-2.

If certain conditions set forth in this regulation are met, the donor can spread the realized gain ratably over his or her life expectancy rather than having to immediately report the full amount of the gain. This can be especially advantageous when capital gain income is taxed at lower rates than the tax rate on ordinary income.

These conditions are that (1) the annuity be payable either to the donor alone or to the donor and a designated survivor annuitant and (2) the annuity be non-assignable. (Note: Gift annuity agreements routinely provide that the annuity is non-assignable.)

In some situations, usually involving older donors/annuitants, the capital gain otherwise reportable each year exceeds the tax-free part of the annuity payment. Example (8) under Reg. section 1.1011-2(c) appears to provide that in this situation, the gain reportable each year is limited in amount to the tax-free portion of the annual annuity payment.

Deferred payment gift annuities

Some organizations offer another option known as the deferred payment gift annuity. A deferred payment gift annuity is an annuity under which payments commence more than one year after the annuity is established.

There are several basic differences from a tax standpoint between a deferred payment gift annuity and an immediate payment gift annuity.

1. Donor's tax deduction: The donor's charitable deduction is significantly larger in the case of a deferred gift annuity than for an immediate payment gift annuity funded with the same amount. This is because the present value of the annuity is smaller in the case of a deferred gift annuity, which means, among other things, that if the annuity is established with appreciated property, the gain realized by the donor will be relatively small.

2. Reporting of gain: It appears from Reg. 1.1011-2(c), Example (8), that if an individual uses appreciated property to establish a deferred gift annuity for themselves (or for a survivor annuitant as well), that individual may defer reporting the gain realized under the bargain sale rules until the annuity payments commence.

3. Tax-free return of investment: As discussed above in connection with immediate payment gift annuities, the tax-free portion of each annuity payment is determined by dividing the present value of the annuity by the donor's life expectancy (assuming the donor is the annuitant). In the case of a deferred payment gift annuity, this determination is essentially made as of the time the annuity payments commence,

using the life expectancy factors then in effect. It is not possible, therefore, to know exactly how much of each annuity payment will be excluded from taxation in the case of a deferred gift annuity until that time.

4. Deferring payment: IRS Private Letter Ruling 9743054 allowed the individual's deferred gift annuity contract to contain an option to defer receiving payments until a later date and receive higher payments at that time.

Estate and gift taxes

In establishing a charitable gift annuity, an individual may face several estate and gift tax considerations.

The gift to the issuing organization qualifies for the annual gift exclusion. To the extent that it exceeds this exclusion, it qualifies for the gift tax charitable deduction.

If the donor names an annuitant other than themselves, the donor is deemed to make a gift to that person equal in amount to the initial present value of that person's annuity.

In the case of a joint and survivor annuity, to the extent the other person's annuity does not qualify for the annual gift exclusion, it does qualify for the gift tax marital deduction under IRC section 2523 if the other person is the donor's spouse.

If an individual establishes a gift annuity that is to make payments first to themselves and then to another person for life, the donor may reserve the power, exercisable only by will, to revoke the other person's annuity and, in this way, prevent there being a completed gift to the other person for federal gift tax purposes.

If the donor subsequently predeceases the other person, the then-present value of the other person's annuity will be included in the donor's gross estate under IRC section 2038 (as it would under IRC section 2039 if the donor did not retain the power to revoke). The survivorship annuity, however, will qualify for the estate tax marital deduction if the survivor annuitant is the donor's spouse.

The purpose of this publication is solely educational, namely to provide general gift, estate, financial planning and related information. It is not intended as legal, accounting or other professional advice, and you should not rely on it as such. For assistance in planning charitable gifts with tax and other implications, the services of appropriate and qualified advisors should be obtained. Consult an attorney for advice if your plans require revision of a will or other legal document. Consult a tax and/or accounting specialist for advice regarding tax and accounting related matters. © Copyright MMXX by Sharpe Group. All Rights Reserved.

Gift Annuity Rates

AGE	RATE	AGE	RATE
65.....	4.2%	78.....	6.0%
66.....	4.3	79.....	6.2
67.....	4.4	80.....	6.5
68.....	4.5	81.....	6.7
69.....	4.6	82.....	7.0
70.....	4.7	83.....	7.2
71.....	4.8	84.....	7.4
72.....	4.9	85.....	7.6
73.....	5.1	86.....	7.8
74.....	5.2	87.....	8.0
75.....	5.4	88.....	8.2
76.....	5.6	89.....	8.4
77.....	5.8	90+.....	8.6

For illustrative purposes only. Rates are subject to change. Please contact us for rates for two people and exact benefits to you. We recommend that you discuss your plans with your professional advisors or contact us.

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