



Charitable Services Group

NWPGRT

Charitable Gift Annuities 101

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Agenda

- Charitable Gift Annuities
 - Overview
 - Policies
 - State Regulations
 - Issues
 - Tax Considerations
 - Taxation of Payments
 - Information Needed for Running Illustrations
 - Sample Illustration
- CRT or CGA?



Charitable Gift Annuities- Overview

- A charitable gift annuity is a contract between a charity and the donor
 - Donor agrees to provide a certain amount of cash or asset to the charity
 - The charity agrees to pay an annual fixed amount for life of annuitant or annuitants
 - Bargain Sale- part sale, part gift
- The charity's obligation
 - The charity is contractually obligated to make all the payments
 - The annuity obligation is secured by all of the assets of the charity
- Duration
 - Single Life: annuity lasts for the duration of one person's life; or
 - Two Life: annuity lasts for the duration of two peoples' lives
 - Term of Years/College Annuity: lifetime income stream can be commuted to larger installment payments over a term of years (prohibited in New York)



Charitable Gift Annuities- Overview

- Timing
 - Immediate: payments begin immediately; or
 - Deferred: payments begin at a later date (at least 1 year), either fixed or elective
- Can be established during life or by will or trust at death (testamentary)
- Standard CGA rates are determined annually by the American Council on Gift Annuities (ACGA)
 - The ACGA's rates assume that the residuum to charity at termination of annuity is 50% of original gift
 - Rates are available at acga-web.org
 - 2009 ACGA survey found over 97% of issuing charities follow ACGA rates
- Annual annuity amount is calculated by multiplying amount transferred times the applicable annuity rate (\$100,000 x annuity rate of 6.5% = \$6,500 annual annuity)
- ACGA 2009 survey shows approximately 4,000 charities in US issue gift annuities and approximately \$3.2 billion in gift annuity assets



Charitable Gift Annuities- Policies

- Policies- Gift Acceptance Policy should outline limitations on CGA's, should be thoughtful and well run program to be successful
- Board Decision- Gift Acceptance/Planned Giving/Development Committee
- Budget for marketing, staff time
- Benefits of offering gift annuities
 - allows for more options for donors (full suite of planned giving options)
 - allows organization to demonstrate stewardship and strengthen ties with donors over lifetime
 - provides pipeline of future funds
- Downside of offering gift annuities
 - Potential Liabilities
 - Hard to administer
 - Lots of pitfalls/things to avoid and watch out for



Charitable Gift Annuities- Policies

- Diversification of annuitant pool mitigates risk
- Can prepare for underwater annuities when unrestricted annuities mature by creating reserve on unitization
- Restricted Purposes Allowed
- Minimum Age- from 55-75 (over 50% on ACGA survey was 60 or older)
- Minimum Amount- \$5,000-\$50,000 (62% on ACGA survey was \$10,000)
- Deferral Period Cap- 10-20 years (interest is compounded during deferral period so longer deferrals equal higher payouts)
- Rate Cap- may want to consider capping the maximum rate
- Reinsurance- can purchase an insurance policy on gift annuities
 - Pros- transfer liability of annuity going underwater to insurance company and receive the payout now
 - Cons- eats into narrow margin of profits and charity doesn't benefit from early maturity



Charitable Gift Annuities- State Regulations

- A charitable gift annuity is governed by the law of the state where the donor resides
- Most states regulate charitable gift annuities in some way
- Minimum standards for nonprofit issuing CGA's
- Licensing- 12 states that require licensing require that charities get licensed prior to issuing annuities
- Notice- some states just require notice to the state prior to issuing gift annuities
- Reporting- 8 states require annual reporting on CGA pool (California also requires quarterly reports on new gift annuities)
- Segregated reserve requirements- 16 states
 - Some states require surplus reserves, examples- WA 10%, NY 26.5%-43.75%
- Investment restrictions- CA requires own account, FL also has restrictions that usually results in separate account
- Many regulated states will also have specific requirements for the CGA contracts and marketing materials for that state
- ACGA website is great resource for state regulations (acga-web.org)



Charitable Gift Annuities- Issues

- Unitization- Annuities can't be commingled but are typically pooled
- Annuity for someone other than the donor
 - If funded with appreciated property can trigger capital gains
 - Annuity for donor and someone else should be made successive instead of joint (gain not paid by donor over lifetime will still have to be paid by successor over donor's life expectancy)
 - Gift tax issues can usually be avoided by a right to revoke
- Divorce of annuitants
 - First find out if annuity was covered in judgment
 - If not and joint and survivor annuity need to start sending ½ to each spouse and send each spouse their own 1099
 - If successive then follow terms of agreement



Charitable Gift Annuities- Issues

- Assigning Interest- Agreement should say non-assignable except to charity so that annuitants can't assign their interest to a 3rd party (failing to include this language will cause gain to be recognized if funded with appreciated property). This language does allow annuitants to assign their interest to the issuing charity, thereby terminating the annuity early and allowing the charity to receive the payout currently.
 - Donor is making a gift to charity of present value of remaining annuity payments
 - Deduction is (most likely) limited to tax free portion of payments not paid out yet
 - If more than \$5,000 deduction results an appraisal is needed



Charitable Gift Annuities- Tax Considerations

- Income Tax Deduction- donor receives an income tax deduction for the amount transferred minus the value of the annuity received
- Gift Tax- gift portion to charity qualifies for charitable gift tax deduction, interest to spouse qualifies for marital deduction, gift tax may be due on annuity for someone else
 - Can retain right to revoke payments to avoid taxable gift but if payments exceed annual exclusion will need to file a Form 709 every year
- Estate Tax- generally there is nothing to include in estate since the right to payment ceases at death with an exception if donor dies with power over payments then the value of those payments will be included in donor's estate
- Estate's Income Tax Deduction- the annuitant's estate can take an income tax deduction for any unreturned principal present in the contract as of date of death



Charitable Gift Annuities- Taxation of Payments

- Bargain Sale- Treated as a bargain sale since donor gives charity something worth more than what charity gives donor back in exchange
- 1099- Annuitants receive a 1099 annually to inform them amounts and types of income to claim on their tax return for the year
- Annuity Payments- blend of ordinary income and tax free income, if funded with appreciated property a blend of capital gains, ordinary income and tax free
 - *Capital Gains*- If funded with appreciated property a portion of the annual annuity payments will be capital gains, reported ratably over life expectancy (amount received-basis)x(value of annuity/amount received)
 - *Tax Free Return of Principal*- A portion of the annual annuity payments will be tax free return of principal (basis/amount received) x value of annuity = tax free amount. Funding with appreciated property reduces amount of payment that is tax free
 - *Ordinary Income*- Whatever portion of the payments are not tax free or capital gains are taxed as ordinary income



CHARITABLE GIFT ANNUITY - INCOME TAXATION

Prepared For Mr. and Mrs. ABC

Annuity	\$4,900.00
Char. Gift	\$37,565.67
Capital Gain	\$24,973.73
Basis	\$37,460.60

TOTAL AMOUNT \$100,000.00

Years	ORDINARY INCOME	CAPITAL GAIN PAYOUT	TAX FREE RETURN	CUMULATIVE CAPITAL GAIN	CUMULATIVE TAX FREE
2014	\$591.77	\$677.03	\$1,016.02	\$677.03	\$1,016.02
2015	1,269.10	1,451.96	2,178.94	2,128.99	3,194.96
2016	1,269.10	1,451.96	2,178.94	3,580.95	5,373.90
2017	1,269.10	1,451.96	2,178.94	5,032.91	7,552.84
2018	1,269.10	1,451.96	2,178.94	6,484.87	9,731.78
2019	1,269.10	1,451.96	2,178.94	7,936.83	11,910.72
2020	1,269.10	1,451.96	2,178.94	9,388.79	14,089.66
2021	1,269.10	1,451.96	2,178.94	10,840.75	16,268.60
2022	1,269.10	1,451.96	2,178.94	12,292.71	18,447.54
2023	1,269.10	1,451.96	2,178.94	13,744.67	20,626.48
2024	1,269.10	1,451.96	2,178.94	15,196.63	22,805.42
2025	1,269.10	1,451.96	2,178.94	16,648.59	24,984.36
2026	1,269.10	1,451.96	2,178.94	18,100.55	27,163.30
2027	1,269.10	1,451.96	2,178.94	19,552.51	29,342.24
2028	1,269.10	1,451.96	2,178.94	21,004.47	31,521.18
2029	1,269.10	1,451.96	2,178.94	22,456.43	33,700.12
2030	1,269.10	1,451.96	2,178.94	23,908.39	35,879.06
2031	2,253.12	1,065.34	1,581.54	24,973.73	37,460.60
2032	4,900.00	0.00	0.00	24,973.73	37,460.60
2033	4,900.00	0.00	0.00	24,973.73	37,460.60
2034	4,900.00	0.00	0.00	24,973.73	37,460.60
2035	4,900.00	0.00	0.00	24,973.73	37,460.60
2036	4,900.00	0.00	0.00	24,973.73	37,460.60

Information Needed for CGA Illustration

- Annuitant(s)' birthdates
- Whether or not they are married to each other
- Amount CGA will be funded with
- Anticipated date of funding
- Date of first payment
- Payment frequency (annual, semi-annual, quarterly or monthly)
- Cost basis of asset if anything other than cash
- Ownership of funds or asset funding annuity (joint or separate)
- Tax rates of donor (optional)
- When running a CGA illustration, you can choose between three AFR rates- the current month's rate or the two preceding months' rates.
 - Higher AFR results in higher income tax deduction
 - Lower AFR results in higher tax free payments to donor



Personal Data

Annuity Type: One Life
 Two Lives

Gift Date:

Rate of the Month:

Donor or Donors:

First Person:

Birth Date: Age:

Second Person:

Birth Date: Age:

Income Tax Rate: CG Rate:

Gift Annuity Data

Property Value:

Cost Basis:

Current Return Option

Payment Frequency: Monthly
 Quarterly
 Semiannual
 Annual

Payout Date:

Gift Annuity Payout %

Standard ACGA
 User Selected
 Custom Rates

Options

Go To Print

Answers

Help

Video Help

Calculator

GiftLaw Pro



Annuity Recipient

- Donor Receives Annuity
- Donor and Another Person Annuity
- Cash Annuity For Another Person
- App. Property Annuity for Another Person

Title To Property

- Separate Property
- Joint Property

End of Contract Value to Charity

- Standard Value
- User Selected Value
 - 50% Residuum
- Annuity Reserve Return
- Market Calculated Value

First Payment Options

- Combine Pro Rata and Next Pmt.
- Omit First Pro Rata Payment
- Mandatory Pro Rata Payment
- Full Payment-Short Period

Other Options

- Summary M/Q
- Non-Itemizer Effective Rate
- Omit Effective Rate
- GA For Home-\$500K Excl.
- Reinsurance Of Contract
- State Credit

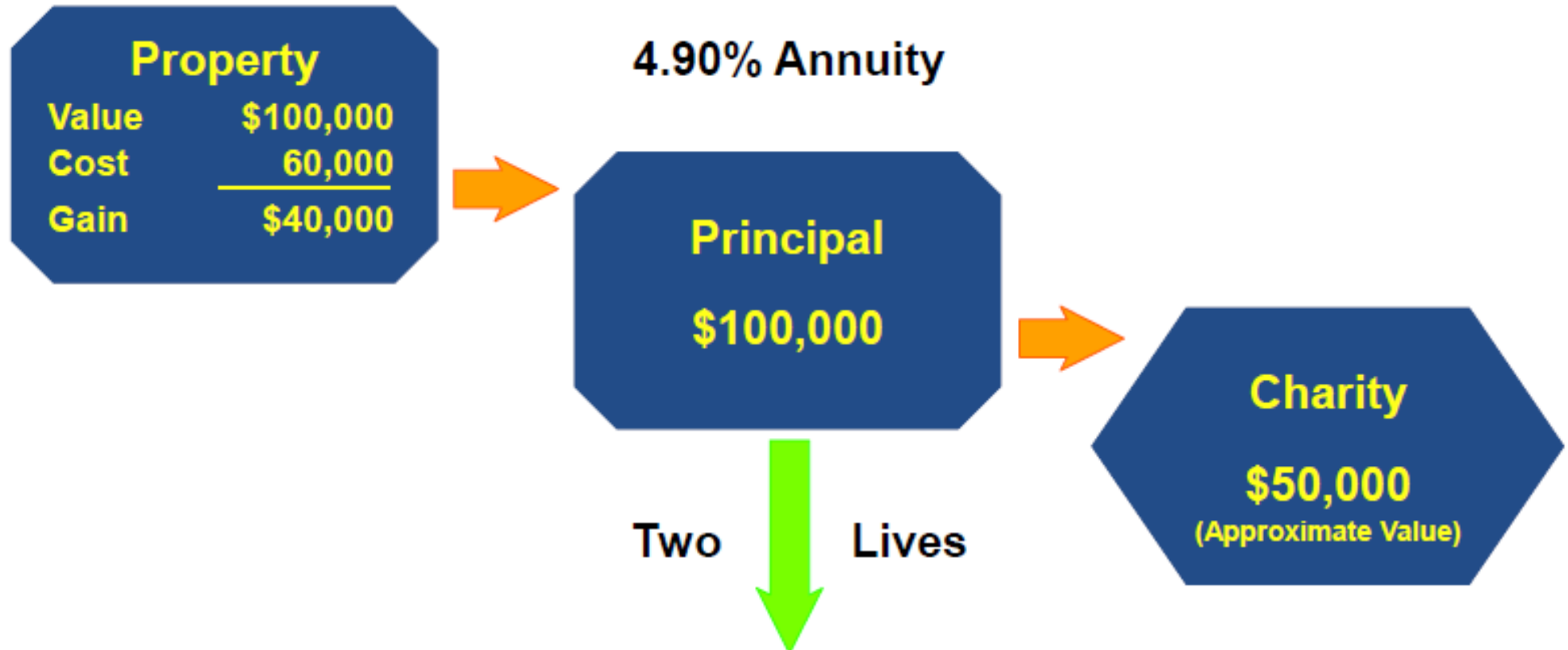
If Appreciated—Type and % of Gain:

Long Term Capital Gain:	<input type="text" value="100.00"/>
Short Term Capital Gain:	<input type="text" value=".00"/>
Ordinary Gain:	<input type="text" value=".00"/>



Charitable Gift Annuity

Mr. ABC - Age 75 Mrs. ABC - Age 73



1. Gift property to charity. Partial bypass \$40,000 gain may save \$2,254. Income tax deduction of \$37,566 may save \$12,397.

2. Annuity of \$4,900.00 for two lives. Tax-free amount \$2,178.94. Estimated two lives payout of \$90,160. Effective payout rate 7.3%.

3. Quarterly payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.



CHARITABLE GIFT ANNUITY

Two Lives

Donor Mr. & Mrs. ABC Gift Amount \$100,000.00 Gift Date 07/14/2014
 First Person Mr. ABC Birth Date 01/01/1940
 Second Per. Mrs. ABC Birth Date 01/01/1942 Date of 09/30/2014
 Cost Basis \$60,000.00 First Ann. Payment
 Pmt. Freq. QUARTERLY (Payments at End of Selected Period)

	Annuity %	<u>4.900 %</u>	
(A) Annual Annuity Payout		<u>\$4,900.00</u>	(A)
Gift Amt. x Annuity %			
(B) Factor	Age1	75	
	Age2	73	
		<u>12.6280</u>	(B)
(IRS Pub. 1457, Table R(2), ((1-Factor)/AFR)			
AFR of the Month <u>2.4%</u>			
(C) Adjustment for time of Payment		<u>1.0090</u>	(C)
(IRS Pub 1457, Table K)			
	End of Period		
	1	1.0000	Annual
	2	1.0060	Semi-Annual
	3	1.0090	Quarterly
	4	1.0110	Monthly
(D) Adjusted Factor		<u>12.7417</u>	(D)
Line (B) x Line (C)			
(E) Present Value of Annuity		<u>\$62,434.33</u>	(E)
Line (D) x Line (A)			
(F) Amount Transferred		<u>\$100,000.00</u>	(F)
(G) CHARITABLE GIFT VALUE		<u>\$37,565.67</u>	(G)
Line (F) less Line (E)			

SUMMARY OF ANNUITY

CHARITABLE DEDUCTION	<u>\$37,565.67</u>
EXCLUSION RATIO	<u>74.1%</u>

INCOME TAX	PRO RATA FIRST PAYMENT	EACH PAYMENT	ANNUAL
Ord. Income	\$274.49	\$317.2750	\$1,269.10
Cap. Gain	\$314.04	\$362.9900	\$1,451.96
Tax Free	\$471.29	\$544.7350	\$2,178.94
Ann. Amt	\$1,059.82	\$1,225.00	\$4,900.00



CRT or CGA?

- Minimum amount- CGA minimums are typically substantially less than CRT minimums.
- Tax Sensitivity of Donor- Portion of CGA payments will be tax free and exact tax consequences to donor are known at the beginning. Taxation of CRT payments depend on actual activity of Trust and are not known for certain at time of funding.
- Flexibility- CRT's are much more flexible than CGA's- rates, number of beneficiaries, term, can retain power to change remainder beneficiaries.
- Multiple beneficiaries- CRT can name several different charities as remainder
- Liability Protection- Can fund a CRT with real estate or donor's business interests without exposing the charity to the same risk and liability as funding a CGA with it.
- Guarantee of Payment- A CGA is guaranteed to pay out to the donor even if the gift runs out. However, payments stop if a CRT runs out of assets.

