

Far East Broadcasting Company

Giving through Gift Annuities

The **Charitable Gift Annuity** is an increasingly popular way to make meaningful gifts while you enjoy income and tax benefits that can help preserve or even enhance your future financial well-being.

How do gift annuities work?

Under the terms of a gift annuity, you make a charitable gift of cash or other appropriate property. You and/or others, if you desire, then receive generous fixed payments for life. The frequency and amount of payments are determined at the time the gift annuity is funded. The payments will never change and are designed to continue regardless of how long you and/or other recipients live.

Generous Tax Savings

Because a portion of your gift annuity will be put to charitable use, you are entitled to an income tax deduction for the year of your gift. In addition, for a period of time, part of each payment may be received free of income tax or be taxed at capital gains tax rates that may be significantly lower than rates you pay on other income.

The amount used to fund your gift annuity may also be free of gift and estate taxes. You thus enjoy income and tax benefits today for a gift that you might otherwise have planned to make in the future through your will or other long-range plans.

Increased Income

In times of lower investment returns, gift annuity payments can be a way for you to generate more spendable income. In addition to earnings on annuity funds, gift annuity payments include a return over time of a portion of the amount used to fund your annuity, thereby resulting in higher total payments than you might otherwise enjoy.

Example: Mrs. Jordan has decided to make a number of gifts through her will and other long-range plans. She would prefer to make those gifts now, but has decided that she cannot afford to do so because she may need income from her assets for future living expenses.

After learning about charitable gift annuities, however, she decides to make a gift of

\$10,000. At her age, she will receive annual payments of \$740, or 7.4% of the amount transferred, for as long as she lives, no matter what the earnings from the amount used to fund the annuity.

Here is a summary of the plan and its benefits:

- Mrs. Jordan transfers \$10,000 for a gift annuity agreement
- She will receive \$740 each year for as long as she lives. For the first 11 years of her payments, she will pay federal income tax on less than one-third of the payment she receives. After that, she will pay tax on the remaining amount of the payment as well.
- She is allowed to deduct approximately \$4,400 as a charitable gift for the year the gift is completed. The exact amount that is deductible may vary. Check with your advisor at the time you make your gift.
- The amount used to fund Mrs. Jordan's annuity is removed from her estate, saving substantial estate taxes that might otherwise be due.
- Mrs. Jordan enjoys the knowledge that the gift portion of her annuity will be used for the charitable purposes she desires.

A double-duty annuity

It is also possible for two persons to enjoy payments from a charitable gift annuity.

Example: Mr. And Mrs. Clark wish to include charitable gifts as part of their financial plans. If they establish a gift annuity with \$20,000, annual payments at their ages will be \$1,540 (7.7% of \$20,000). Payments will continue for as long as either lives. Their charitable income tax deduction in the year of the gift will be more than \$8,000. Their deduction will result in significant tax savings that they can invest for additional income if desired. As in the case of an annuity for one person's life, a portion of each payment is tax-free for a number of years.

Providing for others

A charitable gift annuity can also make it possible for you to make a charitable gift while helping to meet the long-term financial needs of a loved one.

Example: Martin Weinhard would like to provide his mother with payments of at least \$500 per month for life. He decides to arrange an income for her through the use of a charitable gift annuity.

If he funds a gift annuity with \$75,000, his mother will receive \$500 per month for life. Mr. Weinhard is, in effect, making two gifts. He makes a gift to his mother of the payments for life while also making a very special gift in honor of his parents. The charitable deduction for the charitable gift portion is over \$30,000.

The amount required to provide a monthly income will depend on the age of the person receiving payments at the time the gift is funded. Gift and estate tax deductions are also available for the charitable gift portion of the annuity.

Annuities and Retirement Planning

For those with charitable interest, the gift annuity can be a very attractive way to make a charitable gift while supplementing retirement needs over time.

Consider the effect of a person funding a series of gift annuities with \$10,000 each year for five years:

Year	Annuity	Payment	Tax Free
1	\$10,000	\$660	\$425
2	\$10,000	\$670	\$435
3	\$10,000	\$680	\$450
4	\$10,000	\$690	\$460
5	\$10,000	\$710	\$480

After five years, the total of \$50,000 in gift annuities will return total annual payments of \$3,410. A large portion of the amount given each year is tax deductible, and on average over half of the payments are received tax-free for a period of time equal to the life expectancy of the annuitant. This planning strategy takes advantage of the fact that payment rates generally increase with each new annuity entered into at an older age.

About Gift Annuity Rates

Payment rates, such as those used in the examples in these pages, are reviewed periodically and are subject to change. Age, interest rate assumptions, 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 rate for that annuity will

never change. Please check with us for current rate information.

Questions & Answers

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

No. A gift annuity agreement must be a permanent transfer in order to qualify for the attractive tax benefits that result from making your gift in this way.

How often will I receive my annuity payments?

Gift annuity payments are made at least annually, hence the term “annuity.” We will be glad to discuss dividing them into more frequent payments if you desire.

Is a gift annuity a type of trust?

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

Can a gift annuity be a good way to provide an income for a surviving spouse?

Yes. Many couples enter into gift annuities that will make payments for as long as either of them lives.

Can I give annuity payments to someone else?

Certainly. A gift annuity can represent a wonderful gift for a relative or special friend.

Is it true that the older the person(s) receiving the payments, the higher the payment rate?

Yes. For older persons it is possible to return more of the initial amount transferred and still produce a significant charitable gift when payments cease.

And the rate doesn’t fluctuate with the stock market or interest rates?

No. The payment amount is set permanently when you make the gift, and it never changes once payments begin.

Can I have more than one gift annuity?

Yes. In fact, some people create a new gift annuity each year and enjoy higher rates on each subsequent annuity as a result.

Who can benefit from a two life gift annuity?

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

About Gift Annuities for Two People

Is there a difference between the two life gift annuity rate and the single life rate?

The rate is slightly lower when two persons receive payments for life, since more than one person will benefit.

Can a single life annuity be changed later to a gift annuity for two lives?

No. The number of persons receiving payments can only be decided at the time the gift is made.

Can the person named to receive payments after the first recipient's death be changed?

No. Once you determine who will receive the payments from a gift annuity, it cannot be changed.

Must payments begin immediately?

Depending on circumstances, it may be possible to delay the start of payments for one or more years. Ask for additional information if you are interested in this option.

About Taxes

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

The answer 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 percentage of each payment. We will be pleased to provide you with more information upon request.

What if the portion of my annuity that is considered a charitable gift exceeds the maximum amount I'm allowed to deduct on my income tax return in the year I make the gift?

In that case, you can make use of the extra deduction over as many as the next five tax years.

If I make a gift of appreciated securities or other assets that have increased in value to fund my gift annuity, do I avoid tax on the capital gain?

You will avoid capital gains tax on the portion of the gain that is considered a gift. The rest of

the capital gain will be spread over a number of years if you and/or your spouse receive the payments. An additional benefit is the ability to report the capital gain portion of the payments at what may be lower rates of tax than you may pay on other income. Special rules may apply if someone other than you receives payments.

Do gift annuities affect my federal gift and estate taxes?

In the case of a gift annuity for the life of the donor and/or a spouse, federal gift and estate taxes are generally avoided on the amount donated.

For More Information

If the ideas presented in these pages are of interest to you, we would be happy to provide further information upon request at no obligation.

For further information on giving appreciated property (stocks, bonds, mutual funds), call Bob Stiles or Ken Pifer at 800.523.3480.

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