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Charitable Services Group

Charitable Gift Annuity Workshop

COMMUNITY COLLEGE LEAGUE
OF CALIFORNIA

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Topics Covered

- What is a Charitable Gift Annuity and how does it work?
- The process for setting up a new gift annuity with CCLC
- How to discuss a CGA with a donor
- Important disclosures
- Program fees
- The maturity process

What is a Charitable Gift Annuity and how does it work?

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 give a specific asset to the charity
  - The charity agrees to pay an annuity to the donor or someone else specified by the donor
- 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

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
- Rates are determined annually by the American Council on Gift Annuities (ACGA)
- The donor receives an income tax deduction for the amount transferred minus the value of the annuity received
- A portion of these annuity payments will be tax free income and a portion will be ordinary income
- The donor will receive a 1099 every year
- If the annuity is funded with appreciated securities, there is no capital gains tax due on the sale of the securities and a portion of the annuity payments will be taxed as capital gains

CCLC Policies

- Minimum Amount - $10,000
- Minimum Age- 60 years old
- Remainder funds can be restricted. Restrictions are up to your Foundation to navigate with the donor in the initial process.

Charitable Gift Annuity Example #1

- Margaret and Mike are 75 and 74 respectively
- Margaret and Mike bought ABC Corp. stock in the 90's for $10,000 and it is now worth $100,000
- If they were to sell their ABC Corp. stock, they would recognize $90,000 of long term capital gain and could owe as much as $33,000 in income tax on sale (approx. 37% in federal and state capital gains)
- If they invested the net proceeds of $67,000 after a sale ($100k-$33k) and took an income stream of 5.4%, income would be $3,618 a year. Donor would be taxed on all interest and dividends to the account at ordinary income rates and if assets in the portfolio are sold then any gain is taxed as capital gains.

Charitable Gift Annuity Case Study

- If Margaret and Mike fund a gift annuity with the stock they could take an income tax deduction of $36,703 (tax savings of up to approx. $18,000 federal and state income tax)
- They would receive an annual annuity of $5,400 for both their lives
- Of the above annuity $378 would be tax free income, $3,391 would be capital gains, and $1,631 would be ordinary income. These tax consequences would last for 17 years after which 100% of the payments would be ordinary income.
- When the stock they funded the gift annuity with is sold, they do not owe any capital gains tax at the time of the sale

Close

Charitable Gift Annuity

Margaret - Age 75 Mike - Age 74

5.40% Annuity

Property
$100,000

→

Principal
$100,000

→

Charity
$50,000
(Approximate Value)

Two ↓ Lives

1. Gift property to charity. Partial bypass $90,000 gain may save $7,862. Income tax deduction of $36,703 may save $13,580.

2. Annuity of $5,400.00 for two lives. Tax-free amount $378.31. Estimated two lives payout of $112,860. 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.

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CHARITABLE GIFT ANNUITY - INCOME TAXATION

Prepared For Margaret and Mike

Annuity	$5,400.00
Char. Gift	$36,703.36
Capital Gain	$56,966.98
Basis	$6,329.66

TOTAL AMOUNT $100,000.00

Years	ORDINARY INCOME	CAPITAL GAIN PAYOUT	TAX FREE RETURN	CUMULATIVE CAPITAL GAIN	CUMULATIVE TAX FREE
2018	$769.36	$1,599.70	$178.48	$1,599.70	$178.48
2019	1,630.80	3,390.89	378.31	4,990.59	556.79
2020	1,630.80	3,390.89	378.31	8,381.48	935.10
2021	1,630.80	3,390.89	378.31	11,772.37	1,313.41
2022	1,630.80	3,390.89	378.31	15,163.26	1,691.72
2023	1,630.80	3,390.89	378.31	18,554.15	2,070.03
2024	1,630.80	3,390.89	378.31	21,945.04	2,448.34
2025	1,630.80	3,390.89	378.31	25,335.93	2,826.65
2026	1,630.80	3,390.89	378.31	28,726.82	3,204.96
2027	1,630.80	3,390.89	378.31	32,117.71	3,583.27
2028	1,630.80	3,390.89	378.31	35,508.60	3,961.58
2029	1,630.80	3,390.89	378.31	38,899.49	4,339.89
2030	1,630.80	3,390.89	378.31	42,290.38	4,718.20
2031	1,630.80	3,390.89	378.31	45,681.27	5,096.51
2032	1,630.80	3,390.89	378.31	49,072.16	5,474.82
2033	1,630.80	3,390.89	378.31	52,463.05	5,853.13
2034	1,630.80	3,390.89	378.31	55,853.94	6,231.44
2035	4,188.74	1,113.04	98.22	56,966.98	6,329.66
2036	5,400.00	0.00	0.00	56,966.98	6,329.66
2037	5,400.00	0.00	0.00	56,966.98	6,329.66

Charitable Gift Annuity Case Study

	Sale of Stock	CGA funded with stock
$ saved from deduction	$0	$18,000
Annual income (times 17 years)	$3,618 ($61,506)	$5,400 ($91,800)
Capital Gains Tax due in year of sale	$33,000	$0

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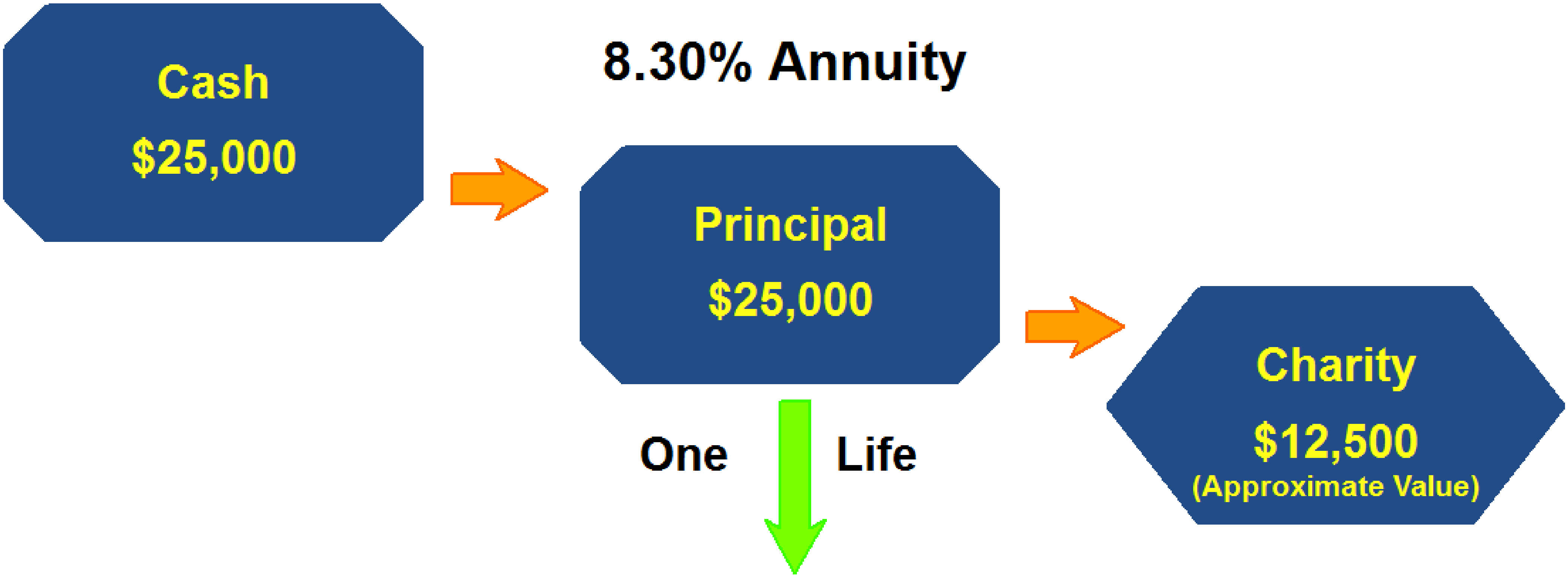
Charitable Gift Annuity Case Study

- Elizabeth is 85 year old
- She is on a fixed income but finds that her expenses are less than her income and she accumulates large balances in her checking account. She currently has over $25,000 more than she needs to pay bills in her account. She would like to support her favorite charity but is nervous to give away large amounts of money in case she needs more income in the future.
- If Elizabeth funds a gift annuity with the $25,000 she will receive a $13,849 charitable income tax deduction
- She would receive an annual annuity of $2,075 for her life
- Of the above annuity, $1,639 would be tax free income and $436 would be ordinary income. These tax consequences would last for 7 years after which 100% of the payments would be ordinary income.

Charitable Gift Annuity

Elizabeth - Age 85



1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of $13,849 may save $5,124.

2. Annuity of $2,075.00 for one life. Tax-free amount $1,639.25. Estimated one life payout of $19,090. Effective payout rate 15.3%.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

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CHARITABLE GIFT ANNUITY - INCOME TAXATION

Elizabeth

Annuity	$2,075.00
Char. Gift	$13,848.95
Capital Gain	$0.00
Basis	$11,151.05

TOTAL AMOUNT $25,000.00

Years	ORDINARY INCOME	CAPITAL GAIN PAYOUT	TAX FREE RETURN	CUMULATIVE CAPITAL GAIN	CUMULATIVE TAX FREE
2018	$205.57	$0.00	$773.34	$0.00	$773.34
2019	435.75	0.00	1,639.25	0.00	2,412.59
2020	435.75	0.00	1,639.25	0.00	4,051.84
2021	435.75	0.00	1,639.25	0.00	5,691.09
2022	435.75	0.00	1,639.25	0.00	7,330.34
2023	435.75	0.00	1,639.25	0.00	8,969.59
2024	435.75	0.00	1,639.25	0.00	10,608.84
2025	1,532.79	0.00	542.21	0.00	11,151.05
2026	2,075.00	0.00	0.00	0.00	11,151.05
2027	2,075.00	0.00	0.00	0.00	11,151.05
2028	2,075.00	0.00	0.00	0.00	11,151.05
2029	2,075.00	0.00	0.00	0.00	11,151.05

Process for setting up a new CGA

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Steps for setting up a CGA with the League

- #1- Have donor complete Donor Profile form and provide that to Deborah Adkins with CCLC (Deborah@ccleague.org)
- #2- Deborah will provide you with a CGA illustration that includes the amount of: annuity, deduction, and tax free income that the donor will receive.
- #3- Share illustration with your donor and notify Deborah if the donor would like to move forward with the CGA.
- #4- When ready to proceed, CCLC will prepare an Agreement and Disclosure Statement and these will be provided to you along with a blank tax form for the donor to complete and a blank direct deposit request form for the donor to complete (optional).
- #5- Once funding is received (either check or stock) CCLC will rerun the initial illustration using the final gift date and amount and provide that to you. Note: if donor writes check at the same time as completing the donor profile then there is only one illustration completed as a preliminary is not necessary.
- #6- Send final illustration along with thank you letter and tax receipt to the donor.

How to discuss a CGA with a donor

Key points for donors

- Income tax deduction
- Income Stream
- Tax free income
- No set up or maintenance cost to donor
- Charitable mission and philanthropic intent

Important Disclosures

Expectations for remainder to foundation

- Once the funds are received they are placed into an investment account with a well diversified portfolio of equities and fixed income.
- The balance of each annuity is tracked. Each payment to the donor and fees come out of that balance and investment income and appreciation is allocated pro-rata to the balance.
- The ACGA rates are based on an assumption that the charitable beneficiary receives 50% of the original amount.
- It is possible for the balance to become negative and for there to be nothing left for the charitable beneficiary (generally based on timing, market conditions, and substantially outliving life expectancy)
- CCLC absorbs the liability of paying the income streams of annuities once they go negative, which is why they charge fees to help cover those costs and liabilities.

Program Fees

Fees to the League

- CCLC charges an annual fee of 1% that goes to the League's reserve fund to cover the liability of making payments on underwater annuities.
- 5% of the remainder of the gift goes to the League to cover their administration and oversight costs.
- US Bank charges an annual fee of approx. 1.1% for investment management and administration of the pool.

Maturity Process

Steps to take after the annuitant passes and gift "matures"

- Step #1- Notify CCLC when you learn of the passing of an annuitant. If the CGA is a two-life annuity and it is the 1st death then payments will proceed to the 2nd annuitant.
- Step #2- Request a death certificate and information about where to send the final tax form.
- Step #3- Notify U.S. Bank and/or CCLC as soon as you learn about the passing so that payments can be turned off if necessary.
- Step #4- Send a copy of the death certificate and information on where to send the final tax form to U.S. Bank and CCLC.
- Step #5- U.S. Bank unitizes the value of the annuities on a quarterly basis around mid-month of the month following quarter end (April, July, October, January). After the next unitizing is done the remaining value of the annuity will be sent to CCLC and then sent on to the Foundation.
- Step #6- The Foundation will need to ensure that any restrictions on time or use contained in the Annuity Agreement are honored accordingly.