The Basics of Lifetime Income Gift Agreements

A. Introduction

1. Charitable Life Income Agreements meet many needs of a donor. Many donors request help in understanding the concept of making a charitable gift while also receiving lifetime benefits.
2. Charitable Life Income Gift Agreements must have as a basis a charitable intent on the part of the donor. Donors have only three places where they can ultimately distribute an estate: family, charity and government. The donor may not be sold on a Charitable Life Income Gift Agreement based solely on tax economics. The latter benefit should be in addition to the donor's charitable intent.
3. General characteristics of a Life Income Gift Agreement are:
   i. The donor makes a current gift to Goodwill.
   ii. Goodwill, in return, agrees to provide a stream of income to the donor for the remainder of their lives.
   iii. The donor receives a tax deduction in the year of the gift. The donor does not receive a tax deduction for the full value of the gift. Instead, the donor receives a deduction for the present value of the future interest that will be distributed to Goodwill at the end of his/her life. This value is arrived at using actuarial assumptions and calculations.

B. Charitable Gift Annuity

1. A Charitable Gift Annuity is a written agreement or contract, which states the rate of payment, and the payment amount due to a donor at specified times each year. This can be paid to the donor monthly, quarterly, semi-annually or annually.
   i. Rate of payment is based on the donor's age, (or negotiated) and whether or not the Annuity has one life or two lives.
   ii. The payout to the donor is comprised of income; gain income and a return of principal.
   iii. The Charitable Gift Annuity is an immediate and irrevocable gift of cash or other assets.
   iv. A Charitable Gift Annuity is a general obligation of Goodwill to pay a stated amount to the donor
   v. Goodwill will receive anywhere from 45% to 65% of the original principal as a gift at the end of the Gift Annuity Agreement (upon the death of the donor).

2. Advantages:
   i. A simple effective tool.
   ii. May fulfill the donor's need for a regular fixed income.
   iii. Usually an improved income rate than CD rates for older donors
   iv. An immediate income
   v. A moderate tax deduction
   vi. The CGA is excluded from Federal Estate Taxes.

3. Disadvantages:
   i. Irrevocable – this may be a disadvantage for the donors if they think that they may need the assets later in their life for personal care.
   ii. The donor cannot add assets to an established Gift Annuity. A new Annuity may be added, but you cannot add to an existing one.

C. <u>Deferred Charitable Gift Annuity</u> – the same as a Charitable Gift Annuity but the beginning payout date is deferred to a future date. A Deferred Charitable Gift Annuity Agreement increases the charitable deduction, and increases the payout rate and amount.

1. Advantages:
   i. Simple to administer
   ii. Meets the donor's needs for regular fixed payments for life.
   iii. Starts payment when the donor expects a need for payments.
   iv. Increases the effective yield on the investment and higher income tax deduction.
   v. Can be funded by cash, securities, or tangible property.

2. Disadvantages: same as Charitable Gift Agreements.

GOODWILL INDUSTRIES
GIFT ANNUITY DISCLOSURE STATEMENT

A Goodwill Gift Annuity is:

- A way to make a gift to Goodwill
- A gift that pays a life annuity (up to two beneficiaries)
- A gift that affords federal (and possibly state) tax benefits to the contributor.

Legally, the Gift Annuity is a *contract* between the contributor and Kalamazoo Foundation on behalf of Goodwill Industries. The basic terms of the contract are:

- The Kalamazoo Foundation on behalf of Goodwill promises to pay the agreed-upon annuity.
- The annuity may not be assigned to a third party (other than Goodwill in conjunction with the Kalamazoo Foundation)
- The contributor transfers cash or marketable securities to the Kalamazoo Foundation for the benefit of Goodwill in order to make a donation and to establish the annuity.
- The laws of Michigan govern the annuity.

Assets received by Goodwill for gift annuities are held in a collective investment fund managed by the Kalamazoo Foundation. The Foundation determines the wisest course of investment. Annuity payments will in the ordinary course be made from the Foundation. The Kalamazoo Foundation's obligation to make gift annuity payments is also backed by the unrestricted funds in the Foundation's portfolio.

You should consult your own tax and financial advisors concerning the specific effects of your Gift Annuity under federal and applicable state laws.

Payment Rates
The Kalamazoo Foundation on behalf of Goodwill offers gift annuity payment rates that have been carefully calculated to ensure the gift annuity not only provides what the Foundation believes are attractive payments to you or the annuitants you designate, but also provides a gift to Goodwill Industries.

Not a Commercial Investment
The Gift Annuity is not, and should not be viewed as, an investment. It is a way to receive annuity payments while making a charitable donation. In this respect, the Gift Annuity is much different from a commercial annuity.

Since the Gift Annuity is a ***gift plan*** **which allows the contributor to claim a federal income tax charitable deduction.**

Tax Considerations:

Establishing a Gift Annuity can provide you with several tax benefits:

- A current federal income tax charitable deduction, subject to certain limitations, if you itemize your deductions.
- Part of the annuity payments will be considered a return of principal and will, therefore, be tax-free.
- Future estate tax savings.

Your deduction. Your federal income tax charitable deduction is based on your age or the age of the annuitants if a person or persons other than yourself will be receiving annuity payments, and a certain IRS interest rate that changes monthly. The higher the applicable interest rate, the higher your deduction. You may elect to use the interest rate for *either of the two months preceding the month you establish the annuity*.

The tax-free part of the annuity. Part of the annuity payments will be free of federal income tax for a number of years. This portion represents a return of principal.

If you are an annuitant (the receiver of the annuity payments) and die before recovering the total tax-free amount to which you are entitled, the un-recovered amount may be taken as a deduction on your final income tax return. If there is a survivor annuitant, the survivor will recover the tax-free amount not recovered during your lifetime.

Estate and Gift Tax considerations. If you set up a Gift Annuity for your own life only, the assets you use to establish the annuity will be removed from your estate for federal tax purposes.

If you set up a Gift Annuity to make payments to you for life and then to a second beneficiary for life, the value of the successor beneficiary's annuity will be included in your estate for federal estate tax purposes. If the successor beneficiary is your spouse, his or her annuity will qualify for the unlimited ***federal estate tax marital deduction.***

If you set up a Gift Annuity to make payments to you and another beneficiary *jointly* and then make all payments to the survivor, the rules are much the same from a gift and estate tax viewpoint.

If you set up a Gift Annuity for another person only, you will be deemed to make a gift to the other person for federal gift tax purposes equal in amount to the value of his or her annuity. Under current law, if the other person is your spouse, the annuity will qualify for the unlimited marital deduction. Regardless of the identity of the person receiving the annuity, the gift will qualify for the annual $10,000 annual gift tax exclusion unless you have already used it with respect to that person or the annuity is a so-called "deferred gift annuity"(an annuity where the payments don't start immediately).

Establishing a Gift Annuity with appreciated securities. If you establish a Gift Annuity with appreciated securities, part of the gift annuity that you would have received as a tax-free return of investment had you used cash to establish your annuity will be replaced by capital gains.

Your reportable gain will be spread over your life expectancy, and the total amount of your reportable gain in the year you establish the annuity should be substantially less than the amount you would have to report for that year if you sold your stock.

If you have any questions concerning the Goodwill Industries Gift Annuity program, please call, email or write:

Mr. John E. Dillworth
President/CEO
Goodwill Industries of Southwestern Michigan
420 East Alcott Street
Kalamazoo, MI 49001
www.goodwillswmi.org
jdillworth@goodwillswmi.org