LIFE INCOME GIFTS

Gifts That Pay Back In Many Ways

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For many charitable people -- whether of ordinary means or extremely wealthy -- life income gifts can be an extremely rewarding way to support charitable organizations. The gifts are rewarding for a number of reasons. Life income gifts enable donors to provide a secure source of income for themselves, their family, or other loved ones. Donors also benefit from significant tax savings. Their ultimate reward is a substantial gift to the charitable organizations that are dear to them. All this may seem too good to be true but it absolutely is true.

How Does a Life Income Gift Work?

The concept is fairly straightforward. A donor contributes something -- cash, securities, real estate, art, etc. -- to the charity. The charity sells the contributed assets and invests the sale proceeds in a segregated account. In exchange for the contribution, the charity agrees to make periodic payments -- either for life or for a specific time period -- to the donor and/or other specified beneficiaries. After all beneficiaries have passed on, the funds in the charity's segregated account become available to the charity, or multiple charities if the donor wishes. Generally, the donor can direct the charity(ies) to use the ultimate gift for specific purposes, for example an endowed scholarship fund at a college.

The tax benefits are multi-faceted. First, the donor receives a current income tax charitable deduction, which generally provides immediate tax savings. The income paid to the beneficiaries over the course of their lives will be favorably taxed, with a portion of the income either being tax free or taxed at favorable capital gains rates, depending on the type of gift. From the charity's perspective, the opportunity to invest the gift proceeds over a long period of time with tax free compounding of earnings generally will yield a much larger gift to the charity.

If a donor funds a life income gift with appreciated assets, he or she will reap a very attractive "bonus"; the appreciation will not be subject to capital gains tax. In most cases, a life income gift is *the only way* an individual can convert appreciated assets into a stream of income without paying capital gains tax on the conversion.

Old Faithful -- The Charitable Gift Annuity

Charitable gift annuities are the simplest and most accessible type of life income gift. Many charities offer gift annuities for $10,000 or more. A charitable gift annuity provides the donor (or any two individuals) with fixed periodic payments throughout the lives of the beneficiaries. As a concrete example, suppose a 70-year-old contributes $10,000 to a charity and wants an annuity that will pay as long as he or she is alive. Based on rate tables used by most charities, the charity would issue an annuity contract at a 5.8% annual rate. Therefore, the charity would pay the donor $580/year ($48/month) for as long as the donor lives. Only $172 of the annual annuity payments would be taxable to the donor; the remaining $408 would be tax free. The donor would receive a current income tax deduction of about $3,500.

A charity's contractual obligation to make annuity payments is backed by the charity's full faith and credit. However, no government guarantees are provided. Therefore, donors should not consider annuity gifts unless they are confident of the charity's financial ability to continue making payments over the term of the annuity.

If an individual does not need income now, a *deferred* charitable annuity can be used by the charity to grow the donor's contribution and provide larger annuity payments beginning at a future date. People saving for retirement can employ a deferred charitable gift annuity as one component of their retirement planning.

Charitable Remainder Trusts -- A Powerful Planning Tool

Charitable remainder trusts offer more flexibility than charitable gift annuities because (1) trusts can be structured to provide either variable or fixed income streams to beneficiaries, (2) trusts can provide income for an unlimited number of income beneficiaries, (3) multiple charities can be named as ultimate beneficiaries of the trust, and (4) the term of a trust can be tailored to specific circumstances; *e.g.*, the term of a trust is not limited to the life of a beneficiary. However, charitable trusts are not for everyone because most charities require a larger contribution (typically $50,000, $100,000, or more) to set up a charitable trust. For charitably inclined people seeking to dispose of real estate, a business interest, or a portfolio of securities, a charitable remainder trust may be just what the doctor ordered.

Charitable remainder trusts often are used by individuals to "sell" appreciated real estate (or other appreciated assets) and avoid capital gains tax. The property owners effectively sell the property tax free in exchange for a lifetime stream of income for themselves or others. Additional tax benefits include a current income tax deduction and favorable tax treatment of the income paid to the beneficiaries of the trust. The property owners would determine the charities that ultimately would benefit from the trust after all income beneficiaries have passed on.

Conclusion

Almost anyone seeking a secure source of income -- for themselves or for loved ones -- might be pleasantly surprised by what is available at their favorite charitable organization. In addition to the income, they might find significant tax benefits and the satisfaction of a future impact gift to the charity.