

CHARITABLE GIFT ANNUITY

A charitable gift annuity is a contract between the donor and the Connecticut Community Foundation that provides the donor, or another named beneficiary, with a fixed annual annuity and, upon the death of the beneficiary, establishes a charitable fund at the Foundation. The annuity is a general obligation of the Foundation and is backed by all the Foundation's assets. The donor receives an income tax deduction in the year of the gift for the charitable portion of the gift. The donor benefits from the attractive annual payout rate for the annuity and the income tax deduction while also having the personal satisfaction of creating a lasting gift for the community.

INCOME FOR LIFE

An individual or couple makes an irrevocable gift of cash or readily marketable stocks or bonds to the Connecticut Community Foundation. The minimum amount is \$50,000 for the first annuity and \$10,000 for any subsequent annuities from the same donor. The maximum amount any donor can contribute for gift annuities at the Connecticut Community Foundation is \$200,000. The minimum age for annuitant(s) is 65.

In exchange, the Foundation agrees to pay you or another beneficiary or beneficiaries that you name an annual annuity of a percentage of the original gift amount that depends on the age of the annuitant(s) at the time of the gift and the type of annuity chosen. Annuities may be paid quarterly, semi-annually or annually.

At the death of the annuitant(s), the remaining principal of the gift is transferred to the Connecticut Community Foundation's endowment to establish a charitable fund with the name and type selected by the donor.

TYPES OF GIFT ANNUITIES

- *Single-Life Annuity* - Pays income to one individual throughout the annuitant's lifetime.
- *Joint and Survivor Annuity* - Covers any two lives simultaneously with one agreement and continues payments throughout the lifetime of the survivor.

- *Deferred Gift Annuity* - Allows the donor to make a gift and defer payment of the annuity to a later date while receiving a significant current income-tax deduction. By delaying payments, the rate of return and tax deductions are higher

The donor may reserve the right to terminate or revoke by will the interest of any surviving income beneficiary.

INVESTMENT OF CHARITABLE GIFT ANNUITY ASSETS

The charitable gift annuity assets are pooled for investment purposes. Each annuity is assigned a number of units in the pool. The investment objective for the pool is current income and long-term appreciation of principal. Investments will include equities, fixed income securities and cash depending on the current market and economic conditions. Any securities transferred to the pool may be sold or retained as a part of the investments at the Foundation's sole discretion. Annuity payments may be comprised of interest, dividends, capital appreciation and principal. The pool effectively constitutes a reserve for the payment of the annuity obligations.

TAX CONSEQUENCES OF A CHARITABLE GIFT ANNUITY

The following is a brief outline of the tax consequences of a charitable gift annuity. The donor should consult their own tax advisors to review their individual situations.

Establishing a charitable gift annuity provides the donor with a charitable tax deduction at the time of the gift. The amount of the deduction will depend on the payout rate and the age of annuitant(s). For a deferred annuity, the age at which the annuity payment will begin is the determining age.

The annual annuity is comprised of two parts: income and return of principal. The income portion will be taxed as ordinary income. The return of principal incurs no income tax, but the donor will pay a capital gains tax on the principal portion of the annuity if the donor made the gift with appreciated securities. The capital gains tax on the annuity portion will be spread over the expected life of the annuity; no capital gains tax is due on the charitable portion of the gift. The Foundation's financial custodian furnishes the donor with the necessary tax information for the allowable charitable deduction and furnishes the income beneficiaries with the annual tax information for the annuity payments.

EXAMPLE:

Jane Smith, age 75, donates \$50,000 of appreciated stock, to establish a charitable gift annuity. The stock was purchased for \$10,000 and yields 1% annually.

Benefits: (2008 rates)

- Ms. Smith receives a charitable tax deduction in the year of the gift of \$22,420.
- Ms. Smith will receive an annual annuity of 6.7% or \$3,350, an increase of \$2,850 over the dividend from the stock. For the first 12.4 years, the \$3,350 annuity is \$445 tax free, \$1,779 capital gains income and \$1,125 ordinary income. After 12.4 years, it is all taxed as ordinary income.

Ms. Smith has the satisfaction of making a generous gift to the community through the remainder of her gift, which will be used to establish the Jane Smith Unrestricted Fund at the Connecticut Community Foundation.

Please contact Ann Merriam Feinberg, director of development, at amerriamfeinberg@conncf.org or 203-753-1315 for examples fitting your client's particular circumstances.

