Life Income Gift Plans—
Ways to Give and Receive

Where Local Good Grows

Hendricks County Community Foundation

What Is a Life Income Gift?

Life income gifts serve a dual purpose—they provide an income stream for individuals and their families while lending invaluable support to our mission. Life income gifts come in three types:

- Charitable remainder annuity trusts
- Charitable remainder unitrusts
- Charitable gift annuities

Each of these provides income payments to you or your designated beneficiaries. However, they differ in the:

- Amount or nature of the income payments
- Allowable income tax charitable deductions
- Type of property that can be given
- Tax and financial consequences

Let's look at each plan in more detail.

Charitable Remainder Annuity Trust

A charitable remainder annuity trust can provide you with an income for life and then distribute the remainder to one or more qualified charitable institutions. It works like this:

- **You transfer property to the trust.** There are advantages to funding a trust with appreciated property, especially if the property is producing little or no income. We can help you explore the tax consequences that will result from a specific selection.
- **You choose the annual payment amount.** The amount must be at least 5% of the value of the gift, but it could be higher as long as the trust retains a minimum 10% remainder for the charity.
- **You name the income beneficiaries.** You can name anyone to be the income beneficiary. Often, a donor will receive the income benefits for life and then the donor's spouse or family member will receive benefits for life. Again, there must be at least a 10% charitable remainder.
- **You decide how long the income will be paid.** Income can be payable for the life of one beneficiary, the lives of two or more beneficiaries, or for a specified period of years (up to 20).
- **You name the trustee.** The trustee can be a bank, attorney, family member, or other qualified person or institution.

Charitable Remainder Unitrust

A charitable remainder unitrust is very similar to a charitable remainder annuity trust, but differs in two important ways:

- You can make additions to a unitrust, but not to an annuity trust.
- A unitrust provides income payments that vary with the value of the trust, whereas an annuity trust provides fixed payments. A charitable remainder unitrust pays out a specified percentage of the trust assets, meaning the trust assets must be revalued each year. If the value of the trust goes up, the annual payments go up; conversely, annual payments decrease if the value of the trust goes down.

Charitable Gift Annuity

A charitable gift annuity is simple to set up. You transfer property (typically cash or appreciated assets) to a charity in exchange for a commitment to pay a specified amount to one or two beneficiaries for life. The annuity amount is based on the age of the beneficiary (or beneficiaries), the pre-determined interest rate, and the amount of the gift.

You may arrange to defer annuity payments for a period of years. (For example, a 55-year-old may wish to defer annuity payments until retirement begins at age 65.) A deferred gift annuity offers increased payout amounts and a larger charitable deduction than an immediate annuity.

Gift annuities offer the following tax benefits:

- An itemized income tax charitable deduction for the gift portion in the year the gift annuity is established
- No immediate capital gains tax, even if the gift property has substantially appreciated in value
- Favorable taxation on income payments to you or other beneficiaries

Allowable Charitable Deduction for Life Income Gifts

The charitable deduction allowable for an income gift depends on several factors. The value of the gift is obviously important. So is the amount of income payable to individual beneficiaries, the period of time during which payments will be made, and the form in which the gift is made.

Using Life Income Gifts to Realize Planning Objectives

It is important to carefully consider how you can use life income gifts to realize individual investment, retirement, and/or estate objectives. Let's look at some examples.*

BUILD AN IMMEDIATE RETIREMENT FUND

Frank is age 70 and expects to retire within the next few months. Several years ago, he paid $60,000 for a publicly traded stock that is now worth $400,000. The stock pays a small dividend and is no longer experiencing rapid growth. When he retires, Frank wants a lifetime income to supplement his 401(k) plan.

He considers selling the stock, using some of the proceeds to provide income, and investing the balance in high-dividend-paying equities. However, a sale would result in significant federal (and possibly state) capital gains tax liabilities. Instead, Frank transfers the stock to a **charitable remainder annuity trust** that will pay him $20,000 a year for life. The immediate income tax charitable deduction helps lower his taxes. He is also able to spread his capital gains tax out over time, rather than paying it immediately.

BUILD A FUTURE RETIREMENT SUPPLEMENT

Richard is 55 years old. Over the next five years, he intends to give $25,000 annually to charity by establishing multiple **charitable gift annuities**. He defers payments under each annuity until age 65. By "laddering" his gift annuities, he can take a charitable deduction every year and supplement his retirement income with combined annuity payments that all begin at age 65.

PROVIDE FAVORABLY TAXED INCOME

Helen (age 70) gives $25,000 in cash to a charity in exchange for a **charitable gift annuity**. She receives a fixed payment of $1,325 a year for life. Of that $25,000 transfer, $12,467 is deductible as a charitable contribution. In addition, $808 of each annuity payout will be tax free until Helen reaches her life expectancy (based on an AFR of 4.8% and an annual payout).

SATISFY RMD REQUIREMENTS

Max is 73 and will need to begin taking taxable required minimum distributions (RMDs) from his IRA this year, even though he doesn't need the money. He decides to make a one-time IRA distribution of $50,000 (the maximum amount allowed) to create a charitable gift annuity with his favorite

* All examples are for illustrative purposes only.

charity. He pays no tax on the distribution, it counts toward his RMD, and it establishes a lifetime income stream while supporting a meaningful organization.

Beginning in 2023, an individual aged 70½ or older may make one qualified charitable distribution from an IRA (up to $50,000) to fund a new charitable remainder trust or charitable gift annuity.

ESTABLISH AN EDUCATION FUND

Anna (age 65) wants to make a sizable charitable donation, but she also wants to help pay for her grandchild's college education. She creates a **charitable remainder trust** designed to pay an annual income of $35,000 to her grandchild for five years. At the end of that period, the remaining trust assets will go to charity.

In some states, it is also possible to use a **deferred gift annuity** to provide for education expenses for a minor child. The charity can pay the child the commuted value of the lifetime annuity at a time when the child needs the funds to pay for college.

Working Together

Beyond the countless benefits to society, there are many reasons why you might want to use a life income gift—to accomplish planning objectives, enjoy attractive personal rewards, and provide invaluable support to us. It would be our pleasure to help you and your advisors explore ways to meet your personal planning goals and enjoy lifetime income using philanthropy.

OUR VISION:

Hendricks County is a place where everyone has the opportunity to have a fulfilling life and the tools they need to build a stronger future together.

OUR MISSION:

To be a trusted community partner in understanding needs, aligning resources, and empowering people to address today's priorities and create lasting impact together.

Where Local Good Grows

Hendricks County Community Foundation

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