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LIFE INCOME GIFTS

MORE POSSIBLE THAN YOU THOUGHT

For many years, Martha and Bill Smith have been faithful supporters of *[Name of Charity]*, contributing regularly to the annual fund and occasionally to special campaigns. But the Smiths aren't wealthy, and their gifts have always been limited to what they could spare from their disposable income.

Now retired, they long to make a larger "once-in-a-lifetime" gift, perhaps to underwrite a particular *[Name of Charity]* program or even establish a named endowed fund that will perpetuate their support. They can provide for a bequest, of course, but they would much prefer to make their gift now, while they can enjoy the satisfaction of giving and receive immediate tax benefits. Yet, a major lifetime gift seems out of the question, since it would have to come out of the accumulated assets they depend on for retirement income.

The good news for Martha and Bill is that they can provide themselves an income stream for life and simultaneously make a significant gift to *[Charity]*. They will also realize tax benefits, which may include reduced taxes on income payments, a donation receipt yielding current tax savings, or both.

A life income plan can make the Smiths' "impossible gift" more possible than they thought. It can do the same for you, if your goals and circumstances are similar to theirs. Three distinct plans are available to you through *[Charity]*, each with its own particular advantages and limitations.

Charitable Gift Annuity

The most common life income gift is the **gift annuity.** It's a simple contract between you and *[Name of Charity]* under which you make a contribution and, in exchange, you and/or another person receive(s) fixed payments for life or a term of years. (*If the annuity is self-insured say:* "The payments are backed by all of the assets of our organization. When the payment obligation ends, we use the remainder of your contribution for the purpose you have specified." *If the annuity is reinsured, say:* "After arranging for your payments to be backed by a Canadian life insurance company, we use the remainder of the contribution for the purposes you have specified.")

Gift annuity payments are usually larger than the interest you receive from a GIC fixed-income investment. Also, all or a substantial portion of your payments will be tax-free.

Thus, you will likely increase your after-tax cash flow. Although you will irrevocably commit your principal, you may largely compensate for it through the extra cash flow and tax savings.

Example: Charlene, age 80, contributes $50,000 cash from a maturing GIC for a gift annuity. She receives $4,000 per year, paid in quarterly payments of $1,000, and all of her payments will be tax-free. She was previously receiving $1,000 per year from the GIC, all taxable, leaving about $600 after tax. Thus, her after-tax cash flow increases from $600 to $4,000 per year. Moreover, she also receives a donation receipt for $12,500, which reduces her taxes by more than $4,000.

The numbers in this example are based on representative annuity rates and CRA tables in effect at the time of this publication. We can provide you with current information about the annuity rate, taxation of payments, and donation receipt for any age or combination of ages. The minimum contribution for an annuity at our organization is $_________. *(Enter your organization's amount here; an amount of <u>at least</u> $20,000 is recommended).*

Charitable Remainder Trust

Another useful life income gift is the **charitable remainder trust.** Under this arrangement, you transfer property – which may include cash, securities or real estate – to a trustee who invests the assets and distributes the net income to you and/or other persons you designate for life or a term of years. The trustee may be *[Name of Charity -- if the organization chooses to serve in this capacity]*, a qualified trust institution, or yourself, if you wish. At the termination of the trust, the principal passes to *[Name of Charity]* to be used as you have specified.

The tax benefits of a charitable remainder trust differ somewhat from those of a gift annuity. At the time of your gift, you are entitled to a donation receipt for the "charitable remainder"-- the present value of the trust assets the [Name of *Charity]* will receive when the trust ends. As with all gifts, the maximum amount of the receipt creditable is 75 percent of your net income, and any excess may be carried forward up to five years.

If you contribute appreciated property and name yourself as income beneficiary, you must recognize the portion of the capital gain attributable to the charitable remainder. The fraction of the recognized capital gain that is actually taxable is 50 percent. However, the tax on the capital gain will be more than offset by your tax credit, no matter how great the appreciation in the contributed property.

As an example, assume that Gary, 68, funds a charitable remainder trust with shares of listed stock he purchased 100,000 and which now have a fair market value of $300,000. The capital gain in the stock is $200,000, and 50 percent of this, or $100,000 is taxable. Based on Gary's life expectancy and an appropriate discount rate, the *present value* of the remainder interest is approximately $190,000. The tax on the gain, assuming a 46.4-percent rate is $46,400, but the tax credit, assuming that it, too, is valued at 46.4 percent of the donation receipt, is $88,160. This leaves them net tax savings of $41,760.

Note: When listed securities are contributed to a charitable remainder trust, the gain is not exempt from taxation as it would be in the case of an outright gift. That is because the donor is considered to be making a gift of the remainder interest rather than of the securities themselves.

Unlike the fixed payments from a gift annuity, the income payments from a charitable remainder trust will fluctuate with the performance of the investments. In any case, the assets transferred to the trust are removed from your probate estate, reducing future probate taxes, preserving privacy, and lessening the risk of legal challenges.

Gift of Residual Interest

The third type of life income gift pays you "life income" of a non-monetary sort: it makes it possible for you to contribute a personal residence to *[Name of Charity]* now and receive significant tax savings, yet retain the right to occupy the home for the rest of your life (and your spouse's life, if you wish) or a specified term of years.

You receive a donation receipt for the "residual interest"-- the present value of the property *[Name of Charity]* will receive at a future time. Again, the donation receipt is creditable up to 75 percent of your net income in the gift year, and the excess may be carried forward up to five years. There is no taxable gain if you give a residual interest in your principal residence, so you would have the full benefit of the tax savings allowable during the reporting period.

If you were to give a vacation home that is not your principal residence, you would recognize capital gain equal to the present value of the residual interest divided by the appraised value of the entire property multiplied by the gain in the entire property, and 50 percent of that gain would be taxable. Even so, your tax credit would exceed the tax on the gain, resulting in net tax savings.

While you continue to occupy your home, you will be responsible for maintenance and such other expenses as are specified in your written agreement with *Name of Charity]*. If you wish to give up the home before your death, you may rent it and retain the rental income, relinquish your life interest early and receive an additional donation receipt, or, by agreement with *[Name of Charity]*, sell the residence and receive a share of the proceeds.

Realize the possibilities

For further information about any of the life income plans described here, or to request a personal illustration showing how a life income gift could meet your personal and philanthropic goals, please contact (*add contact information here.)*