JAMES E. CONNELL k ASSOCIATES
Charitable Estate And Gift Planning Specialists
15 Pinewild Drive, P.O. Box 3335
Pinehurst, North Carolina 28374-3335
phone 910-295-6800 g g g g **fax 910-295-6866**
e-mail: jec42644@aol.com....www.connellandassoc.com

Gift Annuity Assets

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Studies show the most common asset establishing a gift annuity agreement(CGA) is cash ($17,000) from a female in her mid seventies.

Donors own many assets suitable to establish a CGA. Any asset gift must be balanced with the charity's ultimate goal to have cash to create a diversified portfolio sufficient to make the guaranteed lifetime payments.

Good assets are easy to transfer and quickly converted to cash. Difficult assets are hard to value, complex to transfer and have market value risks.

Donated assets must fit into the charity's approved program, as well as, meet donor's payment and tax objectives. Donors may choose either the immediate and deferred payment CGA.

Let's discuss common asset gifts and their effect on the gift annuity program keeping in mind the goal for most donors is to increase income, decrease taxes and/or rid themselves of difficult assets.

Cash, often a donor's most difficult gift, is simple to transfer and easy to reinvest. The cash may come from maturing certificates of deposit, bond redemptions, money market funds or other cash vehicles. The donor benefits from an immediate income tax deduction and increased income.

Securities are simple to value, easy to transfer and convert into cash; they often generate multiple financial benefits. PGOs may benefit from a financial glossary defining unfamiliar terms, see www.bobbrinker.com/terms.asp. Sub-categories of securities include common or preferred stocks; closed or open end taxable or tax-free mutual funds; and exchange traded funds(ETF). Mutual fund transfers may require establishing an account with the fund organization.

Northeast office: 20982 Bayside Avenue, Rock Hall, MD 21661 Phone: 410-639-7758
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Obtain the holding period and cost basis of securities. Donors holding depreciated securities should sell first reporting the loss on their tax return. Cost basis of appreciated securities or other assets effect the capital gains taxability of annuity payments. For appreciated short term securities the charitable deduction is determined using only the cost basis.

Like securities bonds may fund a CGA. Corporate bonds, municipal bonds but not saving bonds can be easily transferred. Savings bonds must be redeemed first. Donors are liable for the tax on the accumulated interest but the charitable deduction may offset in whole or in part the tax liability.

Many donors own real estate in the form of investment property, commercial property, personal residences or vacation property. Modern gift strategy suggests the value of the real estate be discounted and the annuity rate adjusted downwards when real estate is accepted. Some commentators suggest the asset be placed into a deferred or flexible annuity with payments starting at a future date. The adjustments compensate for market value and market wait risks.

Life insurance policies may fund a CGA. The annuity payment is based on the policy appraised value. Any accumulated interest build up inside the policy effects the taxability of the payments and the donor's tax deduction is based on the cost basis.

Commercial fixed and variable annuities are contracts with an insurance company, may not be transferred but must be surrendered for cash. A surrender may have adverse tax consequences for the donor as they may be liable for any built up value inside the policy. The charitable deduction has economic value as it may offset in whole or in part the tax liability from the surrender.

Many donors have qualified retirement plans, a 401k, Keogh, IRA, 403b or similar accounts with significant asset value. It is seldom reasonable to suggest a withdrawal from a qualified plan to fund a CGA because the full value of the withdrawal is taxed as ordinary income and the CGA generates only a partial deduction for the transfer.

Exploring various assets opportunities may lead to larger gifts.