
Charitable Gift Annuities ... Doing Well by Doing Good



Many friends of Cato are finding that charitable gift annuities truly work both ways— helping you and Cato at the same time. In this era of low interest rates, charitable gift annuities are a popular and straightforward way to boost cash flow.

Setting up a gift annuity is simple: you transfer cash or marketable securities to Cato and, in return, Cato issues a gift annuity contract that will pay you or your designated beneficiary a guaranteed annuity for life. The annuity rate paid is based upon tables that take into account the age of the annuitant. Rates are set at the time the annuity is set up and do not change once established. A portion of the annuity payments made to you will typically be tax free. This tax-free component represents the recovery of your investment in the contract, usually cash or the cost basis of securities transferred.

At your or your beneficiary's death, Cato retains any principal remaining in the contract. Thus, gift annuities are characterized as part gift and part purchase. This means that you will receive an immediate income tax charitable deduction for the gift portion of the transfer. Of course, in order to take advantage of this deduction, you need to be someone who itemizes your deductions. You should also bear in mind that charitable deductions are limited to a certain percentage of your adjusted gross income in a given year. If you exceed this limit, your excess deduction can be carried over to five future years.

Charitable gift annuities also offer a potent tax deferral opportunity. If you decide to fund your annuity with appreciated securities, the ap-

preciation or built-in gain will not be subject to immediate taxation. Instead the gain will be spread over the life of the annuity and taxed at capital gains rates. Hopefully capital gains rates will continue to be substantially lower than ordinary income tax rates. Cato's scholars would eliminate the tax, but at a minimum certainly advocate for the continuance of reasonable capital gains rates and, in general, for overall tax rates that foster capital formation and prosperity.

To summarize, gift annuities offer the following:

- Quarterly payments for life at a fixed rate
- Eligibility for an immediate federal income tax charitable deduction
- Tax deferral possibilities if your annuity is funded with appreciated securities
- The satisfaction of knowing that you have made a substantial gift to Cato

Let's close with a quick illustration of how gift annuities work. Attracted by the idea of receiving steady payments, George Janis, at age 74, decided to use \$100,000 to establish a gift annuity. In return, he will receive payments at the rate of 6.3 percent (\$6,300 annually) and a federal income tax deduction of \$40,079. Remember that a portion of his payments will be tax free.

Funding a gift annuity is an important financial decision, which should be discussed with your financial adviser. If you need more information about gift annuities or other gifting ideas, please contact **Gayllis Ward**, Cato's director of planned giving, at gward@cato.org or **202-218-4631**. ■