



Speaking Hope to the World

**HOW TO RECEIVE A CHARITABLE DEDUCTION
WITHOUT GIVING UP BENEFIT
OF YOUR PROPERTY**

*A SPECIAL PLANNING
REPORT TO ASSIST YOU
IN YOUR ESTATE &
GIFT DESIGN*

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HOW TO RECEIVE A CHARITABLE DEDUCTION WITHOUT GIVING UP BENEFIT OF YOUR PROPERTY

When you wish to receive income tax benefits without giving up the actual use of your property, increase your income, and avoid capital gains tax on appreciated property that is free and clear, then I invite you to consider one of the following agreements.

WHAT TRANSFERS QUALIFY FOR CHARITABLE DEDUCTIONS?

Any irrevocable transfer of cash or property will provide an income tax charitable deduction, even though you continue to live in the property or to receive current payments from the property.

Because a portion of the value of the property is actually considered a gift to Trans World Radio, the United States Congress has passed laws allowing a charitable deduction to you for making such a transfer.

ADVANTAGES OF LIFETIME CHARITABLE TRANSFERS

- You receive income payable as stated in the agreement (monthly, quarterly, semi-annually, annually), or you reserve the full use of your property when the transfer is of a personal residence or farm.
- You receive income tax benefits, both now and in the future:
 - Because any assets remaining at the end of the agreement are a gift to Trans World Radio, a federal income tax charitable deduction is allowed in the year in which the agreement is established.

- When your agreement pays you income, there is no capital gains tax payable on appreciated property at the time of transfer to the agreement. And there will be no capital gains tax payable if your property is later sold under the agreement.

- Many times, it is possible to receive favorable tax treatment of your income.

- When your agreement pays you income, that income is guaranteed for the entire term of the agreement.
- On transfers other than a personal residence or farm, you have no management or investment worries.
- You gain valuable advantages in the avoidance of estate taxes and probate costs.
- You can design your agreement to provide a hedge against future inflation.
- But most of all, you receive a "measure of immortality here on earth," for your gift supports ideals and programs of eternal worth that will long outlast your own life.

TYPES OF AGREEMENTS

There are several types of agreements available.

Charitable Remainder Annuity Trust

The asset which you transfer to a charitable remainder annuity trust is managed as a separate trust fund, for your benefit, and never commingled with other funds.

Payments which you receive are based upon a percentage of the initial fair market



value of the asset transferred to the trust. Payments can be for life or for a designated period, not to exceed twenty years.

Charitable Remainder Unitrust

The charitable remainder unitrust is identical to the charitable remainder annuity trust, with the exception that income is determined as a percentage of the trust assets as valued annually, and will increase or decrease as the value of the trust assets changes.

An option provides for payment of the actual trust income each year, whenever the income is less than the stated percentage. When income exceeds the stated percentage, the excess is used to make up deficiencies in distribution from prior years, or is reinvested in the trust to produce increased income in future years.

Life Estate Agreement

Under a life estate agreement, you transfer your personal residence or farm to Trans World Radio, retaining the right to use the property for your lifetime, whether you live in the property or rent it for income.

Charitable Gift Annuity

With a charitable gift annuity, you invest a sum of money with a charitable organization in exchange for a fixed income for your life. The charity will either invest your deposit in a special reserve account, or will purchase an insurance contract to secure your payments.

At your death (or at the death of a survivor beneficiary if one has been designated), the funds remaining from your deposit will be available to Trans World Radio.

Terms of Agreements

Each of these agreements is available as:

- A single life agreement, which will provide income to you for as long as you live.
- A survivorship agreement, which provides income to you for as long as you live and continues to pay income to a survivor for life.
- If a fixed period annuity trust or unitrust is chosen, payments are made for the entire trust period, not to exceed twenty years.

TAXATION OF AGREEMENTS

Charitable Contribution Deduction

You will be entitled to a charitable contribution deduction on your federal income tax. This can be deducted up to 50% of adjusted gross income in the year the agreement is established, providing it is funded with cash or property which has not appreciated in value.

If your property has appreciated in value, your contribution is deductible up to 30% of adjusted gross income. If the amount of the deduction exceeds this percentage, any "excess" can be carried over for up to five additional years.

When funding your agreement with appreciated property, it is possible to increase the 30% limitation to 50% of adjusted gross income (with a five year carryover for any "excess"). To qualify for the increased percentage, you must reduce the charitable deduction by the taxable portion of the appreciation. You must also make this election on all contributions of long term appreciated property during the year, and long term appreciated property gifts being carried over.



You should consult your own advisers for the method which would be most advantageous to you.

Avoidance of Capital Gains Tax

If you transfer to a charitable remainder annuity trust or a charitable remainder unitrust, there will be no capital gains tax payable at the time of transfer of appreciated property to the agreement. Neither will there be any capital gains tax payable if the property is later sold.

For a charitable gift annuity, there will be no capital gains tax payable on the property attributed to the gift portion of the annuity. The capital gains attributed to the annuity portion will be prorated over your life expectancy.

If you transfer a personal residence or farm, retaining the right to live in the property, a portion of the capital gains tax would be payable if the property is sold during your lifetime.

Taxation of Income

The taxation of your income will vary, depending upon the agreement you choose.

When non-appreciated property is transferred for a charitable gift annuity, a portion of each payment will be received tax-free. A portion will be interest earned by the annuity investment and will be taxed to you as ordinary income.

If appreciated property is transferred in exchange for a gift annuity, a portion of the income will be received tax-free, a portion will be taxed as capital gain, and a portion will be taxed as ordinary income.

The charitable remainder unitrust and annuity trust are taxed as follows:

First, as ordinary income to the extent of the trust's ordinary income for the year (and any undistributed ordinary income from previous years).

Second, as capital gain to the extent of the trust's capital gain for the year (and any undistributed capital gain from previous years).

Third, as tax-exempt income to the extent of the trust's exempt income for the year (and any undistributed exempt income from previous years).

Fourth, as tax-free distribution of principal.

For a life estate agreement on your personal residence or farm, all of the income you receive will be taxed as if you had not made the transfer.

Federal Gift Tax Implications

When a husband and wife are the only beneficiaries of a charitable agreement, there are no gift tax implications.

When the agreement provides a life interest to an individual other than a spouse, there is a taxable gift equal to the value of that beneficiary's interest. This value is based upon the beneficiary's age, the amount of the payments, and when the payments begin.

It is often possible to design the agreement so that the gift is not deemed to be made during lifetime, by reserving the right in your will to revoke the beneficiary's interest.

Federal Estate Tax Implications

There are no federal estate tax implications when a husband and wife are the only beneficiaries of the agreement.



However, when another individual, other than a spouse, is named to receive income from your agreement, the value of his or her right to receive income is taxable in your estate, based upon the survivor's age and the amount of the payments.

A CASE STUDY — MRS. SMITH

Mrs. Smith, age 70, has been involved with Trans World Radio for many years.

Several years ago, Mrs. Smith purchased some stocks which have proven to be a very successful investment for her, having a current value of \$15,000. However, Mrs. Smith would like to be relieved of her investment responsibilities, and would like to receive more income than the dividends from her investment provides. She is also concerned about her estate plan and would like to give a portion of her estate to Trans World Radio.

The annuity would provide her the following benefits:

- She would receive a fixed annual income of \$870, of which a portion will be received tax-free.
- Mrs. Smith would receive an income tax charitable deduction of \$6,743, resulting in a current federal tax savings of approximately \$2,160 in a 32% combined federal and state income tax bracket.
- Mrs. Smith originally paid \$5,000 for the stock. If she had sold the stock, she would have capital gains tax payable on \$10,000. Because of the unique provisions of the gift annuity, capital gains tax is only payable on approximately 60% of her gain, and this amount can be prorated over her life expectancy. This would result in an

actual tax savings of approximately \$880.

- The charitable gift annuity is not part of Mrs. Smith's estate, thus avoiding estate tax and probate costs.
- Taking into consideration the charitable deduction tax savings, avoidance of capital gains tax, and the tax-free income Mrs. Smith will receive, we have calculated that she would have to earn a 9.4% return on a fully taxable investment, to equal the benefits of the charitable gift annuity.
- Probably most important, Mrs. Smith has the satisfaction of knowing that even while she is living, a portion of her money is being used to help in the ministry of Trans World Radio.

CASE STUDY — MR. AND MRS. JONES

Mr. and Mrs. Jones are both 64 years of age, and are looking forward to retirement. They have been successful in their real estate investments, and own free and clear property which has an appraised value of \$240,000. The property was purchased for \$80,000 in 1985.

While Mr. and Mrs. Jones believe the property to be an excellent investment, it does not meet their retirement income needs. After reviewing a comparison of the agreements, Mr. and Mrs. Jones decided that a charitable remainder unitrust would help them meet their immediate and long-range financial goals.

Their benefits will be as follows:

- They will receive income equal to 7% of the trust assets, as valued annually. This provides initial income of



\$16,800, increasing to over \$35,000 in 26 years, assuming 10% total return.

- In addition, they receive a federal income tax charitable deduction in the amount of \$52,145, which will provide a current income tax savings of approximately \$21,900 in their 42% combined federal and state income tax bracket.
- Assuming an \$80,000 cost basis in the property, Mr. and Mrs. Jones would have a capital gain of \$160,000 if they sold the property. However, when they transfer it to a charitable remainder unitrust, they pay no capital gains tax on the appreciation at the time of the transfer, nor when the property is sold by the trust. This will provide an additional tax savings of approximately \$35,200, assuming that they are in a 22% combined federal and state capital gains tax bracket.
- Mr. and Mrs. Jones also have the satisfaction of knowing that property which they have accumulated during their lifetimes will eventually be used to help provide financial security for the future of Trans World Radio.

HOW TO CREATE ONE OF THESE AGREEMENTS

- A proposal is made for your consideration and that of your personal, legal and tax advisers.
- After you have determined which agreement is desirable and beneficial to you, an application is forwarded to Trans World Radio, along with information about the funding property.

- An agreement is prepared and presented to you for review by your legal and tax counsel.
- In your attorney's office or the bank trust office, you sign the agreement and transfer title of your property in a manner which qualifies for an income tax charitable deduction.
- If your agreement pays you income, at the end of the first pay period (monthly, quarterly, semi-annually, annually), you receive your first income payment, and regular payments continue until the end of the agreement.
- If your agreement pays you income, you will receive all the necessary information to assist your tax advisers in claiming your income tax charitable deduction and reporting your income.

CONCLUSION

I hope that this information is of interest and value to you. You will notice that these agreements provide many tax advantages, while at the same time allowing you the opportunity to make a substantial gift to Trans World Radio.

I also hope that you find one of these agreements fits well in your overall plan of giving, and that you will consider your transfer today.



QUESTIONS FREQUENTLY ASKED

Q. Are these agreements designed for wealthy people?

A. No. While the tax advantages available to people in higher income tax brackets may make the agreements more attractive from the financial point of view, many people establish the agreements with little or no tax advantage, either because of their desire for additional income or because of their charitable desires.

Q. How financially secure is Trans World Radio?

A. While Trans World Radio is financially secure, it is important to understand that with the exception of the charitable gift annuity, the financial security of the organization is immaterial to the financial security of the agreement. In most cases, property is held by an independent trustee for your benefit, and the strength of the property held by the trust is what provides the financial security.

Q. Are my income payments always the same?

A. Only with a charitable remainder annuity trust or a charitable gift annuity. With a charitable remainder unitrust, your income is determined by applying a fixed percentage to the value of the trust assets, as valued annually.

Q. What happens to my agreement upon my death?

A. If the agreement is for your life only, upon your death the assets held in the agreement are made available to the charity. If your agreement covers the life of another individual who survives you, the

agreement will continue for that life. At termination, the assets will be distributed to the charity.

For a fixed period agreement, if death occurs prior to termination of the agreement, income continues to whomever you name to receive payments for the remaining trust period. Should you fail to name a beneficiary, trust payments will be payable to your estate.

Q. Can I make additional contributions to my agreement?

A. Additional contributions can be made to the charitable remainder unitrust. However, federal law prohibits future contributions to the charitable remainder annuity trust or the charitable gift annuity. Additional property would have to be placed in a separate agreement.

Q. When I establish an agreement, can I withdraw the funds later?

A. No. The agreement is irrevocable. To qualify for the income tax charitable deduction and avoidance of capital gains tax, the agreement must meet certain requirements, which do not allow withdrawals in excess of annual income.

Q. Can I establish an agreement and make another individual the beneficiary of the income payments?

A. Yes, and this is often done as part of an individual's total estate plan. You should consult your tax adviser for gift tax implications.

Q. Will my agreement be part of my taxable estate?

A. If the agreement covers your life only, the assets go directly to charity at your death, completely avoiding estate taxes. If



the agreement covers the life of a survivor other than a spouse, a portion (based on the age of the survivor) will be included in your estate. In either case, the agreement will be excluded from the probate estate.

Q. What if my charitable deduction exceeds the maximum amount I am allowed to deduct from my income tax return in the year I establish the agreement?

A. If your charitable deduction exceeds the amount deductible in the year you establish the agreement, you may carry over the excess for up to five additional years.

Q. Is my income absolutely guaranteed?

A. Under the terms of the agreement, the trustee or the charitable organization has full responsibility to use the assets of the trust to guarantee your payments, even if this reduces the remainder for charity.

Q. What secures my agreement when the property I transfer is sold?

A. When the agreement is a trust, the trustee is required to reinvest the proceeds in "prudent" investments for your security. At no time is property transferred or sold without proper security in return.

Under a charitable gift annuity, you are secured by the general assets of the charitable organization; your property is not actually assigned to your agreement.

Q. Which plan is best?

A. The plan which is best for you will vary, based upon your age, the type of property to be transferred, and your short and long-range financial goals. We will be happy to prepare a side-by-side comparison for review with your legal and tax advisers.

Q. I do not understand taxes. What assistance will I receive?

A. You should rely upon your own counsel. However, as a service, we will provide information to assist your legal and tax counsel in securing the maximum deductions on your federal and state income tax returns. Also, you will receive reports annually on how the income you receive should be reported for income tax purposes.

Q. Can I remember a friend or relative by creating one of these agreements in my will?

A. Yes, you can insure that a safe, reliable income will be provided to your friend or relative, by establishing one of these agreements in your will. Many times, this is better than leaving property outright.

CITATIONS OF AUTHORITY

Because this information is of a general nature only, and should not be interpreted as legal advice, we provide the following citations of authority for use by your legal and tax advisers, to verify its applicability to your specific circumstances.

Charitable remainder unitrust - description. Specifies that income beneficiary is to receive annual payments determined by multiplying a fixed percent (which cannot be less than 5%) by the net fair market value of the trust assets, as determined each year. On death of beneficiary (or survivor beneficiary, if more than one) charity gets the remainder. IRC §664(d)(2).

A variation calls for trustee to pay only trust income if actual income is less than stated percent. Deficiencies in distributions (i.e., where trust income is less than



stated percent) are made up in later years if trust income exceeds the stated percent. Another variation provides that deficiencies are not to be made up. IRC §664(d)(3); Reg. §1.664-3(a)(1)(i)(b).

Charitable remainder annuity trust - description. Specifies a fixed dollar amount (at least 5% of initial net fair market value of transferred property) which is to be paid annually to income beneficiary for life. On death of beneficiary (or survivor beneficiary, if more than one) charity gets the remainder. IRC §664(d)(1).

Charitable gift annuity - description. Donor transfers money or property to charity in exchange for its promise to pay fixed amount annually to donor (and a survivor, if desired) for life. Transfer is part gift and part purchase of an annuity.

Charitable life estate agreement - description. Donor transfers remainder interest in a personal residence or farm to a charity and retains for self a life estate.

Income tax. For charitable remainder unitrust and charitable remainder annuity trust, deduction allowed for remainder interest, computed using Treasury tables. Unitrust - IRC §170 (f)(2); Reg. §1.664-3(c) and §1.664-4; IRS Pub. 723B. Annuity trust - IRC §170(f)(2); Reg. §1.664-2(c); Reg. §20.2031-10; IRS Pub. 723A.

For charitable gift annuity, charitable deduction allowed for excess of amount transferred over what it would cost to purchase comparable annuity from commercial insurance company, determined by Treasury tables. Rev. Rul. 72-438, 1972-2 CB 38.

For charitable life estate agreement, deduction is allowed for value of remainder interest taking straight line depreciation or cost depletion into account, with value dis-

counted at 6% per annum. IRC §170(f)(3)(B)(i); Reg. §1.170A-7(b)(3) and (4); Reg. §1.170A-12.

When funded with cash or non-appreciated property, remainder interest is deductible up to 50% of donor's adjusted gross income. IRC §170(b)(1)(A); Reg. §1.170A-8. Five year carryover allowed for any "excess." IRC §170(d)(1), Reg. §1.170A-10(a).

When funded with securities or real estate held long-term, remainder interest is deductible up to 30% of adjusted gross income. IRC §170(b)(1)(C)(i); Reg. §1.170A-8(d)(1). Five year carryover allowed for any "excess." IRC §170(b)(1)(C)(ii).

Under election, donor can increase ceiling to 50% of adjusted gross income (with five year carryover for any "excess") by making the same gift, but:

- (1) Reducing the amount of the deduction for all long-term property gifts during the year by the appreciation, and
- (2) Similarly reducing the deduction for long-term property gifts being carried over from earlier years.

IRC §170(b)(1)(C)(iii); IRC §170(e)(1)(B); Reg. §1.170A-8(d)(2).

How payments taxed to recipient. For charitable remainder unitrust or charitable remainder annuity trust, amounts paid to the recipient retain the character they had in trust. Each payment is treated as follows:

First, as ordinary income to the extent of the trust ordinary income for the year and undistributed ordinary income for prior years;



Second, as capital gain to the extent of the trust capital gains for the year and undistributed capital gains for prior years;

Third, as other income (e.g., tax-exempt income) to the extent of the trust's other income for the year and undistributed other income for prior years;

Fourth, as a tax-free distribution of principal.

IRC §664(b); Reg. §1.664-1(d).

For a charitable gift annuity, annuitant's return is part capital and part interest; only interest portion taxable. To determine the amount received tax-free (the exclusion ratio) apply the following formula:

$$\frac{\text{Investment in Contract} \\ \text{[determined under} \\ \text{Rev. Rul. 84-162 (supra)]}}{\text{Exclusion ratio} = \text{Expected return} \\ \text{[determined using tables in Reg. §1.72-9]}}$$

Charitable remainder trusts are exempt from taxation. But a trust is not exempt in any year it has income which would be taxable unrelated business income if trust was an exempt organization. IRC §664(c). Payments to income beneficiary taxed as above.

Governing instrument requirements. To assure charitable deductions and avoid adverse tax consequences for a charitable remainder unitrust or charitable remainder annuity trust, governing instrument must contain specific provisions. See: Reg. §1.664-1 through §1.664-3; IRC §508(e); IRC §4947(a)(2); Rev. Rul. 72-395, 1972-2 CB 340; Rev. Rul. 82-128, IRB 1982-27, 7; Rev. Rul. 82-165, IRB 1982-40, 8.

Capital gain. No capital gain incurred on transfer of appreciated assets to a charitable remainder unitrust or charitable remainder annuity trust. Rev. Rul. 55-275,

1955-1 CB 295; Rev. Rul. 60-370, 1960-2 CB 203. Nor is there capital gain to donor on a sale by trust (except as taxable under four tier system, above). Exception: Gain taxable to donor if trust assets sold and invested in tax-exempt securities pursuant to express or implied agreement between donor and trustees. Rev. Rul. 60-370, 1960-2 CB 203.

Nor is there capital gain to donor on a sale by trust (except as taxable under four tier system). Exception: Gain taxable to donor if trust assets sold and invested in tax-exempt securities pursuant to express or implied agreement between donor and trustees. Rev. Rul. 60-370, 1960-2 CB 203.

There is capital gain when gift annuity is funded with appreciated property. Amount of gain is smaller, however, than gain would be on sale of appreciated property--instead of transfer for charitable gift annuity. Furthermore, gain is not all reportable in year of transfer for gift annuity--as it would be on a sale of property. Gain is reported ratably over annuitant's life expectancy when annuity is non-assignable and donor is sole annuitant or one of the annuitants in a two-life annuity. Reg. §1.1011-2(a)(4) and §1.1011-2(c), Example 8.

There is no capital gain tax implication on transfer of appreciated property for a life estate agreement, nor upon the subsequent sale, except as applicable to the life estate portion.

Estate tax [IRC §2055(e)(2)(A)].

One life (donor is beneficiary). Fair market value of assets transferred to charitable remainder unitrust or charitable remainder annuity trust, at death included in gross estate and then deductible as charitable contribution.



For annuity, none. IRC §2039.

For life estate, none.

Two lives (funded with donor's separate property, donor is first beneficiary and another is to be survivor beneficiary). For charitable remainder unitrust or charitable remainder annuity trust, fair market value of assets at donor's death included in gross estate but deductible as charitable contribution if second beneficiary not surviving. If second beneficiary survives, charitable remainder based on survivor's age at donor's death is deductible.

For annuity, if second annuitant not living on donor's death, no amount included in donor's gross estate. If second annuitant survives, included in donor's gross estate is value of annuity paying same amount to survivor annuitant (at survivor's age at donor's death) as donor received during life. IRC §2039(b). Estate tax paid by donor's estate attributable to annuity deductible by survivor over life expectancy. Reg. §1.691(d)-1.

For life estate, if second recipient not living at donor's death, will not be included in donor's gross estate. If second recipient survives, included in donor's gross estate is value of the life estate of survivor recipient (at survivor's age, at donor's death).

Marital deduction. Qualifies for unlimited marital deduction as qualified terminable interest property. IRC §2056(b)(8); IRC §2523(g).

Gift tax [IRC §2522(c)(2)(A)]. Value of charitable remainder is fully deductible, thus charitable gift is immune from gift tax. Where there is a life interest other than donor's, a gift is made to non-charity beneficiary of value of beneficiary's life interest.

For charitable remainder unitrust or charitable remainder annuity trust, value of gift depends on type of property ownership and when beneficiary's payments begin. It is possible to draft trust so that a gift is not deemed made to non-charity beneficiary by reserving right by will only to revoke life beneficiary's interest. Reg. §1.664-3(a)(4). Rev. Rul. 74-149, 1974-1 CB 157.

For charitable gift annuity or life estate agreement, gift to survivor is of future and terminable interest; hence no annual exclusion.

Note: The information in this planning report is of a general nature only, and should not be interpreted as legal advice. Illustrations were calculated using a 5% mid-term AFR rate. The rate in effect in the month of a transfer or in either of the two months preceding the transfer will be used to calculate the charitable deduction available for a specific gift.

