



Speaking Hope to the World

INCREASED INCOME, A TAX DEDUCTION AND JOY

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

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INCREASED INCOME, A TAX DEDUCTION AND JOY

If you desire to receive a tax deduction, increased income, or if you are simply looking for an additional way to receive joy in your giving, than I invite you to consider a Trans World Radio charitable gift annuity, a gift that will pay you income for life.

Here's why:

WHAT IS A CHARITABLE GIFT ANNUITY?

The charitable gift annuity is an agreement between you and a charitable organization. In exchange for you transferring cash or property to them, they will pay you income for your life.

Because a portion of the gift annuity is actually a gift to charity, the United States Congress has passed laws allowing special tax benefits to all participants in gift annuities.

ADVANTAGES OF THE CHARITABLE GIFT ANNUITY

- You receive the satisfaction of making a significant charitable contribution.
- You receive income tax benefits both now and in the future.
- Because a part of the initial annuity deposit is considered a gift, a current income tax deduction is allowed by the federal government for the gift portion.
 - A part of each payment you receive is tax-free.
 - When appreciated property is transferred in exchange for a gift annuity, a portion of the capital gains tax is avoided.

- The income which you receive will never be reduced for as long as you live, and for a joint contract, your survivor also receives income for life.
- You have no management or investment worries or service fees to pay.
- You gain valuable advantages in the avoidance of estate taxes and probate costs.
- There are no health or age limitations.
- 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. You receive the benefit of knowing that as you are taking care of your own needs, you are also helping provide for the financial security of Trans World Radio.

TYPES OF ANNUITY AGREEMENTS

Two types of agreements are available:

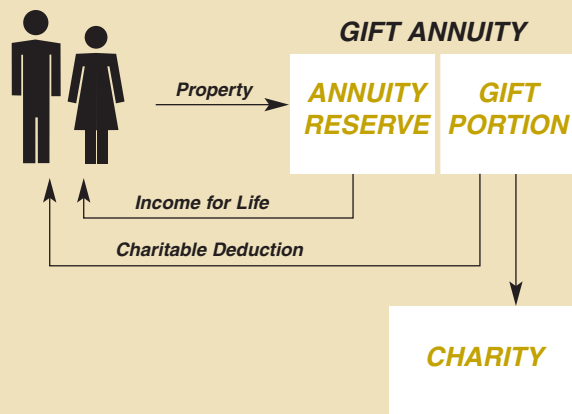
- The *current gift annuity* is designed for individuals who are ready for retirement or are already in their retirement years. It provides lifetime income, beginning immediately upon the purchase of the gift annuity agreement.
 - A single annuity will pay income to you for as long as you live.
 - A joint and survivor annuity will pay income jointly to two beneficiaries, and at death of the first beneficiary will continue to pay income to the surviving beneficiary for life.
 - A survivorship annuity will provide income to you for as long as you live and will continue to pay income to a survivor for life.



- A *deferred gift annuity* provides all the advantages of a current gift annuity, but is especially designed for individuals who are planning for future retirement. Money is accumulated in the annuity contract until retirement, at which time payments begin.

The deferred annuity is also available as a single, joint and survivor, or survivorship agreement.

HOW A CHARITABLE GIFT ANNUITY WORKS



TAXATION OF A CHARITABLE GIFT ANNUITY

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 annuity is established, providing your annuity is funded with cash or property which has not appreciated in value.

If your annuity is funded with property which 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 annuity 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"). In order to qualify for the increased percentage, you must reduce the charitable deduction by the appreciation, and you must make this election regarding 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

Because your agreement qualifies as a charitable gift annuity, there will be no capital gains tax payable on the portion of the property attributed to the gift portion of your annuity.

And if you are one of the income beneficiaries, the capital gains attributed to the annuity portion will be prorated over your life expectancy.

Taxation of Income

A portion of each payment which you receive, calculated using government tables, is considered to be a return of your investment in the contract and you receive it tax free. The remaining portion of the payment which you receive is considered to be interest earned on the investment in the contract and is taxed to you as ordinary income.

Federal Gift Tax Implications

When you are the only beneficiary of your gift annuity agreement, there are no gift tax implications.



However, when another individual (other than a spouse) is named to receive income from your annuity, the value of his or her right to receive income is subject to gift tax.

Federal Estate Tax Implications

There are no federal estate tax implications when you are the only beneficiary of your annuity.

However, when another individual (other than a spouse) is named to receive income from your annuity, the value of his or her right to receive income is taxable in your estate.

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 investments provide. 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.

A CASE STUDY — MR. AND MRS. JONES

Mr. Jones is 55 years of age, his wife is 52. They have been involved for some time in the ministry of Trans World Radio, and want to have a greater part in its future and outreach.

Mr. Jones is also concerned about his retirement. Even though it is several years away, he wants to be prepared. He also wants to make sure that his wife would continue to receive income should she outlive him.

After hearing about the deferred gift annuity, Mr. and Mrs. Jones agreed that they could deposit \$10,000 at this time. Mr. and



Mrs. Jones are in a 42% combined federal and state income tax bracket, and will benefit as follows.

- When Mr. Jones retires at age 65, they will receive a fixed annual income of \$770. Approximately 30% of the income will be received tax-free.
- They receive an income tax charitable deduction of \$3,750, resulting in a current income tax savings of approximately \$1,575.
- Because Mr. and Mrs. Jones purchased a joint and survivorship annuity, at the time of Mr. Jones's death, Mrs. Jones will automatically continue to receive the same fixed income for the rest of her life.
- Mr. and Mrs. Jones also receive a substantial estate tax savings and reduce probate costs because of the gift annuity.
- Mr. and Mrs. Jones are very satisfied that the tax advantages of the gift annuity agreement make it comparable with other retirement programs. And probably most important, they have the satisfaction of knowing that even while they are living, a portion of their money is being used to help in the ministry of Trans World Radio.
- Trans World Radio will set aside in an annuity reserve account a sufficient amount to secure payment of your annuity amount.
- The gift portion of the annuity agreement becomes available to Trans World Radio to carry out its programs and projects.
- At your annuity payment date, you will begin to receive income payments which will continue for as long as you live.
- Prior to tax reporting time, Trans World Radio will furnish you with complete information concerning the tax treatment of your charitable gift annuity.

HOW TO ESTABLISH A CHARITABLE GIFT ANNUITY

- You complete an application for an annuity and forward it to Trans World Radio, with your funding property.
- Trans World Radio will provide you with a gift annuity agreement, which is a legal contract, that will pay you income for life.

CONCLUSION

I hope this information on the Charitable Gift Annuity is of interest and value to you. You will notice it provides many tax advantages, while at the same time allowing you the opportunity to make a substantial gift to Trans World Radio.

I also hope you will find that it fits well in your overall plan of stewardship and that you will plan your transfer today.

QUESTIONS FREQUENTLY ASKED

Q. Are gift annuities designed for wealthy people?

A. No. Wealthy people can usually make outright gifts available to our organization. The charitable gift annuity is basically designed for the person who wants to help our organization, but who also needs the income that can be derived from his capital. With a charitable gift annuity, you can do both.



Q. Does my age make a difference in the rate of return I am paid?

A. Yes, it does. Rates are actuarially determined, based upon ages and value of the property transferred.

Q. How do I collect my payments?

A. They will come to you regularly through the mail, or they can be directly deposited into your bank account.

Q. Is a gift annuity a desirable income producing plan for a widow?

A. Yes. Many widows prefer gift annuities because they provide fixed income without having to worry about investment management or the fluctuating national economy.

Q. Can I purchase as many annuities as I wish?

A. Yes. There is no limit to the number of annuities you purchase. It is not uncommon for people to purchase a new one each year.

Q. If I purchase a gift annuity, can I withdraw the funds later?

A. No. The agreement is irrevocable. To provide the fixed payments for life, the terms of the annuity agreement must be defined.

Q. Will my annuity be part of my estate?

A. A single life annuity goes directly to the charity at your death, avoiding estate taxes. In a joint-survivorship annuity where the survivor is not a spouse, a portion (based on the survivor's age) will be included in the estate. In both cases, probate costs are avoided.

Q. What happens if I lose my annuity agreement?

A. Nothing. Your income continues, and a duplicate copy of the agreement will be sent upon request.

Q. What if the portion of my gift exceeds the maximum amount I am allowed to deduct from my income tax return in the year I make the gift?

A. This presents no problem. If your charitable deduction exceeds the amount deductible in the year of the gift, you may carry over the excess for up to five additional years.

Q. I would like to receive a fixed income for the rest of my life, but I would also like to have my spouse assured of an income for life. Can this be done?

A. Yes. It can be done through a joint and survivorship annuity. A joint and survivorship annuity covers the lives of two people, and is computed actuarially on both your ages.

Q. Is my income absolutely guaranteed?

A. The security of your income is based upon the financial strength of the charitable organization issuing the annuity. Rates are established by professional actuaries, and funds are set aside in an annuity reserve account, sufficient to secure your payments.

Q. Is it a good idea to liquidate uncertain investments to purchase gift annuities?

A. Because uncertain and unpredictable investments can provide worry and con-



cern, it may be better to have your money in a gift annuity where the return is certain.

Q. Can a gift annuity be purchased to pay an income to someone other than myself?

A. Yes. You may designate anyone you wish to receive payments from a gift annuity.

Q. Can a single life annuity be changed later to a joint or survivorship gift annuity?

A. No. The type of annuity is established at the time of purchase and cannot be changed. This is the only way the annuity payment can be determined and fixed.

Q. Can I purchase an annuity with stocks or property rather than with cash?

A. Yes. This is often done. In many cases, the tax benefits are even greater if the stocks or property have appreciated in value.

Q. Are there taxable capital gains on appreciated property funding a gift annuity?

A. There are capital gains implications when you fund your gift annuity with appreciated property. The amount of the gain is smaller than it would be if you sold the property. If you are one of the annuitants, the gain is not all reportable in the year of the transfer for the gift annuity, as it would be if you sold your property. The gain is reported over your life expectancy.

Q. Is a two life annuity available only for husband and wife?

A. Any two persons can receive income from the charitable gift annuity. Payments are made to one for life, and then to a survivor for life; or payments can be made

jointly and then to the survivor. Gift annuities can generally be written so that the survivor's right to payments is not subject to federal gift tax.

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 gift annuities - 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.

Income tax. Charitable deduction for excess of amount transferred over what it would cost to purchase comparable annuity from commercial insurance company, as determined by Treasury tables. Rev. Rul. 84-162, 1984-2 CB 200.

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

When gift annuity is funded with appreciated property held long-term, amount 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); Reg. §1.170A-8(d)(2).

How beneficiary taxed. Annuitant's return is part capital and part interest; only interest portion taxable. Determining amount received tax-free - the exclusion ratio.

Investment in Contract

[determined under

Rev. Rul. 84-162 (supra)]

Exclusion ratio = Expected return

[determined using tables in Reg. §1.72-9]

Capital gains implications when appreciated property used to fund gift annuity. 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 (c), Example 8.

Estate tax.

One life (donor is annuitant). None. IRC §2039.

Two lives (funded with donor's separate

property; donor is first annuitant and second individual is to be survivor annuitant). 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).

Any estate tax paid by donor's estate attributable to annuity is deductible by survivor over life expectancy. Reg. §1.691(d)-1(c).

Marital deduction. Annuity qualifies for unlimited marital deduction where spouse is only beneficiary. Reg. §20.2056(b)-1(g), Example 3.

Federal gift tax [IRC §2522(c)(2)(A)]. One life (donor is annuitant). No gift tax.

Two lives (funded with donor's separate property, donor is first annuitant and another is to be survivor annuitant). Gift to survivor of future and terminable interest; hence no annual exclusion or marital deduction.

Suggestion. Gift tax implications for survivor's interest can be avoided by donor reserving right to revoke survivor's annuity by his Will. Reg. §25.2511-2(c).

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 transfer or the gift either of the two months preceding the transfer used to calculate the charitable deduction available for a specific transfer.

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