



The Washington
**ANIMAL
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Charitable Gift Annuities

Charitable gift annuities, or CGAs, are one of the oldest and most reliable charitable options and have particular appeal to retirees and senior citizens. Religious organizations began offering CGAs to provide cash flow for supporters in the 19th century.

Today, the Washington Animal Rescue League is among a variety of organizations that make available this form of planned gift—a simple contract between the two parties—because it represents an excellent way for donors to make a significant contribution to a charity, while also benefiting themselves with partially tax-free payments and other appealing tax features.

Establishing a CGA with the League means you are helping our dedicated team of animal welfare professionals care for approximately 2,000 homeless animals annually in our shelter, as well as provide veterinary medical services for the companion animals of close to 5,000 low-income DC residents every year.

How a Charitable Gift Annuity Works

You irrevocably transfer cash or marketable securities (e.g., stock, bonds, mutual fund shares, etc.) worth at least \$10,000 to the League. In exchange, the League pays you a fixed amount for life on a quarterly basis. You also receive a substantial tax deduction in the year you make the gift.

The amount of your annuity depends on the size of your gift and your age. The larger your gift and the older you are, the more you will receive and the greater your tax deduction will be.

Here are some additional advantages to establishing a charitable gift annuity with the Washington Animal Rescue League:

- CGAs can be set up to provide annuity payments for two people, such as a husband and wife or a pair of siblings. However, two people need not be legally related to each other.
- A two-life CGA can be established either to pay one individual until he or she passes away and then pay a survivor until that survivor's death, or to make payments to both of them and then to the survivor for life.
- The beneficiary need not be the donor. For example, a younger adult may want to fund a CGA for an elderly parent.
- The fixed payments protect against market fluctuations.
- A CGA is much easier to arrange than a charitable trust. The application is only a single page, and the gift annuity contract is only a few pages long.
- Payments to you can be deposited directly to your bank account.

Like most charities nationwide, the League uses rates recommended by the American Council on Gift Annuities (ACGA). These are our maximum rates; donors sometimes accept less than the maximum rate as a charitable gesture. Based on actuarial data, CGA rates are dependent on age, currently topping out at 9.8% for someone age 90 or older. Slightly lower rates apply when payments are made over the course of two lives.

Example

Nancy, age 70, would like to contribute more to the League, but she also wants to assure that she will have sufficient cash flow to cover her expenses as she grows older.

By setting up a one-life \$10,000 CGA now with cash, Nancy will receive a rate of 5.8%, resulting in a payment of \$580 every year from the League for the rest of her life. She can also take a tax deduction of around \$3,600 in the year she makes her gift. For the first 16 years or so, well over half of each annuity payment will be tax free to her, with the rest taxed as ordinary income. When Nancy reaches age 86—which is her life expectancy at the time she establishes the annuity—each payment becomes entirely ordinary income.

If Nancy donates \$10,000 cash to set up a two-life CGA with her husband Tom, age 75, then the rate drops to 5.4%. Their annual payment would be \$540 and they would receive a tax deduction of approximately \$3,000.

In either case, Nancy would benefit from a CGA because her cash flow would be greater than it is from the low-yield certificate of deposit in which the \$10,000 is currently invested. The CGA actually produces an effective benefit greater than the nominal annuity rate because of the tax deduction and the significant portion of each annuity payment that will be tax free for many years.

The big difference from a certificate of deposit, of course, is that the funds used to establish the CGA are given irrevocably to a charity. The CGA principal does not return to the donor or any heirs of the donor's estate, as would be the case with a certificate of deposit or many other types of investments.

Funding an Annuity with Appreciated Stock or Other Assets Reduces Capital Gains

If you make an outright gift of appreciated stock or other securities to any public charity, you are not taxed on any of the capital gains. If these same appreciated assets are donated to fund a CGA that makes payments to you, you do not eliminate capital gains completely, but they are reduced significantly and then spread over a period of years so that their impact on your taxable income does not occur all in the first year. (Even if someone other than you receives the annuity payments initially, a portion of the capital gains will escape taxation, although the rest will be taxable to you in the year you make your contribution.)

By setting up a one-life \$10,000 CGA with stock that has a cost basis of \$6,000, Nancy, referred to in the example above, reduces her capital gains by around 36%. The total reportable capital gain is approximately \$2,560, but the recognition of this gain is amortized across almost 16 years at a little more than \$160 per year. If she had sold the stock instead, her total reportable gain would have been \$4,000 and she would have recognized it all in one year. Meanwhile, Nancy still obtains an annuity rate of 5.8% for a person age 70, still receives \$580 every year from the League for the rest of her life, and can still take a tax deduction of approximately \$3,600 in the first year of the annuity.

Defer Annuity Payments if Extra Cash Flow Now Is Not a Priority for You

If Nancy is willing to wait until she turns 75 to begin receiving payments, she could set up a deferred CGA. The amount of her annuity would increase to \$780, which is 7.8% of \$10,000. In addition, her charitable deduction in the year of her gift jumps to almost \$4,800.

Nancy could also elect to establish what is known as a flexible CGA, in which she agrees to defer the start of her payments but waits until later to decide exactly when they will begin. At that point, she will notify the League to start payments.

Deferred gift annuities can be especially attractive to those still in their working years who do not need more cash flow now but could benefit from a current tax deduction and would like to arrange for supplemental cash flow during retirement.

College CGAs Can Provide Cash Flow for a Young Person in Your Life

Sometimes donors say they are unable to give to a charity because they feel obligated to fund the education of a grandchild or some other loved one in their life who is very young. One method of simultaneously giving to charity and helping a young person is what is known at the League as a college CGA, technically referred to as a commuted CGA.

If Nancy were to fund a college CGA with \$10,000 cash for her five-year-old grandson Adam and to set up four annual payments beginning when Adam turns 18, then Adam would receive about \$3,560 per year for the four years he is most likely to be in college. Adam, who as a full-time student would probably be paying income tax at the lowest rate, would need to recognize only about \$1,300 of each annual payment as ordinary income; the remaining portion of each payment would be tax free. Nancy, meanwhile, would receive this year a modest charitable deduction of slightly more than \$1,000.

NOTE: These examples are based on the rates effective in July 2011.

Testamentary CGAs Can Be Established Through Your Will

You can arrange in your will, as well as in certain other types of estate planning documents, to establish a testamentary CGA that will pay one person or two people a fixed sum of money for life. Such an annuity would be funded through a gift from your estate of cash or other assets, such as securities or funds in a retirement plan.

Donating Annuity Payments Back to the League

Annuitants sometime decide to donate some or all of what they receive from an annuity back to the charity with which the annuity was established. Such cash gifts are, of course, fully tax-deductible. If you would like to consider this option, please let us know and we can have your payments automatically revert to the League, recognizing that you would be free to resume receiving the payments at any time.

Assisting You with CGA Information Is Easy and Takes Only Minutes

In just a few minutes, we can analyze a number of CGA scenarios in order to acquaint you with the tax effects of your gift. This service is provided without obligation.

Contact our Chief Development Officer, Rob Blizard, at 202-375-7754 or rblizard@warl.org and we can run analyses while you wait, discuss them with you, and then e-mail, fax, or mail you the results. All we need to know is whether the annuity will cover one or two people, the applicable date(s) of birth, the amount you are thinking of donating, the date you will make the gift, and the date you'd like the payments to begin.

We also need to know if the asset funding the gift will be cash, stock, or some other asset. For non-cash donations, we will need the cost basis of the asset to properly run the scenarios. In some cases, we may be able to help you determine the cost basis if you do not know it.

Join Our Legacy Society with Your Planned Gift

Your establishment of a CGA with the Washington Animal Rescue League entitles you to membership in our legacy group: the 1914 Society. The League was founded in 1914—imagine that, almost a century of helping animals in need! Our hope is that you will let us know about your planned gift so we can thank and recognize you. You will receive these privileges of membership in the 1914 Society:

- Washington Animal Rescue League's annual report,
- Updates on League news through our *Animal Report* newsletter,
- Invitations to special events, including our annual 1914 Society reception, and
- Recognition of your planned gift in the League's publications (unless you prefer to remain anonymous).

Special Considerations

Please contact us about restricting your gift to the specific League program(s) of your choice.

Unrestricted contributions are preferred; however, we also welcome a conversation if funding a specific program is critical to you. We have many projects—both short-term and ongoing—at the League for which we seek support. We can tell you about all the available options today—and tomorrow, when the League will be continuing to help animals well into the future.

Gifts to the League may be made in memory of any deceased person(s) or pet(s) or in honor of any living person(s) or pet(s).

Other Types of Planned Gifts that May Interest and Benefit You

If you are considering a CGA, be aware that other gift types—such as an outright donation of stock or other securities, a charitable remainder trust, or a retained life estate arrangement involving a personal residence—may be suitable or preferable, taking into account your goals and needs.

Of course, arranging a gift for the League through a will or through some other element of an estate plan—e.g., including our organization as a beneficiary of a financial, retirement, or life insurance asset—is also an act of considerable generosity that many people can afford even if a large lifetime gift is not realistic.

Indeed, if you have a life insurance policy, a retirement plan (such as an IRA or a 401(k) account), or an investment/brokerage account, you can change your beneficiary designations at any time at no cost. These assets make excellent gifts to leave to charity, as the funds go immediately to the recipient and bypass probate, the sometimes cumbersome, lengthy, and expensive legal process of settling the estate of a deceased person.

When planning your estate, you may want to consider that—from a tax standpoint—a qualified retirement plan is among the most expensive assets for your heirs to inherit and thus makes an excellent candidate for a charitable donation upon death. Many people plan to give to charity only through their wills, but a more proactive estate plan can have additional tax benefits. Contact us today so we can work with you and your advisors to help you make a more informed decision.

Our development staff can help you plan the right gift in light of your assets, income, family, and other estate or financial obligations. You may be able to be a greater philanthropist than you realize. Would you consider making the gift of a lifetime to the League if we can show you how?

Note: The League does not provide tax or legal advice. Gift calculations are provided for illustrative purposes only. The actual values may vary based on the timing of your gift. Please consult your attorney or tax advisor prior to entering into any gift planning arrangement.

We Invite You to Contact Us

The Washington Animal Rescue League neither requests nor accepts government funding. We are a 501(c)(3) charity and our programs and endowment depend on your support. Our tax identification number is 53-0162440.

Direct your confidential inquiries and notifications about legacy gifts for the benefit of the Washington Animal Rescue League to:

Robert Blizard, Chief Development Officer
Washington Animal Rescue League
71 Oglethorpe Street, NW
Washington, DC 20011

rb lizard@warl.org | 202.375.7754

Information also available at warl.org/plannedgiving.

**This information provided by the Washington Animal Rescue League is not financial, tax or legal advice.
You should consult your advisors before making your charitable giving decisions.**