

Charitable Gift Annuity

Prepared For

Mrs. Sample T. Smith

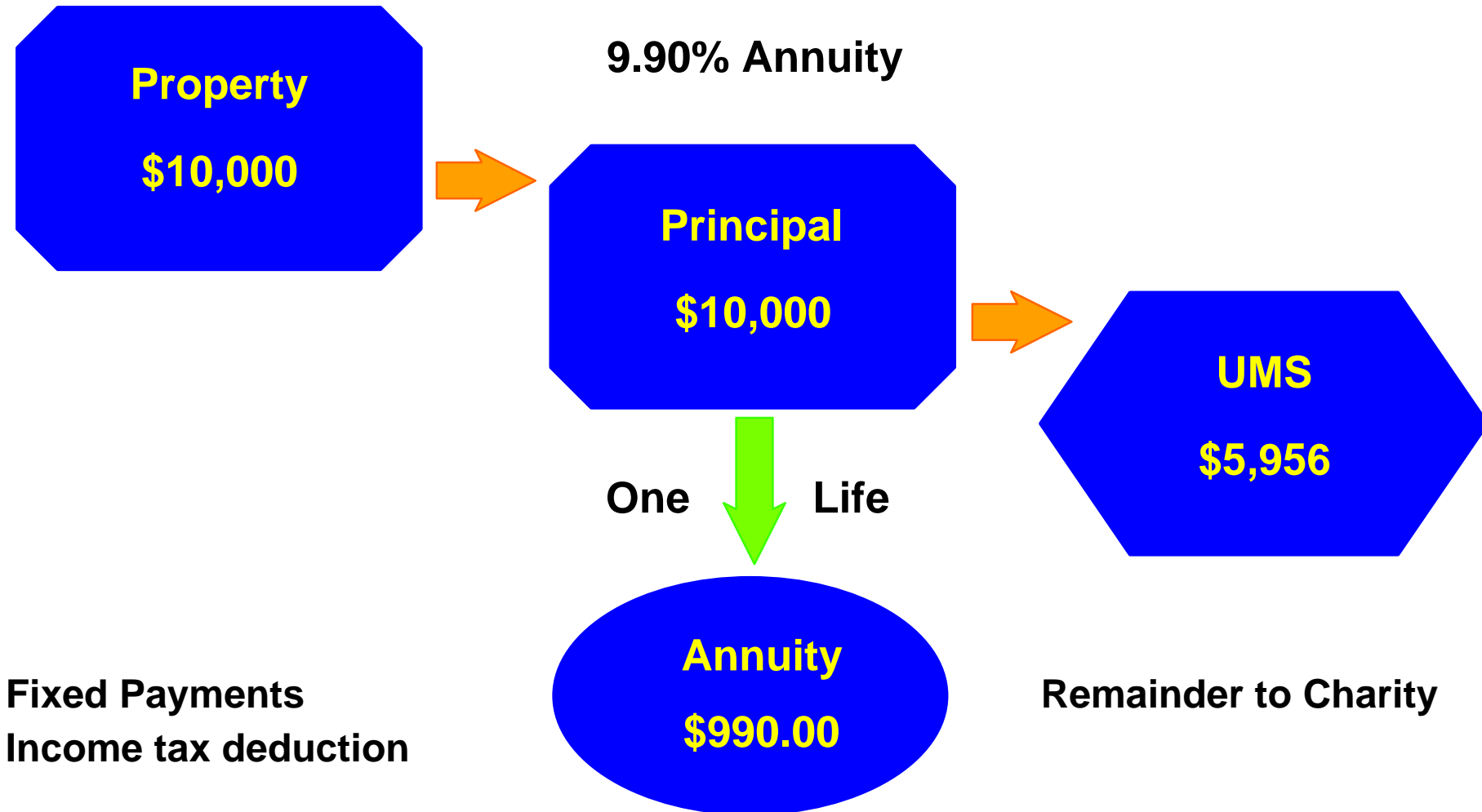
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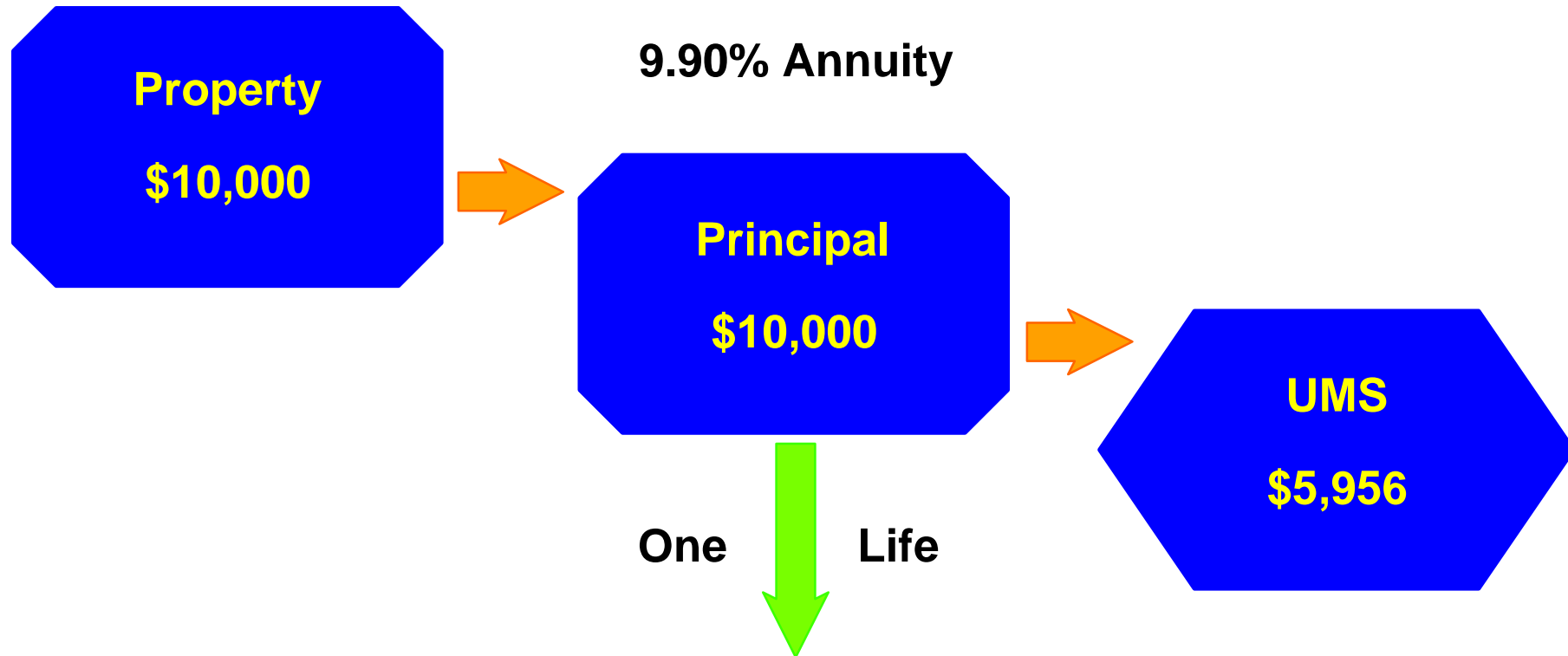
Charitable Gift Annuity

Mrs. Sample T. Smith - Age 86



Charitable Gift Annuity

Mrs. Sample T. Smith - Age 86



1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of \$5,454 may save \$818.

2. Annuity of \$990.00 for one life. Tax-free amount \$710.82. Estimated one life payout of \$7,029. Effective payout rate 12.1%.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

CHARITABLE GIFT ANNUITY

FIRST PERSON Mrs. Sample T. Smith AGE 86

GIFT AMOUNT	<u>\$10,000.00</u>
CHARITABLE DEDUCTION	<u>\$5,453.52</u>
ANNUITY OF 9.900%	<u>\$990.00</u>
TAX FREE	<u>71.80%</u>
EFFECTIVE ANNUITY RATE	<u>12.1%</u>

INCOME TAX INFORMATION

	QUARTERLY PAYMENT	ANNUAL TOTALS
Ordinary Income		\$279.18
Capital Gain Payout		\$0.00
Tax Free*		<u>\$710.82</u>
ANNUITY AMOUNT	<u>\$247.50</u>	<u>\$990.00</u>

* Tax Free Until 2012

CHARITABLE GIFT ANNUITY

The Charitable Gift Annuity is a combination of a gift to charity and an annuity. For senior persons, annuity rates may be 8%, 9% or even higher. Since part of the annuity payment is tax-free return of principal, the gift annuity may provide the annuitant with a substantial income. The combination of partially tax free income and the initial charitable deduction makes this agreement quite attractive. And after all payments have been made for the life of the annuitant, a favorite charity will benefit from the charitable gift.

Partly Tax Free Payments

A gift annuity is a contract between the charity and the individual. The individual, referred to as the donor, transfers property to the charity and the charity promises to pay a given amount at the end of each selected payment period to one annuitant for life or two annuitants for both lives. Part of the payment is interest earned and is taxable as ordinary income. Part of each payment is return of principal and is tax free. However, if an annuitant survives past his or her life expectancy, all later annuity payments will be ordinary income.

Gifted Property

Cash or appreciated property may be transferred to charity in exchange for a gift annuity. With appreciated property, a portion of the capital gains tax is avoided. Part of the gain is allocated to the charitable gift amount and there is no capital gains tax on that portion. The rest of the gain is allocated to the annuity portion and is taxed each year over the projected life expectancy of the annuitant. Since the tax is spread out over the life of the annuitant, and the annuitant is receiving in part tax free income, the transfer of appreciated property in exchange for a gift annuity can generate very favorable results.

Fixed Payments

Gift annuities are most attractive to senior persons. The annuity amount is fixed and will not change regardless of current investment or market conditions. Since the more senior person is probably more easily able to plan for the future with a fixed payment, the gift annuity seems most appropriate for a senior individual.

CHARITABLE GIFT ANNUITY

One Life

Election: IRC Sec. 7520(a) election made using May 5.8% AFR

Donor Mrs. Sample T. Smith Gift Amount \$10,000.00 Gift Date 07/03/2006
 First Person Mrs. Sample T. Smith Birth Date 04/23/1920
 Date of 09/30/2006
 Cost Basis \$10,000.00 First Ann. Payment
 Payment Freq. QUARTERLY (Payments at End of Selected Period)

Annuity %	<u>9.900</u> %																
(A) Annual Annuity Payout	<u>\$990.00</u>	(A)															
Gift Amt. x Annuity %																	
(B) Factor Age 86	<u>4.4957</u>	(B)															
(IRS Pub. 1457, Table S)																	
AFR of the Month <u>5.8%</u>																	
(C) Adjustment for time of Payment	<u>1.0215</u>	(C)															
(IRS Pub 1457, Table K)																	
	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">End of Period</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">1.0000</td> <td style="text-align: center;">Annual</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">1.0143</td> <td style="text-align: center;">Semi-Annual</td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">1.0215</td> <td style="text-align: center;">Quarterly</td> </tr> <tr> <td style="text-align: center;">4</td> <td style="text-align: center;">1.0263</td> <td style="text-align: center;">Monthly</td> </tr> </tbody> </table>	End of Period			1	1.0000	Annual	2	1.0143	Semi-Annual	3	1.0215	Quarterly	4	1.0263	Monthly	
End of Period																	
1	1.0000	Annual															
2	1.0143	Semi-Annual															
3	1.0215	Quarterly															
4	1.0263	Monthly															
(D) Adjusted Factor	<u>4.5924</u>	(D)															
Line (B) x Line (C)																	
(E) Present Value of Annuity	<u>\$4,546.48</u>	(E)															
Line (D) x Line (A)																	
(F) Amount Transferred	<u>\$10,000.00</u>	(F)															
(G) CHARITABLE GIFT VALUE	<u>\$5,453.52</u>	(G)															
Line (F) less Line (E)																	

7/1/2006 ACGA Rates

CHARITABLE GIFT ANNUITY

One Life

(H) Unadjusted Expected Return Multiple (Reg.Sec. 1.72-9, Table V)	<u>6.5</u>	(H)
(I) Adjustment if Not Monthly (Reg.Sec. 1.72-5(a)(2))	<u>-0.1</u>	(I)
(J) Adjusted Expected Return Multiple Line (H) Plus Line (I) Sec. 72 Exp.6.4 -- Uniform Table Expectancy 7.1	<u>6.4</u>	(J)
(K) Expected Return Line (J) Times Line (A)	<u>\$6,336.00</u>	(K)
(L) EXCLUSION RATIO Line (E) Divided By Line (K)	<u>71.8%</u>	(L)
(M) Amt Excluded From Ordinary Taxation Exclusion Ratio Times Annuity Line (L) Times Line (A) (I.R.C. Sec. 72(b)(3))	<u>\$710.82</u>	(M)
(N) Basis Allocated to Annuity Basis Times Line (E)/GIFT	<u>\$4,546.48</u>	(N)
(O) Gain Allocated to Annuity Line (E) Less Line (N)	<u>\$0.00</u>	(O)
(P) Gain Each Year Line (O) Divided By 6.4 (Not to Exceed Line (M); Assumption: Separate Prop. of First Ben.) (Reg.Sec. 1.1011-2(a)(4))	<u>\$0.00</u>	(P)

SUMMARY OF ANNUITY

CHARITABLE DEDUCTION	<u>\$5,453.52</u>		
EXCLUSION RATIO UNTIL 2012	<u>71.8%</u>		
INCOME	PRO RATA	EACH	ANNUAL
<u>TAX</u>	<u>FIRST PAYMENT</u>	<u>PAYMENT</u>	<u>PAYMENT</u>
Ord.Income	\$68.79	\$69.7950	\$279.18
Cap. Gain	\$0.00	\$0.0000	\$0.00
Tax Free	<u>\$175.15</u>	<u>\$177.7050</u>	<u>\$710.82</u>
Ann. Amt	<u>\$243.94</u>	<u>\$247.50</u>	<u>\$990.00</u>

CHARITABLE GIFT ANNUITY

First Person Mrs. Sample T. Smith Birth Date 4/23/1920 Gift Date 7/3/2006
 Date of 9/30/2006
 Cost Basis \$10,000.00 Gift Amount \$10,000.00 First Ann. Payment
 Payment Freq. QUARTERLY (Payments at End of Selected Period)

Effective Equivalent Annuity Rate Calculation

(A) Annual Annuity	<u>\$990.00</u>	(A)
(B) Exclusion Ratio	<u>71.8%</u>	(B)
(C) Excluded Amount	<u>\$710.82</u>	(C)
Line (A) x Line (B)		
(D) Capital Gain Each Year	<u>\$0.00</u>	(D)
Tax Rate 8.00%		
(E) Equivalent Amount of Ordinary Income	<u>\$0.00</u>	(E)
(F) Return of Principal Each Year	<u>\$710.82</u>	(F)
(G) Equivalent Amount of Ordinary Income (Line F / (1-15.00% Tax Rate))	<u>\$836.26</u>	(G)
(H) Total Equivalent of Ordinary Income	<u>\$1,115.44</u>	(H)
(I) Effective Amount Transferred (Gift Amount Less Tax Savings)	<u>\$9,182.00</u>	(I)
(J) Effective Equivalent Annuity Rate (Line H/Line I) (Compared to Taxable Investments)	<u>12.15%</u>	(J)
(K) Effective Equivalent Annuity Rate (Line H * (1-Tax rate)/Line I) (Compared to Tax-Free Investments)	<u>10.33%</u>	(K)

Summary	Tax Savings	Effective Rate
Initial Rate		9.90%
Income Tax Savings	\$818	10.78%
Capital Gain Payout	\$0	10.78%
Tax-Free Payout	\$125	12.15%

CHARITABLE GIFT ANNUITY - INCOME TAXATION

Mrs. Sample T. Smith

Annuity	\$990.00
Char. Gift	\$5,453.52
Capital Gain	\$0.00
Basis	\$4,546.48

TOTAL AMOUNT \$10,000.00

Years	ORDINARY INCOME	CAPITAL GAIN PAYOUT	TAX FREE RETURN	CUMULATIVE CAPITAL GAIN	CUMULATIVE TAX FREE
2006	\$138.59	\$0.00	\$352.85	\$0.00	\$352.85
2007	279.18	0.00	710.82	0.00	1,063.67
2008	279.18	0.00	710.82	0.00	1,774.49
2009	279.18	0.00	710.82	0.00	2,485.31
2010	279.18	0.00	710.82	0.00	3,196.13
2011	279.18	0.00	710.82	0.00	3,906.95
2012	350.47	0.00	639.53	0.00	4,546.48
2013	990.00	0.00	0.00	0.00	4,546.48
2014	990.00	0.00	0.00	0.00	4,546.48
2015	990.00	0.00	0.00	0.00	4,546.48
2016	990.00	0.00	0.00	0.00	4,546.48
2017	990.00	0.00	0.00	0.00	4,546.48
2018	990.00	0.00	0.00	0.00	4,546.48
2019	990.00	0.00	0.00	0.00	4,546.48
2020	990.00	0.00	0.00	0.00	4,546.48
2021	990.00	0.00	0.00	0.00	4,546.48
2022	990.00	0.00	0.00	0.00	4,546.48
2023	990.00	0.00	0.00	0.00	4,546.48
2024	990.00	0.00	0.00	0.00	4,546.48
2025	990.00	0.00	0.00	0.00	4,546.48
2026	990.00	0.00	0.00	0.00	4,546.48
2027	990.00	0.00	0.00	0.00	4,546.48
2028	990.00	0.00	0.00	0.00	4,546.48
2029	990.00	0.00	0.00	0.00	4,546.48
2030	990.00	0.00	0.00	0.00	4,546.48
2031	990.00	0.00	0.00	0.00	4,546.48
2032	990.00	0.00	0.00	0.00	4,546.48
2033	990.00	0.00	0.00	0.00	4,546.48
2034	990.00	0.00	0.00	0.00	4,546.48
2035	990.00	0.00	0.00	0.00	4,546.48
2036	990.00	0.00	0.00	0.00	4,546.48
2037	990.00	0.00	0.00	0.00	4,546.48
2038	990.00	0.00	0.00	0.00	4,546.48
2039	990.00	0.00	0.00	0.00	4,546.48
2040	990.00	0.00	0.00	0.00	4,546.48
2041	990.00	0.00	0.00	0.00	4,546.48
2042	990.00	0.00	0.00	0.00	4,546.48
2043	990.00	0.00	0.00	0.00	4,546.48
2044	990.00	0.00	0.00	0.00	4,546.48
2045	990.00	0.00	0.00	0.00	4,546.48

Note: Tax-Free return of basis not recovered by date of death may be deducted on last income tax return. See IRC Sec. 72(b).

With 5.06% adjusted return and 9.9% payout, \$5,956 remainder after 7.1 years. Present value at 4.20% of \$4,447.

CHARITABLE GIFT ANNUITY

Explanation for the Professional Advisor of Mrs. Sample T. Smith

A. Flow Charts

The first flow chart for the gift annuity includes three boxes. The first indicates the initial circumstance for the property valued at \$10,000. After transfer from the donor to the charity for the gift annuity contract, the charity is obligated to make payments of the annuity amounts for one life. When all income payments have been completed, the balance of the value is available to the charity for its charitable purposes. As time passes, the boxes move progressively lower to show a change of ownership from the donor to the charity.

Under the first box in the second flow chart, the \$10,000 is transferred to charity in the gift annuity contract. A gift annuity is a contract that obligates the charity to make the payments. While charities may be required by state insurance commissioners to maintain a reserve fund, the contractual obligation is against not only any reserve fund, and also the entire assets of the charitable organization. This feature makes gift annuities a very safe agreement for parties dealing with responsible charities, since most charitable entities have substantial assets.

When a gift annuity is created, the value of the annuity contract is determined under Sec. 72 of the Internal Revenue Code and the tables thereunder, and the other portion of the value is treated as a current charitable gift. The value of the contract is based upon the amount of the annuity, the projected number of years of annuity payments, and an assumed earnings rate by the charity.

In this illustration, subtracting the annuity contract value determined under Treasury tables from the total gift results in the charitable value. This charitable income tax deduction is \$5,454 and, at a marginal tax rate of 15.00%, the income tax savings are \$818. Since this is a cash type deduction, this amount may be used up to 50% of adjusted gross income (AGI) in the year of the gift. Any amount in excess of the 50% of the AGI limitation may be carried forward for as many as five years.

The center section of the chart shows the annuity payout percentage of 9.9%. Multiplying this number by the value of the property produces an annuity of \$990.00 payable in proportionate quarterly payments to the annuitant for one life.

Because a portion of the value of the property is allocated to the annuity and this portion is returned under the Sec. 72 rules to the annuitant over one lifetime, part of the annuity payment represents nontaxable return of principal. The tax free amount in this case is \$710.82 per year. Over the one life the basis allocated to the annuity will be recovered tax free.

Using the Treasury Uniform Table for this annuitant, this contract will last 7.1 years, and should pay out approximately \$7,029. This payout, considering the income

tax savings from the deduction and the partly tax free payments, is comparable to receiving a taxable payout of 12.1%.

The third box shows the eventual distribution to the charity of approximately \$5,956. This property will be transferred with no probate cost.

B. Gift Annuity Summary Sheet

The summary sheet is intended to be a simple outline of the major tax benefits for this agreement. It lists the name, the age, the gift amount and the charitable income tax deduction. The annuity of 9.90% is based upon age and total projected return, and an exclusion ratio of 71.8% is calculated. Once again, considering income tax savings and the partially tax-free payments, the effective rate compared to a taxable investment is equivalent to a return of 12.1%.

The lower portion of this form details the income tax information for each payment and for the full year. An annual annuity payment is divided into the portion which represents the ordinary income earned on the investment in the contract, any capital gain amount prorated over one life, and the tax-free return of basis.

The asterisk adjacent to the tax-free entry notes that the tax-free amount continues only until the projected expectancy of an annuitant in the year 2012. If an annuitant lives past that year, then all basis will have been recovered and the balance of all payments will be ordinary income.

C. Deduction Calculation

The deduction calculation for the gift annuity includes three different sections. The first section determines the value of the annuity and the charitable gift amount. The second section determines the expectancy and total payment to calculate the exclusion ratio. A third section calculates the anticipated capital gain for any exchange of an appreciated asset for a gift annuity. Finally, there is a summary of the annuity.

In the upper section are listed an annuitant's name, birth date, gift date and date of first annuity payment. The date of first annuity payment must be within the first period under the payment frequency. Since this annuity pays quarterly, the date of first payment must be within three months of the funding date.

The remaining sections of the calculation follow lines "A" through lines "P".

- | | |
|--------------------------------------|---|
| A. Annual Payout: | The gift annuity value times the annuity percentage produces the annual payout. This amount is rounded up to the nearest two, four or twelve cents, in order to insure that all period payments, whether semiannually, quarterly or monthly, will be of exactly the same amount to the exact cent, thus simplifying administration. |
| B. Deduction Factor
IRS Pub. 1457 | The deduction factor from table S is subtracted from one and then divided by the AFR. |

C. Adjustment for Time of Payment:	If the annuity is paid semiannually, quarterly or monthly, the annuitant has received the value of interest earnings during the year and this is the adjustment for that interest.
D. Adjusted Factor:	Initial factor times the adjustment for the period of payment.
E. Present Value of Annuity:	The actuarial value under Treasury tables for an annuity contract payment, paying the annuity on Line (A).
F. Amount Transferred:	Value of property exchanged for annuity.
G. Charitable Gift Value:	Subtracting the contract value from the property value results in the gift value. This is the IRS's assumed value of the contribution to charity, measured in present value terms.
H. Unadjusted Return Multiple:	The approximate number of years that the annuitants are expected to live.
I. Adjustments If Not Monthly:	A correction for quarterly, semiannual or annual payments.
J. Adjusted Expected Return Multiple:	The unadjusted multiple adjusted for the selected period. The next line shows both the Sec. 72 Return Multiple and the Treasury Uniform Table expectancy of 7.1 years.
K. Expected Return:	Multiplying the multiple of Line (J) times the annuity payout produces an estimate of the total anticipated payment to the donors.
L. Exclusion Ratio:	The Line (E) value of the contract divided by the Line (K) total payout enables allocation of return of principal on an annual basis. This allocation is expressed as a percentage and multiplied by the annual payout to determine the return of principal portion. The return of principal portion is then further divided into the part that is capital gain prorated over one life and the part that is tax free return of basis.
M. Amount Excluded From Ordinary Taxation:	The Line (M) value is Line (L) times the annual annuity and represents the return of principal each year.
N. Basis Allocated to Annuity:	The basis is prorated proportionately between the Line (E) contract value and the Line (G) gift value.
O. Gain Allocated:	The Line (E) contract value less the prorated basis is the gain to be recognized pro rata over one life.
P. Gain Each Year:	Dividing the total gain by the adjusted multiple of Line (J) illustrates the amount to be recognized each year. With a two-life annuity and separate property, the divisor will be the one-life multiple rather than the two-life.

The Summary of Annuity section repeats the above information in a more organized format. The charitable deduction is \$5,454. Since the exclusion ratio until year 2012 is 71.8%, the lower portion of this spreadsheet allocates the payments accordingly.

The annual payment is allocated 71.8% to the tax-free return of contributed principal. Based upon any gain recognized on Line (P), the balance of the 71.8% is tax free. All remaining payment is ordinary income. Amounts in this contract are thus \$279.18 of ordinary income, \$00.00 of prorated gain and \$710.82 of tax-free return.

Since the payout amounts to the precise cent are reported by the charity to the donor and a recipient may not receive exactly a full year's payments the initial year of the agreement, there is also a division into prorata first payment and a payment for each period, in this case the quarterly amounts.

If the donor creates an agreement less than one full period before the desired payout date, then there can be a prorated first payment for the short period. In addition, if the agreement is not funded in January of a given year, there may be fewer than the normal number of payments in the first year for all except annuities with annual payments. The breakout between ordinary income, capital gain and tax-free return is thus calculated taking into account potential partial payments.

D. Equivalent Annuity Rate

The equivalent rate form details the calculation necessary to determine equivalent return rate in order to compare a gift annuity with other types of taxable payouts. This calculation starts with the annuity amount and determines the excluded amount on Line (C). Line (D) lists any prorated gain amount reported each year. Since gain can potentially be subject to a different tax rate (in this case 8.00% as opposed to 15.00% on ordinary income) the capital gain amount in Line (D) represents an equivalent value of \$00.00 if it were ordinary income.

The return of principal on Line (F) is the equivalent of a tax-free payment and equates to \$836.26 on Line (G). Adding Line (G) and Line (E) to the annual ordinary income portion of the annuity, total equivalent ordinary income is \$1,115.44.

Since the contribution of \$10,000 results in an income tax deduction of \$5,454 and the anticipated tax savings are \$818, the actual net investment is reduced by the tax savings from \$10,000 to \$9,182.00. Dividing \$1,115.44 on Line (H) by \$9,182.00 on Line (I) produces an effective equivalent annuity rate of 12.15%. In addition, multiplying the Line (H) value by 1 less the tax rate and then dividing it by Line (I) results in the equivalent tax free rate of 10.33%. These rates are usually helpful in illustrating the benefits of the gift annuity agreement.

E. Income Taxation

The final spreadsheet is a detailed form that lists the exact amount of ordinary income, capital gain and tax-free return to be reported to the IRS each year that the annuity is in existence. At the top center are listed the annuity payment, the gift value and the capital gain and cost basis allocated to the annuity. This capital gain and cost basis will be prorated and recovered during the life of the donor.

In 2006, there is recovery of ordinary income of \$138.59, prorated gain of \$00.00 and tax free return of \$352.85. The fifth column shows the cumulative capital gain recovery and the sixth column shows the cumulative tax free. In the second and later years of the agreement, the full annual amounts are displayed for the ordinary income, gain and tax free return. Once again, columns 5 and 6 display the cumulative recovery of prorated gain and cumulative recovery of tax free payments. By the year 2012, the prorated gain and tax-free amounts at the top of the spreadsheet are nearing completion of recovery and there may be a partial recovery of the final amounts of prorated gain and tax-free payments

in that year. After all gain and tax free portions have been recovered, then any future payments are fully ordinary income.

Three additional gift annuity rules should be noted. First, if the gift annuitant dies prior to the full recovery of the tax free portion, then under Sec. 72(b) the unrecovered amount is a permissible tax deduction on the final year tax return. Second, if appreciated property is given by a donor-annuitant, recognized annual gain is limited to annual return of principal. Third, a married couple may prorate their gain amounts evenly over the two life expectancy. However, if separate property is used to fund a two life agreement, the prorated gain is recognized during the first life and the return of principal amount may be totally capital gain until all gain has been recognized. Following the recovery in subsequent years of all return of principal, the annuity payments eventually become fully ordinary income as before.

F. Program Options

Several options are available with the gift annuity. One can select reinsurance if the annuity contract specifies that the annuity must be reinsured. This reinsurance plan then enables one to use the exact amount paid for reinsurance to value the annuity, with the remaining value equaling the charitable gift.

The options also enable one to select either separate or joint property for a two life gift annuity. With a husband and wife, joint property is the common selection. However, with a gift annuity for parent and child, separate property is usually selected. Finally, if the standard payment period is within two or three days of the actual time prior to the selected payout date, the program does not automatically select a prorata payment. However, there is an option that can be used to mandate a prorata payment if desired in a particular illustration.

There is also an option to calculate the end of contract value to charity. Most charitable organizations leave the end of contract value in the default position and show an approximate value to the charity equal to the initial contribution. This is a marketing solution that simplifies the illustration. However, it is possible to calculate, based on the estimated return rate of the annuity reserve fund and the actual payout over the projected one life, the exact projected benefit to the charity. This calculated amount will accurately reflect projected increases or decreases in the principal amount distributed to charity at the end of the agreement.

CHARITABLE GIFT ANNUITY

Rate of Month	<u>May 5.8%</u>	First Paydate	<u>9/30/2006</u>
Donor Name	<u>Mrs. Sample T. Smith</u>	Income Tax %	<u>15.00%</u>
First Person	<u>Mrs. Sample T. Smith</u>	Cap. Gain %	<u>8.00%</u>
		(Income and capital gains rates are assumed.)	
Birth Date	<u>4/23/1920</u>	Property Amount	<u>\$10,000.00</u>
		Cost Basis	<u>\$10,000.00</u>
		Current Return	<u>0.00%</u>
Frequency	<u>QUARTERLY</u>	Annuity %	<u>9.90%</u>
Gift Date	<u>7/3/2006</u>	Amount to Charity	<u>\$5,956</u>

Options:

Gain Reported Over One Life

GIFT ANNUITY - Deduction vs. Tax Free Income

May 5.8% June 6.0% July 6.0%

Char. Deduction	\$5,453.52	\$5,487.38	\$5,487.38
Exclusion Ratio %	71.8%	71.2%	71.2%
Capital Gain Pmts	\$0.00	\$0.00	\$0.00
Tax Free Income	\$710.82	\$704.88	\$704.88