Qualifying Gifts for Friends for Life

CASH

The minimum to become a Friend for Life through a gift of cash is $25,000 within the period of one fiscal year.

PLANNED GIFTS

There are many different ways to become a Friend for Life utilizing a planned gift. Below are the options that are currently available. If a specific amount is specified the minimum is $25,000.

A. Bequests

Provision for a planned gift investment may be made in the form of a bequest or a device through a properly executed last will and testament. Such a bequest may be a specific sum, property, or percentage of all or part of the residue. There are no income tax benefits from a bequest. A charitable bequest does qualify for an estate tax charitable deduction.

B. Charitable Gift Annuity

A donor may provide for a planned gift investment, guarantee a life income for him/herself and/or someone else, he/she may designate and qualify for both income and estate tax benefits through a charitable gift annuity. The donor provides for a guaranteed life income, which is determined at a rate calculated from actuarial tables based on the life expectancy of the life income beneficiaries. The AANA Foundation will pay annuity rates as currently suggested by the American Council on Gift Annuities.

Annuities often offer a higher rate of return than other forms of investment (higher rates of return for more advanced ages). The total assets of the Foundation are pledged to guarantee the life income. Contributions for gift annuities are retained in a 100% reserve fund until the death of the last life income beneficiaries. The donor also provides for an ultimate gift to the AANA Foundation. The Foundation is authorized to offer both immediate and deferred payment gift annuities.

The donor qualifies for the income tax charitable contribution deduction for the computed value of the charitable remainder on his/her tax return for the year in which the annuity is purchased. The deduction qualifies under the carry-over rules. A portion of the annual income may be excludable, tax-exempt income. The balance of the contribution value qualifies for an estate tax charitable deduction. The donor must make a formal application for an annuity and the Foundation reserves the right *not* to accept any gift annuity application.

AANA Foundation staff may issue a gift annuity contract if all of the following criteria are met:

1. The annuitant is over 59 for immediate gift annuities or over 54 for deferred.
2. The contemplated annuity is at least $25,000 but less than $100,000.
3. The annuitant resides in a State where the Foundation is currently authorized to issue annuities.
4. The gift annuity is funded with cash or securities.

C. Deferred Payment Gift Annuities

Deferred payment gift annuity plans provide for a guaranteed life income at some point in the future (must be more than one year from the date of the agreement), a charitable gift, and a tax deduction now. The rate is computed from life expectancy tables at the age payment begins. This plan can provide for income tax contribution deductions, some tax-exempt income in the future (although less than would have been received from an immediate payment gift annuity), estate tax deductions, and probate cost savings.

D. Charitable Remainder Trusts

Charitable remainder trusts are created when an individual transfers property to a trustee under the terms of a legal document which describes the purpose and manner under which the trustee administers the property to fulfill the objectives established by the AANA Foundation.

While the AANA Foundation encourages individuals to create such trusts, the AANA Foundation does not currently act as trustee for charitable remainder trusts. The trustee manages and administers, makes dispositions of both the income and the principal under whatever terms are specified by the trust. He/she may pay income to the donor and/or someone he/she designates for life or a specified number of years, and then the remainder or part therefore may be paid to the AANA Foundation. Trusts may be modified in a variety of ways to suit the objectives of the donor.

The Tax Reform Act of 1969 limits income, estate and gift tax benefits to two types of charitable remainder trusts – the annuity and the unitrust.

1.) Annuity Trust

The annuity trust specifies in a fixed number of dollars the amount of the annuity to be paid annually to the income beneficiaries. This must be an amount equal to at least 5% of the fair market value of the property transferred into the trust. The remainder, after the life income interests have ended, is paid to the AANA Foundation.

An annuity trust provides the AANA Foundation like a fixed income for life, income tax benefits in the form of the income tax deduction and possible avoidance of capital gains tax liability, freedom from management concern, estate tax benefits and avoidance of probate problems.

2.) Unitrust

The unitrust specifies a fixed percentage of the net fair market value of the trust assets appraised annually to be paid over to the donor or others designated by the donor as income beneficiary. This must be an amount equal to at least 5% per year.

The unitrust provides an income related to the total value of assets including growth and appreciation. The unitrust provides an inflationary hedge. The trust provides income tax benefits in the form of contribution deduction and possible avoidance of capital gains tax liability, freedom from management concern, estate tax benefits, and avoidance of probate problems.

Unitrusts may also be written with the option: (1) to pay out actual income or a specific percent (not less than 5%), whichever is lower, with make-up payments in future years when income exceeds the specified percent; (2) to pay out actual income or a specified percent (not less than 5%), whichever is lower, without make-up payments for any deficiency; and (3) standard unitrust form.

E. Short-Term Charitable Income Trust (Charitable Lead Trusts)

An individual may establish a charitable lead trust designating the income be paid to the AANA Foundation for a specified term of years after which the property reverts back to the owner or whomever the owner designates. Under this trust arrangement, the donor may take an immediate income tax deduction for the present value of the income interest, however in this case the trust is considered to be part of the donor's taxable income property.

If the owner chooses not to take an immediate deduction the income will not be taxable to him/her. The trust itself is a taxable entity to the extent it realizes income in excess of that which it pays out to the AANA Foundation.

If the owner designates the trust property to revert back to heirs, he/she has created a taxable gift under the unified gift and estate tax for the present value of the future interest. However, the unified credit applies and the gift tax is on the future interest amount only, often at the lower end of the marginal gift and estate tax rates.

Trusts established under the terms of a will are called Testamentary Trusts. Trusts may also be created during lifetime. Trusts created during lifetime may qualify for income tax benefits as well as estate tax benefits and also avoid probate problems.

F. Insurance and Retirement accounts

To qualify for Friends for Life, the AANA Foundation may be named as a full or partial beneficiary of a whole life insurance policy or retirement account. The

Foundation accepts whole life insurance policies as outright gifts only when it is named as the owner and beneficiary of the policy.

H. Gifts of Appreciated Property

1) Publicly Traded Securities

Readily marketable securities, such as those traded on a stock exchange, are accepted. Gift securities are sold as soon as administratively feasible. For gift crediting and accounting purposes, the value of the securities is based on the fair market value upon receipt of the gift.

2) Closely Held Securities

Non-publicly-traded securities may be accepted after consultation with the AANA Finance Officer and Foundation Finance (Executive) Committee. The fair market value of the securities must be determined by a qualified appraiser, obtained and paid for by the donor.

3) Real Estate

Gifts of real estate are reviewed by the Foundation's Finance (Executive) Committee before acceptance. Property that is encumbered by a mortgage is generally not accepted, but can be considered.

The donor is responsible for obtaining and paying for an appraisal of the fair market value and an environmental audit of the property. Prior to presentation to the Finance (Executive) Committee, a member of the staff must conduct a visual inspection of the property. If the property is located in a geographically isolated area, a local real estate broker can substitute for a member of the staff in conducting the visual inspection.

4) Tangible Personal Property

The donor is responsible for obtaining and paying for an appraisal of the fair market value of the property. Prior to presentation to the Finance (Executive) Committee, a member of the staff must conduct a visual inspection of the property. Tangible personal property held by the donor for more than one year and which can be used in a manner related to the institution's function qualify for a deduction equal to the full fair market value.

Gifts of jewelry, artwork, collections, equipment, and software may be accepted after approval by the Finance (Executive) Committee. Such gifts of tangible personal property defined above shall be used by or sold for the benefit of the AANA Foundation.

Any questions about Friends for Life or a particular gift arrangement can be directed to Nat Carmichael at ncarmichael@aana.com or by phone at 847-655-1175.