

# Charitable Gift Annuity

A charitable gift annuity is created by a contract between you and the University of Washington under which you make a gift to the University and the University promises to pay you a fixed annual income for your lifetime. Gift annuities may be funded with cash, certificates of deposit, publicly-traded securities, and similar assets. You will be entitled to an income tax charitable deduction for part of the value of the assets you transfer to the University.

A gift annuity may be especially appealing if you want to supplement your retirement income and make a gift to the University. It is also an ideal way to fund a University endowment that can bear your name in perpetuity.

The ultimate benefit, however, is the satisfaction of knowing that your gift will provide vital future support for students, faculty, research, facilities or programs at the University of Washington.

## Frequently Asked Questions

**How is the annuity payment determined?** The University generally offers the annuity rate recommended by the American Council on Gift Annuities based on the age of the annuitant(s). The annuity rate increases with age, and the rate for one annuitant is generally higher than the rate for two. However, in some cases the annuity rate is negotiated based upon the size of the gift, whether there are one or two annuitants and their ages at the time of the gift, and the educational purpose.

**Is any portion of the annuity tax-free?** Generally, a certain portion of each annuity payment is tax-free because it represents a return of principal. Gift annuities funded with cash will produce more tax-free income over the life of the annuity than gift annuities funded with appreciated property. If you fund a gift annuity with appreciated property, the annuity payments will consist of ordinary income, capital gain income, and tax-free return of principal. The University will provide income tax information to each annuitant every year for their tax returns.

**Can a gift annuity make payments to more than one person?** Yes. A gift annuity may be established for one or two persons and you can designate any individual as the annuitant. If you designate someone other than yourself or your spouse as the annuitant, you should consult with your advisors about the possible capital gain and gift tax consequences of the arrangement.

**Do gift annuity payments ever fluctuate?** No. The payment amount is fixed at the time the gift annuity is created.

**Can a gift annuity be used for retirement planning?** Yes. An immediate gift annuity is an excellent way to enhance your retirement income. You can also establish a deferred gift annuity now that will begin paying you an annuity when you retire. Deferred gift annuities produce larger payments than immediate gift annuities because you are older when payments begin.

**Can I fund more than one gift annuity?** Yes. Some donors create a new gift annuity every few years. This enables them to receive more income as they age and provide additional support to the University.

## Tax Consequences

**Income tax charitable deduction:** When you create a gift annuity, you qualify for an immediate income tax charitable deduction equal to a percentage of the total value of the assets you contribute. The deduction is based on IRS formulas and tables. You can use the deduction to offset your income in the year you create the gift annuity. If you cannot use the entire deduction in the first year, you can carry the excess deduction forward for up to five additional years.

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**Capital gains tax treatment:** If you fund a gift annuity with appreciated property you can recognize the capital gain “ratably” over your lifetime, thereby spreading out the capital gains tax liability. If you contribute appreciated property to fund a single-life gift annuity for another individual, however, you will recognize the entire capital gain at the time you create the gift annuity.

**Gift tax treatment:** If the income beneficiary is someone other than—or in addition to—you, there may be gift tax implications. You should discuss these consequences fully with your tax advisors.

## Steps to Creating a Charitable Gift Annuity

- You or your advisor contacts the Office for Planned Giving to discuss the educational purpose you wish to support at the UW and the assets available to fund a charitable gift annuity.
- Our Planned Giving staff provides information and gift illustrations showing the benefits and outcomes of the proposed gift annuity.
- Our Planned Giving staff meets with you (and/or your advisor) to review gift annuity illustrations, discuss alternative gift options, explore tax implications, and refine your educational purpose.
- When the terms of the gift are finalized, the University prepares the gift annuity contract for your signature. You review the contract with an attorney or other advisor knowledgeable about gift annuities.
- You and representatives of the University sign the gift annuity contract and you transfer the assets to the University. The gift is now complete.
- The University provides follow-up information to aid you in reporting the gift to the IRS and claiming appropriate tax deductions.

Due to the simple contractual nature of this gift, a charitable gift annuity is one of the easiest life income gift plans to create. It is a popular option with donors who seek lifetime fixed income payments (especially during retirement years), and who wish to maximize their tax-free income.

Each gift annuity is the product of successful teamwork among donors, their advisors, and the University’s Planned Giving staff. Everyone benefits from this collaboration—the donor who receives tax benefits, the individual who receives a guaranteed income for life, and the University, which receives a future gift to benefit students, faculty or programs.

If you would like to learn more about a charitable gift annuity, please contact the Office for Planned Giving for a confidential consultation.

\*Before entering into a charitable gift annuity, seek the advice of a competent tax professional. California residents should note the state guaranty association does not guarantee or insure gift annuities.

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