

[admin](#) - Tue, 12/20/2011 - 00:00

It has been said that the only certainties in life are death and taxes. With gift administration, one could extend the expression to include payments, compliance reporting, and managing exceptions.

Our recent Webinar on Gift Annuity Administration Operations and Compliance provided a wealth of information on sound gift annuity administration practices and compliance reporting. The purpose of this article is more narrowly focused on meeting the requirements for administration of a charitable gift annuity program at calendar year-end.

The responsibility for gift administration may be in-house or the charity may rely on a service provider to meet the many and varied requirements in fulfilling commitments to donors and beneficiaries of charitable gift annuities. Either way, the so-called "buck stops here" rests with the charity. Donors look to the charity to provide timely and accurate stewardship of their gifts no matter who performs the actual work.

This is the time when it all comes together, or should! Between December and early April the administration and reporting requirements peak.

December

The beginning of the calendar year is, of course, January, but for the administration of gift annuities, the new year actually begins in December. As in any month, the first priority in gift administration, other than the ongoing maintenance of accurate data, is the issuance of payments to the annuitants.

Payments

In the early part of December, the charity should run preliminary payment reports and work with the investment manager to plan for cash flow in conjunction with the payments due at the end of December. This is typically the month during which the highest number of payments are due, so the cash requirement will usually exceed that of any other month.

For most organizations, the latter part of December involves the issuance of

monthly, quarterly, semi-annual, and annual payments. We suggest that organizations plan to process payments earlier than in other times of the year in anticipation of possible delays in mail delivery due to holiday-related volume. Even simple logistics internal to the charity can make it more difficult to move through the payment process quickly, especially with staff absences during this time of year.

- Tips for Success in Payment Processing < >Your best prospects for additional gifts are your existing donors. Late checks, misdirected mail, or lack of responsiveness must be avoided entirely or remedied quickly. Develop systems that work reliably to minimize errors and continually fine-tune these procedures. Stay in touch with your donors and establish processes by which you have the best chance of staying aware of address and other contact information changes.

Treating donors like vendors is a mistake. Stewardship is critical and contact with donors should not be limited to sending payments. Reliance on a single individual coupled with failure to document processes leaves the organization vulnerable to disruptions in payment processing in case of illness or staff turnover. Ensure staff responsible for processing new planned gifts are trained and that procedures are reviewed periodically, especially prior to year end. Acquire and maintain excellent supporting tools with functions specific to gift administration, including a database capable of tracking gifts and storing all the details.

Lack of a process to spot discrepancies in gift documentation during gift setup, such as an illustration for a cash gift actually funded with appreciated property, can result in problems later. Out-of-date software could cause you to provide incorrect calculations to your donors. Designate an individual to be responsible for your planned giving calculation software. Following ineffective gift acceptance policies could result in bad gifts for your charity. For example, assume your charity accepts gift annuities for as little as \$1,000. The administrative overhead of such small gifts will likely exceed their present value to your charity. Procedures are in place to locate beneficiaries when payments and correspondence are returned because the address is no longer valid or where payments are not cashed. This can ensure that payments get to the beneficiary or help make the process of gift termination more efficient when research determines the beneficiary is deceased. Current market values

for gift annuities are kept up to date. This permits the charity to run more accurate remainder projections and, when the gift is finished, it will provide the basis for accurate distributions to the charity.

Contact is not maintained with beneficiaries. Maintaining contact will help ensure both that payments reach the beneficiaries and a more efficient operation.

- Care is not taken with all the details of the agreement or contract. As with all parts of gift administration, executing the desires of the donors is paramount and at the termination of a gift, it is critical that all documents are reviewed to confirm the gift really is complete, what it's value is, and where that remainder should go.

January

For some charities, reports on their gift annuity program are required at the close of the calendar year, both for general information purposes and more specifically for compliance reporting. With the former, there may be a need to present the total amount of gifts received the prior year, the total value of gifts currently managed, and the total value of gifts matured and distributed to the charity. With the latter, the charity may need to estimate the amount of money needed to support the future obligations of the gift annuity program; in addition, there may be state-specific accounting and reporting requirements.

However, perhaps the most important reporting requirements that must be accomplished in January is tax reporting. Specifically for charitable gift annuities, the tax form 1099-R must be produced and sent to all annuitants who received annuity payments in the previous calendar year.

- Tax Reporting

The charity should review the tax reporting information in early January. Even though the charity has been working throughout the year to find and record missing information, the urgency escalates at year-end. Tax information should be reviewed to determine if there are any gift arrangements for which there is inadequate data. Missing social security numbers and the cost basis of gifts that were funded with securities are issues that need to be resolved in early January, as this information is required for accurate tax reporting.

In the latter half of January, the charity should produce and mail 1099-R forms. These must be sent by January 31 to all beneficiaries who received payments in the previous calendar year.

Complete information for 1099-R tax reporting is available on the [IRS web site](#).

Tips for Tax Reporting < > Maintain systems and processes for ensuring accuracy of all tax form information. Adopt and work according to policies that enable you to stay abreast of changes of address for donors and beneficiaries. Use systems that are designed for the tasks and/or experienced staff who do tax reporting in other aspects of their jobs.

Failing to meet the expectations of your annuitants regarding tax information will increase phone calls and foster negative perceptions of your program.

- Being inaccurate or tardy in filing tax information with the IRS could result in penalties – and worse – being inaccurate with your donors may result in their passing you by when they make their next gift.

February

Process February payments to gift annuity beneficiaries. This is typically a smaller group of annuitants than those paid during the calendar quarter-end months of March, June, September, and December.

Charities may receive a number of inquiries regarding the 1099-R tax information sent in January. A few annuitants will either misplace or will not receive their 1099-Rs and the charity will need to reprint the forms. Some annuitants (and their tax advisors) may raise questions that result in the need for corrected 1099-Rs. If the charity has 250 or fewer annuitants and submits Copy A of the 1099R to the IRS, the deadline for filing is February 28, 2012.

March

March marks the home stretch for year-end gift administration activities. Payment processing, typically a larger number than January or February, will include payments for new gift annuities with quarterly payments that were issued during the last quarter of the prior year. Some of the payment obligations will be to first-time annuitants. This is an excellent time to include an additional thank you to first-time donors and annuitants of gift annuities.

And finally, reviewing and correcting 1099-R tax information where needed should be completed in preparation for sending the required electronic tax file to the IRS. The deadline for filing electronically in 2012 is April 2. However we recommend submitting the file no later than the last week of March.

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