

## Charitable Gift Annuities: Making Your Generosity Pay

By Bernard A. Krooks | 11/01/07

Would you like to make a gift to your favorite charitable organization and receive not only a sizeable tax deduction but fixed annual payments, a portion of which will be tax free, for life as well? You can, through a charitable gift annuity.

A charitable gift annuity, or CGA, enables you to transfer cash or marketable securities to a charitable organization or foundation in exchange for an income tax deduction and the organization's promise to make fixed annual payments to you (and to a second beneficiary, if you choose) for life.

A variety of resources -cash, stocks or bonds-can be used to establish a CGA. The donor of a CGA receives an income tax deduction in the year of the gift equal to the difference between the amount paid to the charity and the value of the annuity reserved to the donor (see link to calculator below). A fixed portion of each annuity payment is tax free, calculated based on the age of the annuitant. When appreciated property is given, the donor pays capital gains tax on only part of the appreciation. If the donor is also the annuitant, the capital gains tax is spread out over many years.

Annuity payments can begin immediately or can be deferred to some future date, allowing donors to enjoy the charitable income deduction immediately and receive a guaranteed income later--for example when they retire and are in a lower tax bracket. By contrast, a child who is providing financial support for a parent may want to establish an immediate CGA for the parent. The child would receive an income-tax deduction and the parent would receive income for life.

The older the annuitants are at the time of the gift, the greater the fixed income the charitable organization will pay. The Committee on Charitable Gift Annuities sets annuity rates for all charities to follow. Although it is not mandatory that the rates be used, most charities that offer gift annuities voluntarily adhere to the rates.

***Case Example:** Mrs. Generous, age 82, gives \$10,000 to Favorite Charity in return for a single life annuity. She will receive an annual annuity payment of \$940 (figured at 9.4 percent per year). Her charitable income tax deduction will be \$4,692.29 the year the gift is given, or spread over five years following. Of the \$940 received each year, Mrs. Donor can exclude \$639.48 as tax exempt income for 10 years. The gift is excludable from estate taxes. (Calculation is for illustration purposes only; for your actual benefits, consult your attorney or financial advisor.)*

While the regulation of charitable gift annuities varies from state to state, almost all states that regulate charitable gift annuities require the maintenance of financial reserves, annual filings with the attorney general of the state, and compliance with other regulatory requirements.

Wondering what your tax deduction and annual income might be from a CGA? A company called PhilanthroTec offers a free Web-based gift calculator that runs the

numbers for you. Go to: <http://pcalc.ptec.com/hosts/989357365/CGA/simple.html> Bear in mind that calculations vary depending on the assumptions used, the timing of the gift and the donor's unique financial situation. For your actual benefits, consult your attorney or financial advisor.