

Income for today, a gift for tomorrow

Charitable Gift Annuity



What is a Charitable Gift Annuity?

A **Charitable Gift Annuity** is a gift vehicle that falls in the category of Planned Giving. It involves a contract between a donor and a charity, whereby the donor transfers cash or property to the charity in exchange for a partial tax deduction and a lifetime stream of annual income from the charity. When the donor dies, the charity keeps the gift.

The amount of the income stream is determined by many factors including the donor's age and the policy of the charity. Most charities use payout rates defined by the American Council on Gift Annuities.

A charitable gift annuity enables you to transfer cash, marketable securities or real estate to the charitable organization issuing the gift annuity in exchange for a current income tax deduction and the organization's promise to make fixed annual payments to you for life. Annuity payments can begin immediately or can be deferred to some future date.

A charitable gift annuity is a way to make a gift to your favorite charity, and still receive an income for yourself or others. It is a contract under which a charity, in return for a transfer of cash or other property, agrees to pay a fixed sum of money for a period measured by one or two lives. The person who contributes an asset for the annuity is called the "donor", and the person who receives payments is called the "annuitant" or "beneficiary." Usually, the annuitant is also the donor, but this is not always true. The maximum number of annuitants is two, and payments can be made to them jointly or successively.

Payments from a charitable gift annuity are fixed from the outset. They will neither increase nor decrease, no matter happens to interest rates or the stock market. A charity is contractually obligated to make the payments, even if it has to dip into its general funds to do so.

The size of the payments from a charitable gift annuity depends on the following factors:

- The gift annuity rate offered by the charity (most charities follow rates recommended by the American Council on Gift Annuities).
- The value of the contribution.
- The number of annuitants.
- The age(s) of the annuitant(s).

Since 1927, the American Council on Gift Annuities (ACGA) has periodically published a schedule of suggested charitable gift annuity rates. Although a charity is free to offer any schedule of rates it wishes - so long as its

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rates don't exceed the limits imposed by federal and state laws - most charities, in fact, follow the rates suggested by the ACGA. Thus, donors generally find that the rates offered by various charities are identical. This encourages donors to make philanthropic decisions based on the cause of the charities they consider supporting, rather than the rates offered.

Here is a link to the latest gift annuity rates:

http://acga-web.org/index.php?option=com_content&view=category&layout=blog&id=27&Itemid=133

Charitable gift annuity rates are lower than those offered by insurance companies to purchasers of commercial annuities so that a significant portion of a contribution will be available for charitable purposes. Though lower than commercial rates, gift annuities are still very attractive to individuals who want simultaneously to support a favorite charity and provide payments to themselves or others.

Most gift annuity donors are retired, want to increase their cash flow, seek the security of guaranteed payments, and would like to save taxes. A charitable gift annuity could be right for people in any of the following circumstances:

- The interest rates on their CDs and other fixed-income investments have declined, and they would like to increase their cash flow.
- They own appreciated stock or mutual fund shares and have considered selling some of the shares and reinvesting the proceeds to generate more income, but they have hesitated because they don't want to pay tax on the capital gain.
- They would like to count on fixed payments, which are unaffected by interest rates and stock prices and which they cannot outlive.
- They want to assure continuation of payments to a surviving spouse without the delay of probate proceedings.
- They would like to provide financial assistance to an elderly parent, a sibling, or other person in a tax-advantaged manner.

If the gift annuity is funded with cash, part of the payments will be taxed as ordinary income and part will be tax-free. If funded with appreciated securities or real estate owned more than one year, and the donor is receiving the annuity payments, part of the payments will be taxed as ordinary income, part as capital gain, and part may be tax-free. The charity that issues the annuity will send a Form 1099-R to the annuitant. This form will specify how the payments should be reported for income tax purposes. For details regarding the taxation of gift annuity payments, it is wise to consult with representatives of the charity as well as financial advisors.

Taxpayers who itemize deductions can claim a charitable deduction for a portion of the original gift. This deduction can result in significant income tax savings. In short, the deduction is equal to the amount of the contribution less the present value of the payments that will be made to the donor and/or other beneficiary during life. The present value of those payments is determined using IRS tables regarding life expectancy and assumed earnings, and taking into consideration the amount contributed and the gift annuity rate.

Story County Community Foundation is an affiliate of the Community Foundation of Greater Des Moines, an Iowa nonprofit located at 1915 Grand Avenue, Des Moines, Iowa. This publication is for general purposes only and is not intended as legal or financial advice. Story County Community Foundation recommends that each person considering a gift consult with her or his own legal or financial advisor.

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