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Charitable Gift Annuities: A Lifetime Benefit

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Many advisors have favorite clients who have saved and invested for their lifetimes. As your clients age they often continue to own investments that are difficult to turn into sufficient income to support their retirement living expenses. These clients are often forced to liquidate highly appreciated assets and incur capital gains taxes, or to sell income producing investments to receive a higher rate of distributions. In either case your client is likely to incur unnecessary taxable income and deplete retirement income resources. These clients are also the same people that wish to leave resources when they pass to their favorite charity. A powerful alternative for these clients is the use of a charitable gift annuity (CGA).

A charitable gift is an irrevocable gift to a charity in exchange for a guarantee to the donor, or individuals designated by the donor, to pay an income stream for life. Many of the established schools, hospitals, and national church organizations throughout the U.S. have offered CGA's successfully for years. Today, many smaller non- profits are offering CGA's because of their popularity among donors.

CGAs offer several benefits to clients with charitable interests that explain their popularity. The gift provides the client with a guaranteed, fixed income stream that is often higher than the client can receive from other investments, such as certificates of deposit, bond interest payments, or stock dividends. The annuity rates are designed to leave the charity an amount equal to 50% of the value of the original gift. These rates also consider the life expectancy of the client at the time of the gift. Clients between the ages of 70 and 80 would currently receive gift annuity rates between 5.1% and 6.8%.

The donor of a CGA also receives an income tax deduction in the year the gift is made. The deduction is essentially the present value of the amount expected to go to charity at the death of the designated annuitant. As an example, a 70 year old client establishing a $50,000 CGA would receive a current income tax deduction of $17,910.

A CGA offers additional income tax benefits related to the annuity payments. A part of each annuity payment received is considered a tax-free return of basis from the client's original contribution to the CGA. In addition, donors contributing appreciated property (such as stock) to a CGA have the benefit of only paying capital gains tax on part of the annuity payment. The capital gain is recognized over the donor's lifetime.

Donors can also reduce the size of their taxable estates by establishing a charitable gift annuity. If the donor creates a CGA for himself, the amount contributed to the CGA will not be included in his taxable estate at death. If the donor creates a CGA for the benefit of another person, only the portion of the remaining income interest for the surviving individual will be included in the donor's taxable estate.

A donor has some flexibility in establishing a charitable gift annuity. The donor can name up to two annuitants to receive the annuity payments. The annuitants may include the donor, the donor's spouse, or any other individual selected by the donor. The donor can also elect to receive the annuity payments immediately or defer the annuity payments until a future date. With a deferred gift annuity, the donor can receive an immediate income tax deduction and a larger annuity payment once the annuity begins.

A CGA is also easy to establish. The process only requires a simple contract supplied by charity. There are no legal costs associated with an attorney's preparation of legal documents.