

A Charitable Gift Annuity

The Gift That Gives Back



What Is a Charitable Gift Annuity?

As its name implies, a charitable gift annuity is both a gift and an annuity. It's an uncomplicated gift that is exceedingly popular because it benefits both charities and donors. When you contribute assets to charity, some of the donation supports the charity and some is returned to you in periodic payments for life.

How Gift Annuities Work

A gift annuity is a contract between a donor and a charity. When you make a gift to us, we agree to pay you and/or your designated beneficiary a fixed amount periodically for life. The arrangement is structured so that we use approximately half of the gift to support our mission and pay the other half back in the form of annuity payments.

A Popular Giving Tool

Gift annuities are appealing because they provide an opportunity to make a meaningful gift but require only modest funding. If you purchase a gift annuity, it pays lifetime benefits to you and/or your designated beneficiaries (up to two lives total). These payments are fixed, so they're not affected by interest rates or fluctuations in the financial markets. In addition, you enjoy the following benefits:

- Contributions qualify for an immediate charitable income tax deduction
- Capital gains tax due on donations of appreciated property will be spread out over your life expectancy
- Part of each annuity payment is a tax-free return of principal

Receiving the Annual Payments

You can designate yourself and/or another person as the beneficiary of a gift annuity, or you can direct that the annuity be paid to one person for life and thereafter to a second beneficiary. The amount of the annuity and the charitable deduction is determined by the amount of the contribution and the life expectancies of the beneficiary or beneficiaries.

EXAMPLE: Roberta sets up a \$25,000 gift annuity and directs that the payments be made to her mother, Marianne. The annuity payments will be based on Marianne's age (80), not Roberta's age. Roberta's gift qualifies for an immediate income tax charitable deduction.*

IS A GIFT ANNUITY RIGHT FOR YOU?

Consider a gift annuity if you want to:

- Make a significant gift with a modest amount of cash or property and receive payments for life
- Enjoy fixed payments not affected by any volatility in the stock market
- Provide a family member with income for life
- Qualify for a tax deduction now but delay receipt of payments until retirement

The Taxation of Annuity Payments

A portion of each annuity payment is considered a return of principal and will be income tax free until you reach your life expectancy. When you give long-term appreciated property in exchange for a gift annuity, a portion of each payment will also be taxed as a long-term capital gain. With a gift annuity, your long-term capital gain is spread over your life expectancy, but only when you are the sole or joint annuitant. Any portion of an annuity payment that is not considered a tax-free return of principal or long-term capital gain will be taxed as ordinary income. After reaching life expectancy, the entire payment will be taxed as ordinary income.

Determining Your Charitable Deduction

The gift portion of your charitable gift annuity is deductible as a charitable contribution on your federal income tax return. You may claim the deduction in the year you make the gift (subject to limitations), and may carry over any excess deductions for up to five tax years. Combining your tax deduction with your annuity payment can make the effective payout very attractive when compared to the rate of return from money market funds or CDs.

Deferred Gift Annuities: Additional Planning Opportunities

Deferred gift annuities let you postpone the start date of an annuity for a specified period of time and still qualify for an immediate charitable deduction. Deferring the start date increases both the annuity amount and the income tax charitable deduction.

Deferred gift annuities provide an attractive way to supplement IRAs or other qualified retirement plans. You can enjoy tax relief in high-income years, then receive annual payments (partly income tax free) later to increase retirement income.

EXAMPLE: John is a successful dentist (age 55) who makes charitable gifts to us every year. He doesn't need additional income now, but would like to supplement his 401(k) savings in retirement. Plus, since he is currently in the highest income tax bracket, he would welcome an immediate tax deduction. After talking with his financial advisor and our staff, John establishes a deferred gift annuity that will start in ten years and provide annual payments for life.*

*All examples are for illustrative purposes only.

Ease of Implementation

Gift annuities are mutually beneficial and easy to set up. Compared to more complex trust arrangements, gift annuities typically require less time and money to establish. In addition, you avoid the administrative burdens and additional fees associated with other gift arrangements. Despite their simplicity, gift annuities can be appropriate even for very large gifts.

Summing Up the Benefits

Charitable gift annuities offer many benefits:

- An immediate income tax charitable deduction (if you itemize)
- A payout that can begin immediately or be deferred until a future date
- A promise to pay that is backed by the general assets of our institution
- The ability to spread out capital gains tax over your life expectancy (if you transfer appreciated property and you are also the annuitant)
- An easy way to make one large gift or a series of smaller gifts

A gift annuity is also a statement about your philanthropic intentions. It provides an opportunity to make a difference in the lives of others while also making a difference in your own life.

ANNUITY PAYOUT FOR A \$25,000 SINGLE-LIFE IMMEDIATE GIFT ANNUITY

Based on ACGA rates
(effective 1/1/24, reconfirmed 1/1/25)

Age of Annuitant	Annuity Payout
65	\$1,425
70	\$1,575
75	\$1,750
80	\$2,025
85	\$2,275
90	\$2,525

Rates subject to change. Contact us for a personal illustration that shows our payout rate and charitable deduction.