



Charitable Gift Annuity

What is a Charitable Gift Annuity

While charitable gift annuities have existed since the early 1900s, the concept of exchanging property for the assurance of lifetime care is even older. A charitable gift annuity is a simple agreement between you and a charitable organization, such as Edgewood Children's Center, in which the organization agrees to pay a fixed annual amount (an "annuity") to one or more individuals (the "annuitants") for life in exchange for your contribution of cash or property to the charitable organization. Typically, a gift annuity takes one of three forms: (1) payments to you for life; (2) payments to you for life, then to your surviving spouse for his or her remaining life; or (3) if you contribute property jointly with your spouse, payments to you and your spouse while both of you are living, then to the survivor for life. You may also direct that the gift annuity payments be made to an individual other than you or your spouse, such as a dependent parent or an older sibling.

The charitable organization determines the amount of the annuity payments based on the age of the annuitant or annuitants on the date of the gift. The older the annuitant, the higher the rate of the annual annuity. The rates for a two-life gift annuity, however, are slightly lower due to the additional life expectancy of the second annuitant. The maximum rates are suggested by the American Council on Gift Annuities. These rates change periodically, so check with us for the current rates.

Favorable Tax Implications of the Charitable Gift Annuity

When you enter into a charitable gift annuity agreement, you make a tax-deductible charitable contribution. In general, the amount of your contribution is calculated as the difference between the fair market value of the cash or property you transfer to the charitable organization and the value of the annuity that you will receive. You may claim the amount of the contribution as an income tax deduction in the year that you make the gift (up to 50% of your federal adjusted gross income for a gift of cash or up to 30% if you transfer securities held for more than one year).

If property is to be contributed by spouses but is currently held in one spouse's name, it should be first put in joint name so that the gain can be spread over the life expectancies of both spouses, rather than one. And there will be no gift tax implications because of the unlimited marital deduction.

Under the rules for the taxation of annuities, a portion of each annuity payment will be treated as taxable ordinary income or capital gain, and the balance will constitute an income tax-free return of your contribution. The character of income will be determined by the appreciation of the funding asset - cash or CDs will produce a higher tax-free amount. If you survive beyond your life expectancy, from then on your entire annuity payment will be reported as ordinary income. If you die before reaching your life expectancy, your portion of the annuity contract that was not recovered prior to your death may be reported as a loss.

Gift and Estate Tax Consequences

If you establish a gift annuity only for yourself or for you and your spouse, federal gift and estate taxes usually are not owed on the amount donated to the charitable organization. For a gift annuity with a surviving annuitant who is not your spouse, however, the value of the survivor annuity will be included in your estate and may be subject to estate tax.

A planned gift qualifies you for ECC's Ann M. Perry Legacy Society.

