

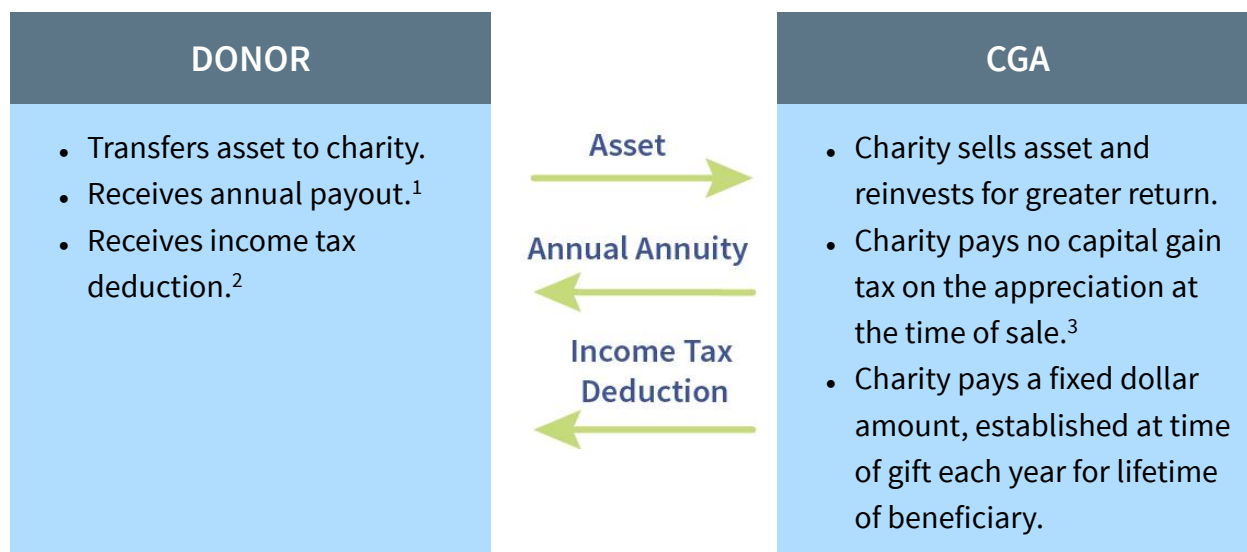
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# How a Charitable Gift Annuity Works

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The donor transfers an asset to a charity and receives a fixed dollar amount, set at the time the gift is made, each year thereafter. A current income tax deduction is also available.

When the donor or other named beneficiary dies, the charity has no further financial obligations to pay.



After the beneficiary is deceased the charity has no further obligations to pay.

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<sup>1</sup> Annuity payments are part return of principal (nontaxable), part ordinary income and (if any) part capital gain. Once a donor has recovered his or her basis, the annuity payments are fully taxable.

<sup>2</sup> This deduction may have to be spread over more than one year if it exceeds certain percentage of income limitations.

<sup>3</sup> If certain requirements are met, the donor may recognize any capital gain ratably over the time period the annuity is expected to be received. Otherwise, the donor must recognize all capital gain in the year the annuity transaction is entered into.

# Charitable Gift Annuity

When a donor transfers an asset to a charity<sup>1</sup> in exchange for an income for one or two lives, it is called a charitable gift annuity.

The income tax deduction from this arrangement will vary depending on the age of the donor, the payout rate and the applicable (mid-term) federal rate (AFR) (which is determined monthly).

The following charts illustrate the income tax deduction at various ages and AFRs. Each example assumes a cash gift of \$100,000. The payouts vary with the age of the donor.<sup>2</sup>

Age 55 / 4.0% / \$4,000		⇐ Recommended Payout ⇐		4.4% / \$4,400 / Age 60	
AFR Table Rate	Total Charitable Deduction	Income Excluded from Taxation <sup>3</sup>	Total Charitable Deduction	Income Excluded from Taxation <sup>3</sup>	Total Charitable Deduction
1.4%	\$16,284	\$2,936	\$20,457	\$3,300	\$23,757
2.0%	22,694	2,712	25,823	3,080	28,903
2.4%	26,548	2,576	29,086	2,944	32,030

Age 65 / 4.7% / \$4,700		⇐ Recommended Payout ⇐		5.1% / \$5,100 / Age 70	
AFR Table Rate	Total Charitable Deduction	Income Excluded from Taxation <sup>3</sup>	Total Charitable Deduction	Income Excluded from Taxation <sup>3</sup>	Total Charitable Deduction
1.4%	\$28,112	\$3,614	\$35,822	\$4,034	\$39,856
2.0%	32,313	3,403	39,009	3,835	42,844
2.4%	34,898	3,271	40,991	3,713	44,704

<sup>1</sup> In most states, a charity must be licensed to grant a gift annuity.

<sup>2</sup> Many charities follow the suggested payout rates developed by the American Council on Gift Annuities, 1260 Winchester Parkway, Suite 205, Smyrna, GA, 30080-6546. Tel: (770) 874-3355.

<sup>3</sup> The amount shown represents that portion of the annual payment due to recovery of the donor's basis in the annuity. Once the basis has been completely recovered, all additional payments are fully taxable.

## Charitable Gift Annuity

Age 75 / 5.8% / \$5,800		⇐ Recommended Payout ⇐			6.8% / \$6,800 / Age 80	
AFR Table Rate	Total Charitable Deduction	Income Excluded from Taxation <sup>1</sup>	Total Charitable Deduction	Income Excluded from Taxation <sup>1</sup>		
1.4%	\$41,860	\$4,686	\$47,311	\$5,603		
2.0%	44,262	4,495	49,081	5,420		
2.4%	45,772	4,373	50,025	5,297		

**Note:** Table calculated using ACGA “recommended” Single Life Gift Annuity rates effective January 1, 2012

<sup>1</sup> The amount shown represents that portion of the annual payment due to recovery of the donor’s basis in the annuity. Once the basis has been completely recovered, all additional payments are fully taxable.