




**COVID-19**

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**Coronavirus / COVID-19  
Response Team**


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**Philanthropy and  
COVID-19:  
Charitable Gift Annuities**

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## Today's Topics

- What is a Charitable Gift Annuity?
- Benefits of a Charitable Gift Annuity
- Annuity Rates and Tax Benefits
- Funding CGAs with Appreciated Securities
- America Council on Gift Annuities
- Deferred Charitable Gift Annuity
- State Regulation

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## What is a Charitable Gift Annuity?

- Donor transfers cash or securities to charity in exchange for a promise to pay the donor a lifetime annuity
- Part charitable gift and part annuity
- Contract between the donor and the charity

## Benefits of a Charitable Gift Annuity

- Fixed, lifetime income stream for up to two individuals
- Income tax deduction
- Capital gains tax savings
- Estate tax savings
- Administered by charity

## Annuity Rates and Tax Benefits

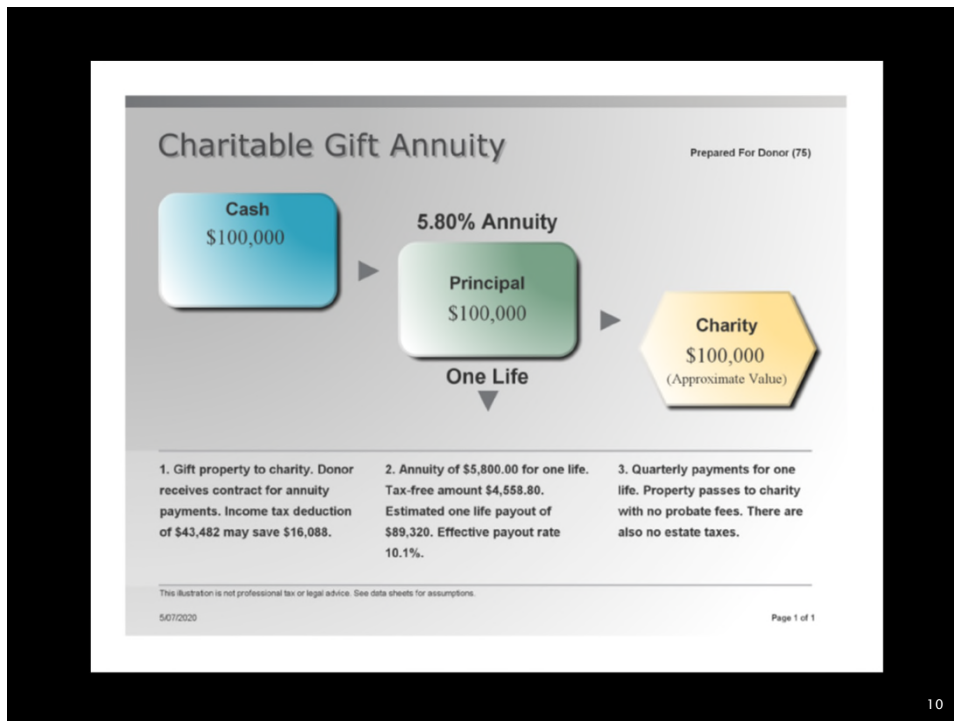
- The rates are based on the annuitant's age
- American Council on Gift Annuities offer recommended rates for charities
- One or two lives (Sec. 514(c)(5))
- Part of the annuity income is considered tax free return of basis
- Immediate income tax deduction for present value of remainder interest

## CGAs and Appreciated Securities

- If a donor funds a CGA with appreciated property
  - If the annuity is written on the life of the donor, or lives of the donor and spouse, then the capital gain in the annuity portion may be prorated (Reg. 1.1011-2(a)(4))
  - In the case of a CGA funded with jointly held appreciated property, the gain on the gift portion is bypassed, and the gain prorated to the annuity portion may be recognized over the life of the annuitant, or the lifetimes of the annuitant spouses

## 75 year old 5.8% Cash Annuity

Cash Gift \$100,000	Principal \$100,000	Charity \$100,000
Gift property to charity	Annuity for \$5,800 for one life	Quarterly payments for one life
Income tax deduction of \$43,481.90	Ordinary income tax of \$1,241.20	Property passes to charity with no probate
May save an individual in the 37% bracket \$16,088	Tax free amount of \$4,558.80 until expiration of calculated life expectancy	There are no estate taxes



## 75 Year Old 5.8% Stock Annuity

<b>FMV Stock Gift \$100,000 Cost Basis \$50,000</b>	<b>Principal \$100,000</b>	<b>Charity \$100,000</b>
Partial bypass of \$50,000 gain may save \$5,174 (23.8% rate)	Annuity of \$5,800 for one life	Quarterly payments for one life
Income tax deduction of \$43,482 may save \$16,088 (37% rate)	Ordinary income tax of \$1,241.20	Property passes to charity with no probate
	Capital Gain Payout of \$2,278.96	There are no estate taxes
	Tax free \$2,279.84	

### Charitable Gift Annuity

Prepared For Donor (75)

**Property**

Value \$100,000

Costs \$50,000

Gain \$50,000

**5.80% Annuity**

**Principal**  
\$100,000

**One Life**

**Charity**  
\$100,000  
(Approximate Value)

1. Gift property to charity. Partial bypass \$50,000 gain may save \$5,174. Income tax deduction of \$43,482 may save \$16,088.

2. Annuity of \$5,800.00 for one life. Tax-free amount \$2,279.84. Estimated one life payout of \$89,320. Effective payout rate 9.08%.

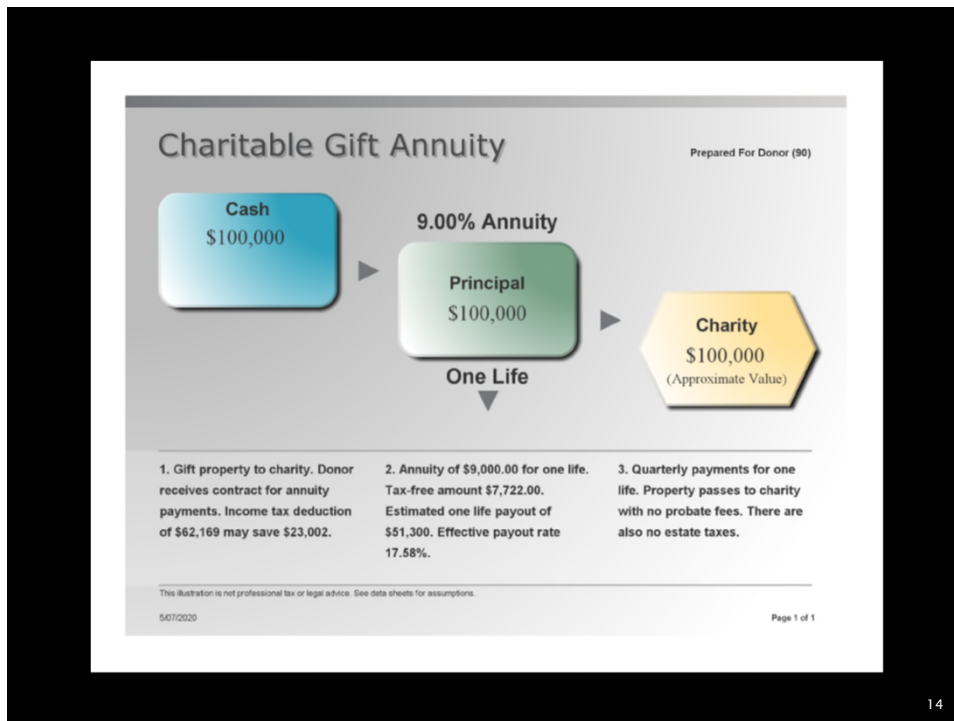
3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

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## 90 Year Old 9.0% Cash Annuity

Cash Gift \$100,000	Principal \$100,000	Charity \$100,000
Gift property to charity	Annuity for \$9,000 for one life	Quarterly payments for one life
Income tax deduction of \$62,169	Ordinary income tax of \$1,278	Property passes to charity with no probate
May save an individual in the 37% bracket \$23,002	Tax free amount of \$7,722 until expiration of calculated life expectancy	There are no estate taxes



## 90 Year Old 9.0% Stock Annuity

<b>FMV Stock Gift \$100,000 Cost Basis \$50,000</b>	<b>Principal \$100,000</b>	<b>Charity \$100,000</b>
Partial bypass of \$50,000 gain may save \$7,398 (23.8% rate)	Annuity of \$9,000 for one life	Quarterly payments for one life
Income tax deduction of \$62,169 may save \$23,002 (37% rate)	Ordinary income tax of \$1,278	Property passes to charity with no probate
	Capital Gain Payout of \$3,860.36	There are no estate taxes
	Tax free \$3,861.64	

### Charitable Gift Annuity

Prepared For Donor (90)

**Property**

Value \$100,000  
Costs \$50,000  
Gain \$50,000

**9.00% Annuity**

**Principal**  
\$100,000

**One Life**

**Charity**  
\$100,000  
(Approximate Value)

1. Gift property to charity. Partial bypass \$50,000 gain may save \$7,398. Income tax deduction of \$62,169 may save \$23,002.

2. Annuity of \$9,000.00 for one life. Tax-free amount \$3,861.64. Estimated one life payout of \$51,300. Effective payout rate 15.68%.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

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## American Council on Gift Annuities

- <https://www.acga-web.org/>
- Publish maximum suggested CGA rates for charities and donors
- Education, research, monitoring state regulations, and advocacy

## Single Life ACGA Rates

AGE	RATE
60	4.3%
65	4.7%
70	5.1%
75	5.8%
80	6.9%
85	8.0%
90	9.0%

## Two Lives – Joint and Survivor ACGA Rates

Younger	Older	Rate
60	65	4.0%
65	70	4.4%
70	75	4.8%
75	80	5.3%
80	85	6.2%
85	90	7.5%
90	95	8.8%

## Assets Used to Fund CGAs

- Cash
- Appreciated Securities
- Possibly Real Estate

## Deferred Charitable Gift Annuity

- Similar to an Immediate CGA
- Principal difference is that the first deferred annuity payment is more than one year after the date of funding
- Due to the period of deferral, deferred CGAs pay a higher rate
- Immediate income tax deduction
- Retirement planning vehicle

## State Regulation

- Gift Annuities are regulated at the state level (donor's domicile controls)
- Michigan Code is silent
- Attorney General Opinion No. 6538 held that a gift annuity program proposed by the Michigan State University Foundation was not subject to regulation under the Insurance Code



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