Charitable Gift Annuity: A Gift That Gives Back

For most donors, charitable giving is about supporting a cause. One tool, a charitable gift annuity (CGA), offers donors potential income and tax benefits in exchange for a one-time charitable gift.

A CGA is a contract between a donor and an eligible charity. The donor gifts cash, stocks, or other assets to the charity, and the charity agrees to pay the donor or a designated beneficiary a fixed income for life. When the lifetime payments stop, the charity keeps the remaining value of the gift.

Lifetime payments are contingent on the size of the gift and the donor's age at the time of the gift. Most charities use the lifetime payout rates established by the American Council on Gift Annuities. Generally, older donors receive higher payout rates because the charity will likely make fewer payments over the donor's lifetime. Lifetime payments may begin immediately or at a future date if the donor creates a deferred CGA. Typically, charities require a donor to be at least age 60, but younger donors may opt for a deferred CGA. Many charities require gifts of at least $10,000, though some accept lower donation amounts.

A CGA may make sense for donors who seek a steady retirement income stream or who experience a liquidity event. A CGA may also appeal to those with appreciated stocks because part of the capital gain may be recognized over time rather than all at once, depending on the annuity's structure. Individuals who are at least age 70½ may be able to fund a CGA through a Qualified Charitable Distribution (QCD) from a traditional IRA, subject to IRS rules and limits.

Donors who itemize may claim an income tax deduction for the charitable portion of the gift and may receive capital gains tax relief if the annuity is funded with appreciated assets. But donors cannot revoke a CGA, and the lifetime income is fixed, meaning inflation may reduce the income's value. Also, lifetime payments rely on the charity's solvency; if the charity cannot meet its financial obligations, payments may be affected.

A CGA can be a valuable charitable giving tool, but donors should consult a qualified tax or financial professional to determine if a CGA aligns with their financial goals.

The charitable donation tax deduction is imited to the amount contributed to the annuity in excess of its present value, as calculated using Internal Revenue Service (IRS) parameters. The money returned to an annuitant in equal installment payments is considered a partially tax-free return of the donor's gift. A charitable gift annuity continues regular payments until the death of the annuitant. Payments may be lower than with a non-charitable annuity because the primary purpose is to support the nonprofit.

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