EVERGREEN™
WEALTH SOLUTIONS
PLAN. GROW. PROSPER.™

# The Tax Advantages of Charitable Gift Annuities

Would you like to donate to the causes you care about, while also generating a steady retirement income and saving on your taxes? If doing good, while continuing to work toward achieving your financial and estate planning goals sounds appealing, you may want to consider purchasing a charitable gift annuity.

Many charities have programs that assist donors in purchasing gift annuities, which are designed to provide long-term financial support to both the donor and the nonprofit organization. Essentially, a charitable gift annuity is a contract between the donor and the nonprofit organization that calls for the charity to make fixed lifetime payments to the donor and, in some cases, to his or her spouse. In exchange, the charity receives the remainder of the gift to further its work when the donor, or the donor's spouse, dies.

Recognized by the IRS as a form of philanthropic giving, a charitable gift annuity offers a number of potential tax advantages. The portion of the annuity purchase that is considered a gift can be included as a charitable contribution on your itemized deductions. In addition, a portion of the payments from a charitable gift annuity are tax-free until you reach your life expectancy, while another part is taxed at ordinary income rates. If you donate appreciated securities, you will owe some capital gains taxes for the sale portion of the transaction, but the taxes are payable over your expected lifetime, rather than being due immediately.

In addition, purchasing a charitable gift annuity can reduce the size of your taxable estate. You may, for example, wish to donate appreciated property that currently generates little or no income, but which would be taxable if it were sold or passed on to the next generation.

A charitable gift annuity can also be a great option if you want to donate to your favorite charity, but cannot afford to make a large gift outright. If you are thinking about purchasing a charitable gift annuity, you should, however, be aware that these annuities are not identical to commercial products, which generally offer higher rates of interest. But the tax savings associated with gift annuities can help to offset the smaller payments. The interest rates paid by all types of annuities are also usually superior to those paid on savings accounts and certificates of deposit.

Purchasing an annuity can be especially attractive at more advanced ages, as the payments will be higher. If you are younger and do not yet need the income, you can select an annuity that allows you to defer payments until reaching a specific age. If you are interested in buying a charitable gift annuity but do not yet know when you might wish to start collecting payments, you can opt for a flexible annuity, which does not require you to choose the payment starting date at the time of purchase.

To set up a charitable gift annuity, the donor typically makes a donation of cash, stock, or other assets for a set amount—usually no less than $5,000. Under a “single life” agreement, the charity commits to making payments to one person for the course of his or her lifetime, while under a “two lives in succession” agreement, the charity makes payments first to one person, and then to a designated survivor. If you are married, you may prefer to enter into a “joint and survivor” agreement, in which the organization splits the payments between spouses during their lifetimes, and makes the full payment to a surviving spouse.

Remember, however, that annuities are irrevocable, and you will not be able to extract your funds or property once the donation has been made. Keep in mind, too, that charitable gift annuity payments are not inflation-protected, and your income from this type of annuity will not go up even if the cost of living rises. On the other hand, the annuity payments become a general obligation of the charity, and the annuity is backed by the organization’s entire assets, not just by the property donated. The charity is therefore committed to continuing payments throughout the lifetime of the donor, regardless of whether the funds used to purchase the annuity have been exhausted.

Even if you are already familiar with the charity from which you are purchasing the annuity, it is nonetheless advisable to investigate the financial stability of the organization to ensure that it will be able to make payments well into the future. If the charity becomes insolvent, the funds will be lost and annuity payments will stop. Charitable gift annuities are not insured, but some states regulate this type of annuity, generally requiring charities to maintain sufficient reserves to meet its obligations to annuitants.

It is usually best to choose a charity that has an established charitable gift annuity program, as they will be able to guide you through the process of purchasing an annuity, and will be able to help you resolve any issues that might arise.



EVERGREEN™ WEALTH SOLUTIONS

www.evergreenwealthsolutions.com
info@egwealth.com
1000 Commerce Park Drive, Suite 416
Williamsport, PA 17701
Phone: 570.601.6960 | Fax: 570.651.9032