

Charitable Gift Annuities: Securing an Income for Life

Many friends of the Community Foundation for Southeast Michigan are taking advantage of a special giving opportunity – one that benefits them personally while providing lasting support for their favorite charitable causes. These individuals have discovered the benefits of establishing a Charitable Gift Annuity. They have learned that a gift annuity is a simple and proven technique for securing lifetime income and immediate income tax deductions.

A Community Foundation Charitable Gift Annuity is both a gift and a life-income arrangement. Through gift annuities established with the Community Foundation, many donors enjoy fixed income from their gifts for their lifetimes. There are many other benefits as well. Some of the most commonly asked questions about gift annuities are answered below.

What is a charitable gift annuity?

A charitable gift annuity is a contract between the Community Foundation and an individual (the donor), in which the Community Foundation agrees to pay a fixed dollar amount to one or more annuitants for life. When a donor enters into a Charitable Gift Annuity with the Community Foundation, he or she (or a designated beneficiary) receives lifetime income and at the same time makes a charitable gift to the Community Foundation. The Community Foundation receives the remainder as a gift and adds that amount to one of the Community Foundation's endowment funds – as designated by the individual.

How does a charitable gift annuity work?

In return for a gift of cash or marketable securities, the Community Foundation agrees to pay one or two beneficiaries selected by the donor a fixed, lifetime dollar amount. The Community Foundation's obligation to pay the annuity is secured by the Community Foundation's assets. The donor is entitled to an immediate income tax charitable deduction the year the gift is made. That deduction is based on the difference between the current value of the lifetime annuity and the amount transferred to the Community Foundation.

Annuity payments can begin immediately or can be deferred for a specified period of time at least one year or more after the date of the gift. If the payments are to begin at a point in the future, such as upon the donor's retirement, then the gift arrangement is called a "deferred charitable gift annuity." For more information about the deferred charitable gift annuity, please contact the Community Foundation.

What determines the amount of the annuity payment?

The beneficiary's age and the age of any additional beneficiaries determine the amount, or annuity rate, the beneficiary receives. Typically, older annuitants receive a higher rate of income than younger annuitants. When an annuity is established to provide income for two beneficiaries, rather than one, the annuity rate is lower. This scenario occurs because the life expectancy of two individuals is actuarially longer than one. The Community Foundation uses the maximum recommended payout rates established by the American Council on Gift Annuities. However, a donor can choose to have the annuity pay a lower rate in exchange for a higher income tax deduction.

(continued)

What kind of property can be used to fund a gift annuity?

Cash and long-term, appreciated marketable securities are the most common sources of funding for a gift annuity to the Community Foundation. Please contact the Community Foundation if you are interested in using other assets to establish your gift annuity.

Are there any tax benefits with a charitable gift annuity?

When a donor establishes a charitable gift annuity with the Community Foundation, it is considered to be in part a charitable gift. Accordingly, if filing an itemized Income Tax Return that year, the donor can claim an income tax charitable deduction. Thus, in effect, the charitable deduction reduces the "cost" of making a gift by offsetting income tax that would otherwise be payable by the donor.

As with other types of annuities, a portion of each annuity payment is treated as a tax-free return of the original investment and is not taxed. The Community Foundation is always happy to meet with prospective donors to provide them with confidential estimates of the income they would receive by establishing a charitable gift annuity, and how much of each payment would be tax-free.

Is capital gains tax payable on a gift of appreciated property?

A portion of the gift escapes capital gains tax entirely because a gift annuity is considered to be partially a gift and partially a sale. The Community Foundation is happy to give prospective donors personalized illustrations of the capital gain advantages a specific charitable gift annuity would offer, which the donors can review with their own advisors.

Can a gift annuity be established for the benefit of someone else?

A gift annuity may be established for the benefit of one or two individual beneficiaries. Payments can be made to one person for life, and then to a successor beneficiary, or jointly to two individuals for their joint lifetimes. Depending upon the ages of the beneficiaries and their relationship to the donor, there may be gift and estate tax consequences.

Which funds at the Community Foundation can be the remainder beneficiary?

Any endowed unrestricted or field-of-interest fund can be the ultimate beneficiary. We can even create such a fund named by the donor as a lasting testament of the donor's generosity. Some of our endowment funds that benefit designated nonprofit organizations can also be named as the ultimate beneficiary, provided at least 10 percent of the value of the annuity is also designated for unrestricted purposes. Please contact the Community Foundation to learn which endowment fund you should designate to best reflect your charitable interests.

How can a prospective donor learn more about establishing a charitable gift annuity?

To explore the opportunities and rewards of a Community Foundation charitable gift annuity, please contact us. We can provide you with detailed information about the Community Foundation's income-producing gift arrangements, funding options and endowments to support specific charitable causes or organizations.

Our staff works with each donor to create a distinctive gift that blends his or her financial and personal objectives with the needs of our community. The result is a gift that is both personally satisfying and mutually beneficial to the donor and to our region.