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The bread and butter of planned giving programs for most non-profits is the charitable gift annuity (CGA). The CGA is easy to establish, simple to administer, and leaves a generous gift to charity. This article is the first in a three part series on CGA deductions and taxation.

In this article, we will examine the calculation of the CGA charitable income tax deduction and the variables that affect this calculation. We will discuss how you can maximize your donor's income tax deduction in a low discount rate environment.

For immediate payment CGAs, the relevant variables in calculating the deduction are the ages of the income beneficiaries, the applicable discount rate, the amount of the gift principal, the payout rate, and the payment frequency.

Let's refer to an actuarial calculations chart in Planned Giving Manager to see how the deduction is computed. The lines on the actuarial calculations chart are numbered so you can see how the assumptions are used in the calculations. Line 6 shows the computation of the annuity amount, which is the principal multiplied by the annuity rate.

Line 7[a] shows the present value of one dollar paid to the income beneficiaries for life discounted based on the discount rate used. In valuing annuity deductions, payments to the income beneficiary in later years are discounted at the IRS discount rate to arrive at the total value of the income interest. The lower this discounting factor, the higher the present value of the income to the annuitants and therefore the lower the deduction.

The basis of the calculation in Line 7[a] is both the life expectancy and an assumed rate of investment performance. Life expectancy is derived from IRS publication 1457 using Table 2000CM based on the 2000 census. The discount rate functions as the assumed rate of investment performance during the term of the gift.

The shorter the income beneficiary's life expectancy, the lower the value of the life interest and the higher the deduction. Also, the higher the discount rate, and consequently, the less projected for the income beneficiary, the higher the deduction. Obviously the inverse is also true, the longer the life expectancy and the

lower the discount rate, the lower the deduction.

If payments are made annually, line 7[b] will be 1.0000 because the values calculated in Line 7[a] assumes the annuitant is paid annually. If the CGA makes payments more frequently than annually, line 7[b] will be a number greater than one, increasing the value of the life interest. Why? If payments are made more frequently, the annuity is paid sooner which means the annuity is more valuable. Would you rather receive $1.00 on New Year's Eve or $.25 each quarter throughout the year? Therefore, in periods of low discount rate, you can increase the deduction by making payments less frequently.

Line 7[c] shows the value of the dollar a year paid for life adjusted for the payment frequency selected. However, the annuitant isn't paid a dollar a year but the annuity amount calculated in line 6. The adjusted value of the dollar times the annuity amount yields the investment in contract. Investment in contract describes the present value of the annuitant's income interest in the gift annuity contract.

The final step is to calculate the charitable deduction itself. The charitable contribution equals the funding amount of the gift annuity minus the investment in contract calculated in line 8. Another way to look at is that the deduction is what you give minus what it's worth to you.

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