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Also known as the AFR or Applicable Federal Rate, the IRS discount rate is used to determine the charitable deduction for many types of planned gifts, such as charitable remainder trusts and gift annuities. The rate is the annual rate of return that the IRS assumes the gift assets will earn during the gift term.

The IRS discount rate is published monthly. It is announced on about the 20th of the month that precedes the month to which the rate will apply. It equals 120% of the annual mid-term rate, rounded to the nearest 0.2%. The annual mid-term rate is the annualized average yield of treasury instruments over the past 30 days that have remaining maturities of 3-9 years.

The higher the IRS discount rate, the higher the deduction for charitable remainder trusts and gift annuities, and the lower the deduction for charitable lead trusts and retained life estates. Fluctuations in the IRS discount rate affect unitrust deductions far less than annuity trust and gift annuity deductions. IRS discount rate fluctuations don't affect pooled income fund deductions.

You will find the current available IRS discount rates on the PG Calc web site.

IRS Discount Rate Election Statement

If a donor uses an IRS discount rate that is for either of the two months prior to the month of the gift, she must attach a discount rate election statement to Schedule A of her federal income tax return for the year of the gift. The election must provide specific information required by the IRS. You may produce this election statement within PGM.

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