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The bargain sale ratio is computed whenever a donor funds a gift annuity or bargain sale with appreciated property. It is the fraction of the funding property that the IRS will consider to have been sold to the charity. It also is the proportion of the donor's capital gain in the property that the donor will have to report as capital gain income on his or her tax return.

For example, if a donor funds a \$10,000 gift annuity with property that cost the donor \$4,000 and the donor's deduction is \$7,000, the bargain sale ratio will be $(10,000 - 7,000)/10,000 = 0.3$. The donor's reportable capital gain will be $0.3 \times (10,000 - 4,000) = \$1,800$.

In the case of a gift annuity, the sale price equals the annuity funding amount minus the donor's charitable deduction. This difference is also called the investment in contract.

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