

[admin](#) - Fri, 1/17/2014 - 11:58

A deferred gift annuity is a simple contract between the donor and the charity.

In exchange for an irrevocable gift of cash, securities, or other assets, the charity agrees to pay one or two annuitants a fixed sum each year for life, with payments starting at least one year after the gift. The annuitants typically are the donor or the donor and the donor's spouse. The older the annuitants are at the time of gift and the longer payments are deferred, the greater the fixed income the charity can agree to pay. The donor receives an income tax deduction for the difference between the amount transferred and the value of the annuity, subject to IRS 30%/50% limitations. The donor's deduction must be at least 10% of the funding amount.

In most cases, part of each payment is tax-free, increasing each payment's after-tax value. If the donor gives appreciated property, the donor will pay capital gains tax on only part of the appreciation. In addition, if the donor is also the primary annuitant, the capital gains tax will be spread out over the donor's life expectancy and the first installment will not be due until the donor receives the first annuity payment. If the donor were to sell the appreciated asset instead, all of the capital gains tax would be due in the year of the sale.

Payments may be made in annual, semiannual, quarterly, or monthly installments.

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