admin - Thu, 1/16/2014 - 14:20

Sometimes called a “Tuition Assistance Plan,” a commuted payment gift annuity is a simple contract between the donor and the charity.

The commuted payment gift annuity is really a modified deferred gift annuity. 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 contract includes language, however, that gives the annuitant the option to commute the lifetime of payments to a fixed number of payments of equivalent value. The annuitant may commute the payments immediately or at any time prior to the date of first payment.

The annuitant is typically the donor's child or grandchild, who is expected -- but not required -- to use the commuted payments to pay tuition. As a result, payments are usually commuted to 4-5 years of payments. 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.

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 need to report only a portion of his capital gain in the property. If the donor is not the primary annuitant, which is usually the case, he will need to report this capital gain in the year of the gift. PGM assumes that the donor is not the annuitant when performing commuted payment gift annuity calculations, so it always shows all reportable capital gain as reportable in the year of the gift.

Notes

· The IRS discusses aspects of the commuted payment gift annuity in GCM 39826General_Counsel_Memorandum_39826 and PLR 9108021LTR_9108021.

Print
Categories
Charitable Gift Annuity