

[admin](#) - Wed, 1/8/2014 - 13:57

Conventional wisdom says that it is always best to use the highest available discount rate when calculating a life income gift deduction since this maximizes the donor's deduction. Using the highest discount rate also minimizes the tax-free portion of a gift annuity's payments.

Regardless of which benefit your donor wishes to maximize, the effects of changing the discount rate are modest. In most cases, the spread between available rates is usually less than 1%. For example, the difference in the calculations for a 75 year-old donor who funds a gift annuity with \$10,000 cash that will pay him \$580/year in quarterly installments is:

| <b>Discount Rate</b> | <b>Deduction</b> | <b>Tax Free Portion</b> |
|----------------------|------------------|-------------------------|
| 2%                   | \$4,426          | \$450                   |
| 3%                   | \$4,791          | \$420                   |

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