

The Basics of Charitable Gift Annuities

As its name suggests, a charitable gift annuity (CGA) consists of two elements: 1) an outright charitable gift, and 2) the purchase of a fixed income annuity contract. The donor transfers assets to a charitable organization which provides a fixed annuity payment, usually monthly or annually, for the lifetime of a beneficiary, who is often the donor himself/herself. At the termination of the annuity payments, the charity retains the balance of the principal. Payments can begin immediately or can be deferred. The payment period can be measured by one annuitant's life (who in most cases is the donor) or by the lives of two joint and survivor annuitants (who are usually husband and wife).

The donor is entitled to a charitable contribution deduction for income tax purposes. One of the advantages of CGAs is the way in which the annuity payments are only partially taxable with some of each payment being considered a tax-free return of principal. Although there are some complicated tax and return calculations needed to set up the CGA, the charity usually does all the work and once it's up and running, it's quite simple.

Unlike charitable remainder trusts or pooled income funds where the obligation to make payments is limited solely to the contributed assets or a segregated fund, a charitable gift annuity is considered a general obligation of the issuing charitable organization. By the way, Interfaith Community Services utilizes the services of the Community Foundation of Southern Arizona when a donor chooses to use this planned giving vehicle.

For more information on including ICS in your estate planning, please contact **Bonnie Kampa** at **297-2738 x212**.

(Article submitted by Doug Haynes, Financial Advisor, Merrill Lynch.)