BNY MELLON
WEALTH MANAGEMENT

Charitable Gift Annuities

Defined

A Charitable Gift Annuity (CGA) is a simple contract under which a charity agrees to pay a fixed sum of money for a period measured by one or two lifetimes in return for an irrevocable transfer of cash or other property.

Types

Standard

Payments begin immediately.

Deferred

Payments begin at least one year after the gift is made, with the date of first payment and payout rate specified at the time the gift is made.

Flexible Deferred

A schedule of start dates and respective payout rates is established when the gift is made. The beneficiary elects for payments to commence on a date on the schedule with a pre-established amount of advanced notice.

How It Works

The donor transfers cash or property to the charity in return for a promise by the charity to pay an annuity to the donor or another individual for life. Unlike a charitable remainder trust, the contributed assets are not held in trust. The annuity is a general obligation of the charity, meaning that the entire assets of the charity are subject to the annuity obligation.

The CGA is treated partially as the purchase of an annuity and partially as a charitable contribution. To reflect the gift element, the annuity rate of the CGA is lower than the rate paid on a commercial annuity. The charity decides the rate it will pay, and most organizations set the payout rate so that the residual gift to charity is approximately 50% of the amount donated.

Tax Considerations

1. The donor is allowed to take an income tax charitable deduction for the excess of the cash or value of property contributed to charity over the fair market value of the annuity.

2. The transfer of property in exchange for a CGA is treated as a bargain sale. The cost basis of the property is allocated between the sale portion and the gift portion. The gain recognized on the sale portion of the transfer can be reported ratably over the donor's life expectancy if (1) the annuity is non-assignable or assignable only to the charity and (2) the donor is one of the annuitants.

3. A portion of the annuity payment is reported as ordinary income and a portion is treated as non-taxable return of principal. If property is contributed in return for the annuity, a portion will also be reported as capital gain. Once the the sale portion's principal has been fully returned, the entire annuity is taxed as ordinary income.

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Advantages	Considerations
All CGA Types • Simple to establish and low administrative costs	• Payments are backed by the finances of the charity
• CGAs typically can be funded with smaller amounts than trusts	• Designating a CGA to fund a gift at termination is risky as the residuum is uncertain
• Tax benefits: Deferred capital gains, charitable deduction	• Most suitable for older donors, although deferred annuities may be attractive to younger individuals wishing to supplement their retirement income
Deferred/Flexible • Deferring the start of payments can increase the payout	
• May be used as a planning tool by the donor if the payment will replace a current stream of income that will cease on a specific date	
• The beneficiary may choose the date that payments begin	

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