How a Charitable Gift Annuity Works

The donor transfers an asset to a charity and each year thereafter receives an annuity, i.e. a payment in a fixed dollar amount. The annual payment is set at the time the gift is made. A current income tax deduction is also available.

DONOR

- Transfers asset to charity.
- Receives annual payout.[1]
- Receives income tax deduction.[2]

Asset →

← Annual Annuity

← Income Tax Deduction

CGA

- Charity sells asset and reinvests for greater return.
- Charity pays no capital gain tax on the appreciation at the time of sale.[3]
- Charity pays a fixed dollar amount, established at time of gift each year for lifetime of beneficiary.

When the donor or other named beneficiary dies, the charity has no further financial obligations to pay.

[1] Annuity payments are part return of principal (nontaxable), part ordinary income and (if any) part capital gain. Once a donor has recovered his or her basis, the annuity payments are fully taxable.

[2] This deduction may have to be spread over more than one year if it exceeds certain percentage of income limitations.

[3] If certain requirements are met, the donor may recognize any capital gain ratably over the time period the annuity is expected to be received. Otherwise, the donor must recognize all capital gain in the year the annuity transaction is entered into.

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