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# Charitable Gift Annuity

Prepared for: Sample

Prepared by: Brentmark

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# Charitable Gift Annuity

Transfer Date:	10/25/2022
§7520 Rate:	4.00%
FMV of Trust:	\$10,000,000.00
Contributions:	1
Lives:	2
Birthdates:	5/4/1958, 6/1/1963
Use Recommended Payout Rate?:	Yes
CGA Effective Date Used:	7/1/2022
Recommended Rate:	4.000%
Payment Period:	Annual
Apply §7520 Exhaustion Test:	No
Prorate First Payment?	Yes
Mortality Table:	2010CM
Cost Basis:	\$1,250,000
Charity Type:	50%
Capital Gains Rate:	15.0%

## FEDERAL TAX CONSEQUENCES

Annual Annuity = 4.000% x \$10,000,000:	\$400,000.00
Two-Life Annuity Factor:	16.1213
Payment Period Adjustment Factor:	1.0000
Present Value of Annuity	
= Annual Payout x Factors + First Payment	
= (\$400,000 x 16.1213 x 1.0000) + \$400,000.00:	\$6,848,520.00
Charitable Remainder	
= FMV of Property - PV of Annuity	
= \$10,000,000 - \$6,848,520.00:	\$3,151,480.00
Charitable Deduction for Remainder Interest:	\$3,151,480.00
Table VI Multiple:	28.6
Adjustment to Multiple:	0.5
Expected Return	
= Annual Annuity x (Multiple with Adjustment)	
= \$400,000 x (28.6 + 0.5):	\$11,640,000.00
Exclusion Ratio = \$6,848,520.00 / \$11,640,000.00:	58.8%
Annual Excludable during Donor/Annuitant Life Exp.	
= \$400,000.00 x 58.8%	\$235,200.00
Annual Taxable Portion = \$400,000.00 - \$235,200.00:	\$164,800.00

## 90% TEST

PV of Annuity/FMV of Property = \$6,848,520.00 / \$10,000,000.00:	68.5%
The Annuity Passes the 90% Test.	

## DONOR'S SEPARATE APPRECIATED PROPERTY

Donor's (5/4/1958) Expected Return Multiple:	21.3
Percentage of Cost Basis Allocable to Value of Annuity:	68.5%
Cost Basis Allocated to Value of Annuity:	\$856,250.00
Amount of Capital Gain:	\$5,992,270.00
Annual Excludable during Donor/Annuitant Life Exp	
= Annual Capital Gain Amount + Annual Tax Free Amount	
= \$235,200.00 + \$0.00:	\$235,200.00
Annual Amount Taxable as Ordinary Income:	\$164,800.00
Final Capital Gain in Reporting Year:	\$112,270.00

## JOINT OR COMMUNITY APPRECIATED PROPERTY

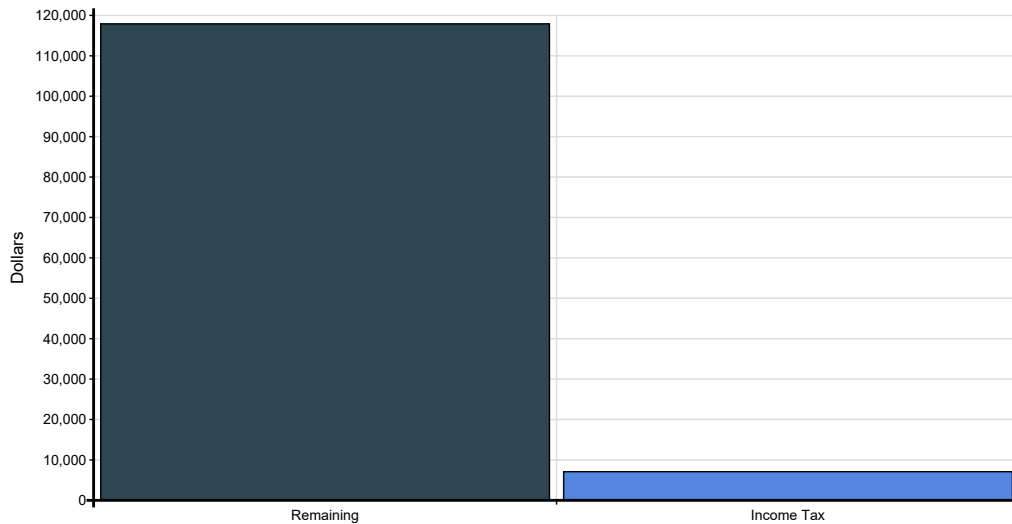
## Charitable Gift Annuity

Joint Expected Return Multiple:	29.10
Percentage of Cost Basis Allocable to Value of Annuity:	68.5%
Cost Basis Allocated to Value of Annuity:	\$856,250.00
Amount of Capital Gain:	\$5,992,270.00
Annual Excludable during Donor/Annuitant Life Exp	
= Annual Capital Gain Amount + Annual Tax Free Amount	
= \$205,919.93 + \$29,280.07:	\$235,200.00
Annual Amount Taxable as Ordinary Income:	\$164,800.00
Final Capital Gain in Reporting Year:	\$20,592.03

# Charitable Gift Annuity: Income Tax Summary

## Income Tax Summary for 2022

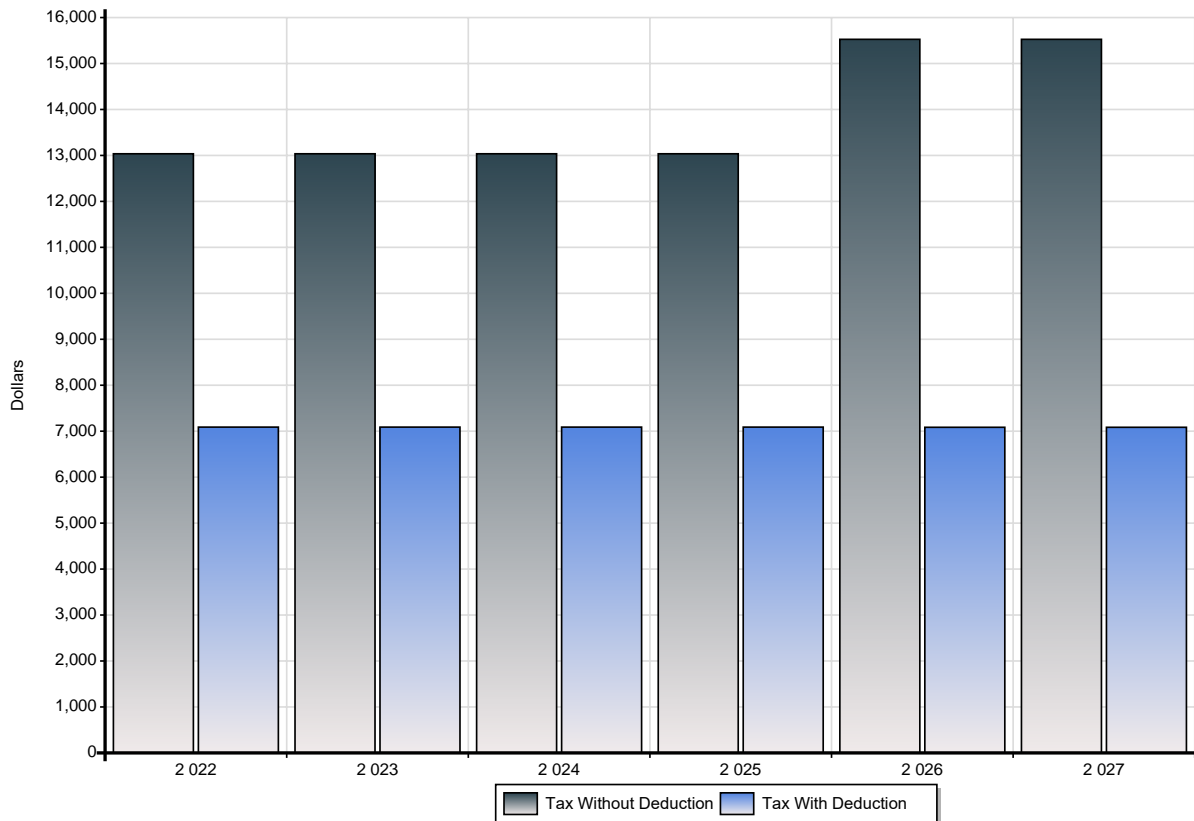
Inflation Rate:	0.00%
Adjusted Gross Income:	\$125,000.00
Itemized Deductions:	\$0
Filing Status:	Joint
Age:	64
Age of Spouse:	58
Long-Term Capital Gain:	\$0
28% Rate Capital Gain:	\$0
Qualified Dividends:	\$0
Unrecaptured §1250 Gain:	\$0
Adjusted Gross Income:	\$125,000.00
Deductions:	<u>\$62,500.00</u>
Taxable Income:	\$62,500.00
Tax Due:	\$7,089.00
Effective Average Tax Rate:	5.67%
Effective Marginal Tax Rate:	12.00%
Regular Standard Deduction:	\$25,900.00
Additional Elderly Deductions:	<u>\$0.00</u>
Standard Deduction:	\$25,900.00
Itemized Deductions:	\$0.00
Charitable Deductions:	<u>\$62,500.00</u>
Phaseout Amount:	<u>\$0.00</u>
Adjusted Itemized Deductions:	\$62,500.00



# Charitable Gift Annuity: Income Tax Savings

## Income Tax Savings Capital Gains Tax Savings: \$1,312,500

Year	Deduction Taken	Remaining Deduction	Tax if No Deduction	Tax With Deduction	Tax Savings
2022	\$62,500	\$3,088,980	\$13,036	\$7,089	\$5,947
2023	\$62,500	\$3,026,480	\$13,036	\$7,089	\$5,947
2024	\$62,500	\$2,963,980	\$13,036	\$7,089	\$5,947
2025	\$62,500	\$2,901,480	\$13,036	\$7,089	\$5,947
2026	\$62,500	\$2,838,980	\$15,526	\$7,085	\$8,441
2027	\$62,500	\$2,776,480	\$15,526	\$7,085	\$8,441



*This scenario is a hypothetical illustration based on the assumptions you entered via the inputs inside the program. It is to be used solely as a conceptual guide to understand and quantify your planning needs. It would be wise to consider this illustration together with all other information you deem necessary in making your investment decisions. This illustration is not a guarantee of the performance of any specific investment. Actual performance from your investments and assets may vary. This illustration is not legal or tax advice. You should consult with your attorney and accountant to review this information and determine its appropriateness for your particular situation. The provider of this illustration provides no guarantee and assumes no responsibility or liability for the accuracy of the information provided (including whether the interest rate you have selected is in fact "reasonable") or for your reliance based on this information.*

# Charitable Gift Annuity

A Charitable Gift Annuity donor transfers money or other property to a qualified charitable organization in return for the charity's promise to pay the donor or another fixed and guaranteed payments for life. This transfer is part charitable gift and part purchase of an annuity. For capital gain purposes, the program assumes that the donor is the annuitant.

The program uses various Assumptions and Limitations to perform this particular calculation. Please see the end of this report to see these.

In terms of its calculations, the gift annuity is more complicated than any other split-interest charitable methods. The program calculations were designed based on research that consulted several sources. In particular, see **Deferred Giving** by Conrad Teitell and publications furnished by the Committee on Gift Annuities: Tax Implications of an Annuity Gift, and Deferred Gift Annuities.

Calculations will vary depending upon whether an annuity is considered to be immediate (the first payment date is one year or less from the transfer date) or deferred (the first payment date is more than one year after the transfer date). The program automatically handles the different calculation methods for immediate and deferred gift annuities.

The Committee on Gift Annuities recommends the use of its uniform gift annuity rates. These recommended rates are revised from time to time by the Committee. The recommended rates are intended to produce, on the average, a gift to the charitable organization of approximately 50% of the amount transferred to the charity. The uniform rates used by the program were adopted by the Conference on Gift Annuities on November 8, 2019. As recommended by the Committee, the recommended rates for immediate annuities are also adjusted by a uniform interest factor for deferred annuities.

The program performs a 90% test to see whether the annuitant's investment in the contract equals or exceeds 90% of the principal. Less than 90% passes the test. If the test is failed, the charity will be taxed on income from the transferred property as unrelated business taxable income. The program handles Federal income tax consequences including capital gain treatment and partial payment years. Table V Expected Return Multiples ( Reg. § 1.72-9) and appropriate adjustment factors are applied by the program to determine an exclusion ratio. The program, to determine the amount of the annual annuity that is excludable for income tax purposes as well as the amount that is taxable, uses this ratio. The printed report also shows detail for any partial payment that may occur in the year of first payment. If the fair market value of the property transferred exceeds the cost basis, the capital gain consequences are indicated. The printed report shows greater detail including any capital gain when there is a partial payment in the year of the first payment as well as the capital gain for the final reporting year.

## **Assumptions and Limitations**

For capital gains calculations, the program assumes that the gift annuity is not assignable and that the donor is the annuitant. This results in the gain being reportable over the donor's life expectancy. If the donor is not the annuitant, the capital gain must be reported in the year of the transfer.

For a deferred gift annuity, the capital gain would not be reportable until payments start if the donor is the annuitant. At that time, the capital gain would be reportable over the donor's life expectancy using the expected return multiple in effect will be the current one. If the donor is not the annuitant, the capital gain must be reported in the year of the transfer. When the Transfer Date, the amount of the first payment is added to determine the Present Value of the Annuity. If the first payment is not prorated and occurs before the normal interval, the program increases the Present Value of the Annuity by the difference between the actual first payment and what would have been the prorated amount.

The expected return multiple is required to be adjusted in certain cases. This adjustment factor is used when the payment is not monthly. Teitell's material refers to this factor as the Table 9 value and the Committee on Gift Annuities materials refers to it as their Schedule 3A value. These adjustment factors are the same as found in Treas. Reg. §1.72-5(a)(2)(i). The regulations base the selection of the adjustment factor on number of whole months from the annuity starting date to the first payment date. If this is read literally, one might argue that a period from February 1 to April 1 is two full months, but that a period from February 1 to March 31 is only one full month. However, in the gift annuities area, the position taken is that both of these periods comprise two full months. Therefore, the program measures full months by allowing one month less a day to qualify as a full month.

The program performs a deferred annuity calculation when the first payment date is more than one year after the transfer date. It performs the immediate annuity calculation when the First Payment Date is no more than one normal interval (as measured in full months) after the Transfer Date. This leaves a gray area where the program will not perform a

# Charitable Gift Annuity

calculation. Therefore, the program will not calculate in the following cases: semiannual payments where the First Payment Date is not less than 7 full months after the Transfer Date, quarterly payments where the First Payment Date is not less than 4 full months after the Transfer Date, and monthly payments where the First Payment Date is not less than 2 full months after the Transfer Date.

Several calculations depend on the age of a person on some given date. As per IRS rules, the age is based on the age as of the nearest birthday. The program uses the age of the birthday within 183 days. If two birthdays fall within 183 days, the program uses the later one.

In prorating the first payment for short interval periods, the program bases the proration on actual days. Other methods of proration are equally valid.