Is There Life in Life-Income Gifts?

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The new tax law, which went into effect January 1st, has prompted a lot of discussion about the impact it will have on charitable giving. Of course, there's no way to fully predict how donors will react to the changes in deductions (standard and itemized) and reduced tax brackets. But somewhat lost in the conversation has been the wide variety of other benefits that lead donors to make a charitable gift in a particular way.

So let's take a look at those benefits in the context of charitable gift annuities (CGAs) and charitable remainder trusts (CRTs):

- **Increased cash flow**
  Common assets used to fund a gift annuity are from savings, CDs, or long-term appreciated stock. What quality do they share? They are usually not generating much in interest or dividends. While the assets for funding a CRT might be more complex, including real estate, just as with the gift annuity a focus for the donor is increasing the cash flow from the contributed asset.

- **Tax free payments**
  This primarily relates to gift annuities, since it's difficult to get to the tax-free tier for CRTs. For someone wanting to increase cash flow, it's an added benefit when part of that payment is tax-free. As has always been the case for a non-itemizer, and going forward for those donors who will no longer itemize under the new tax law, it will be better to use the lowest of the three monthly discount rates to maximize the tax-free portion.

- **Capital gains tax avoidance/deferral**
  When an appreciated asset owned long-term (i.e. one year or longer) is contributed for a gift annuity or CRT, none of the gain will be taxed upfront (assuming, in the case of the annuity, that the donor is also the annuitant). With

a gift annuity the gain attributable to the charitable portion of the gift is completely avoided. The remaining gain attributable to the annuity is reported ratably through the annuity payments over the life expectancy of the annuitant. In the case of the CRT, the payments are most likely going to be taxed in a combination of ordinary and capital gain income; the biggest advantage in contributing appreciated assets is that the full amount of the contribution can be reinvested, rather than being reduced by an upfront tax on the gain.

- **Income tax deduction**
  Many donors who contributed for a gift annuity previously weren't utilizing the charitable deduction, instead choosing to maximize their tax-free payment. With the increase in the amount of the standard deduction, there will likely be an increase in non-itemizers, particularly for smaller contribution amounts. But for larger gift annuities, and in most if not all instances of establishing a CRT, the charitable deduction will likely "boost" the donor into a situation where itemizing will provide more tax benefit than using the standard deduction.

The main driving force in any gift is the donor's charitable intent. But other considerations help determine the type and timing of the gift. Though more donors may be using the standard deduction, there are still plenty of advantages for them with a life-income gift. And, in the case of a larger contribution amount, they may be in a position to make use of the charitable deduction as well.