



## Calculating the Additional Deduction after Renouncing a Life-Income Interest

Occasionally, an income recipient will reassign the income interest in a life income gift. In this situation, the income recipient has made a charitable contribution equal to the value of the income stream he has renounced, and therefore can claim a charitable deduction for that amount. (If the renunciation is for a deferred charitable gift annuity see the help topic, Calculating The Deduction When Beneficiaries Of A Deferred Charitable Gift Annuity Renounce An Income Interest.)

1. Use Program 1, *Deduction Calculations and Narratives*.
2. Select the *Non-Charitable Interest Dollars* chart.
3. In *Gift Date/IRS Discount Rate*, enter the date on which the severance becomes effective. Use the **lowest** discount rate available to maximize the charitable deduction.
4. Enter birthdays in *Lives and/or Fixed Term* on the date of renunciation.
5. If the gift was a gift annuity or charitable remainder annuity trust, the *Principal* should be the same as when the original gift was made. If the gift were a charitable remainder unitrust or pooled fund enter as the *Principal* the value of the unitrust assets/pooled fund units on the date of reassignment rather than on the date of gift. (The cost basis is irrelevant for this calculation.)
6. The payout amount, payment frequency, and timing should be the same as the original gift. If the gift was a pooled income fund, enter the pooled fund's valuation rate on the date of reassignment as the highest return of the last three years.
7. Click *View* to see the *Non-Charitable Interest Dollars* chart. The number on this chart is the value that the income beneficiary can claim as a charitable income tax deduction. The income beneficiary is entitled to this deduction even if he was not the donor who funded the original gift.

Note: Some practitioners feel that in the case of a gift annuity only, the contribution would equal the unrecovered investment in contract rather than amount computed by following the steps above.

Consult the On-Line Help system in PGM/Mini for more information on this topic by clicking *Help* in the menu bar, then *Index*; type "*income interest*" into the word field, click on "*Calculating the value of,*" and then "*Display.*"

If you have additional questions about this or any other topic relating to PG Calc software or services, please call Dyke Tilt, Jeff Lydenberg, Nancy Cioto or Bonnie Weinberg in PG Calc Client Services at 888-474-2252 (888-4PG-CALC).