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# A Win-Win Situation: How Charitable Gift Annuities Provide Benefits for Both Donor and Recipient

By: Alexis B. Crutchfield

Are you looking for a way to decrease your income tax obligation after retirement while supporting your alma mater or a favorite charity? A charitable gift annuity may be the right answer for you.

The American Council on Gift Annuities defines a charitable gift annuity as a contract in which the donor gives cash, marketable securities, or other assets, and in return, the charity agrees to pay the donor a fixed amount each year for the donor's lifetime. Charitable gift annuities have been around for years, but as of December 2022, any eligible retiree can now fund these annuities from their individual retirement account (IRA).

Congress recently passed the Secure Act 2.0 that now allows retirees age 70½ and older to make a one-time donation of up to $50,000 to fund one or more gift annuities to any eligible charity or college of their choice while also receiving a fixed income until death. Any remaining assets in the annuity after the retiree's death go directly to the charity. According to the American Council on Gift Annuities, the maximum suggested annuity rates range from 5.4% to 9.7%. For instance, the rate for someone 80 years old when starting the annuity is 7.6%, while the rate for someone 85 years old is 8.7%.

At age 73, retirees must withdraw a certain amount of money each year from their IRA, also known as required minimum distributions (RMD). However, any qualified charitable donation, now including charitable gift annuities, can count toward those RMDs. Typically, an RMD is subject to income tax, but the annuity contribution will be tax-free for the year the donation was made. Those who may not need all of their RMD for living expenses can start a charitable gift annuity, receive an attractive lifetime rate, support their chosen organization, and lighten their tax burden for that year.

Charities and universities are embracing the new IRA change with open arms. With an estimated $12.5 trillion being held in IRAs, the Secure Act 2.0 has opened the door for more opportunities to donate to charities.

## Are there any limitations to funding gift annuities from IRAs?

A donor can only make a one-time donation of up to $50,000. The donation can be made into one annuity or fund several smaller annuities, but the aggregate cannot exceed $50,000. The annuity can only be paid to the donor and spouse, and payments must start within a year of funding the annuity. A spouse can also make a one-time donation of up to $50,000 from their respective IRA, which does not have to be in the same year as the donor.

There are several strategies available for people to take when planning for retirement and more importantly, when planning for any tax liability. Charitable gift annuities can be a part of that strategy for certain individuals, where both the donor and recipient benefit — a win-win situation.

*If you have questions regarding the Secure Act 2.0 or how to fund a charitable gift annuity, contact Alexis Crutchfield or a member of our estate planning team for more information.*