Charitable Giving Technique: Charitable Gift Annuity or Pooled Income Fund

What It Is:

Either a charitable gift annuity or a pooled income fund allow you to convert assets into income by transferring assets to a charity in return for a promise to receive an annual income from those assets.

How It Works:

- **Charitable Gift Annuity:** A charitable gift annuity is a simple, contractual agreement between a donor and a charity, through which assets are transferred to the charity in return for the charity's promise to pay the donor an annual income. There is no trust involved. Instead, through a contractual agreement, in return for the donated property, the charity pays a fixed amount to one or two annuitants (e.g., the donor alone or the donor and spouse) for life. The annuity payments from the charity may begin immediately or be deferred until a future point in time. The amount of the annuity payment is higher for older annuitants and lower for younger annuitants, based on life expectancy. The donor receives an income tax deduction equal to the difference between the fair market value of the donated property and the present value of the income payments. A charitable gift annuity is an attractive way to turn appreciated property into income without the donor being liable for capital gains tax on the appreciation. One potential disadvantage, however, is that unlike a charitable remainder trust, where the property is held in a separate trust, the charity's promise to pay the income from a charitable gift annuity is a general claim against the charity's assets.

- **Pooled Income Fund:** A pooled income fund is a trust maintained by a public charity. Donors contribute assets to this trust managed by the charity and those assets are commingled and managed together with assets donated by other individuals, all of whom have retained an income interest. The non-charitable income beneficiary (e.g., the donor, spouse, other family member) receives a pro rata share of the income earned by the trust for life. When all income beneficiaries are deceased, the remaining property reverts to the charity for its use. The donor receives a current income tax deduction based on the age(s) of the beneficiary(ies) and the fund's rate of return.