



TAX BENEFITS OF GIVING REAL ESTATE

DONOR'S GUIDE



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*I*f you've owned your home or other real estate for a long time, no doubt it has increased in value. What happens if you sell the property?

First of all, the sale is subject to capital gains tax on the property's appreciation. If the property has been your main home for at least two of the past five years, you can exclude up to \$250,000 of gain (\$500,000 for married couples). This opportunity to avoid capital gains tax doesn't apply, however, if the property is a vacation home, land or any real estate other than your primary residence. Plus, there's the cost of marketing and selling real estate, which takes time and effort, even if you use professional assistance.

Before you sell real estate, consider a new option. If you'd like to help fulfill our mission, your property can open the door to a unique giving opportunity: donate the property to us, either now or whenever you no longer need it. You can give the property outright, place it in trust, retain the use of it for life or give it by will. All of these methods



will enable you to enjoy personal financial benefits while supporting our work in a meaningful way.


Let's look at the various federal rules used to figure your tax savings and apply them to certain kinds of gifts to show how you can benefit.

Tax Benefits of an Outright Gift

When you make an outright gift of real property held for more than a year, you obtain an income tax charitable deduction equal to the property's full fair market value. This deduction lets you reduce the cost of making the gift and frees cash that otherwise would have been used to pay taxes.

By donating the property to us, you also avoid capital gains tax on the property's appreciation. Furthermore, the transfer isn't subject to the gift tax, and the gift reduces your taxable estate.

***Example:** Mary gives us a vacation cottage she no longer uses. It originally cost \$50,000 but is now worth \$150,000. She gets a \$150,000 charitable deduction, which represents a tax savings of \$42,000 in her 28 percent tax bracket, and she completely avoids*



tax on the \$100,000 of appreciation. Now she no longer has to maintain the cottage, and the property won't be taxable in her estate.

Your deduction for a gift of appreciated real estate in any year is generally limited to 30 percent of your adjusted gross income (AGI), with a five-year carryover of the unused deduction. If you elect to base your charitable deduction on the cost of the property, this raises your AGI limitation to 50 percent with a five-year carryover, but this has implications for *all* gifts made during or carried over to that year.

For real estate you've held only short term, your charitable deduction is limited to the property's cost basis, but there's still no tax on the appreciation. The deduction may be claimed up to 50 percent of your adjusted gross income, again with a five-year carryover for any excess value.

Your gift is usually effective when a properly executed deed under state law, suitable for recording, is delivered to us. The amount of your deduction for a gift of real estate (if more than \$5,000) must be substantiated by a qualified appraisal of its fair market value.




Give Your Home, But Enjoy Life Use

Let's assume you like the tax advantages a charitable gift of real estate would offer, but you want to continue living in your personal residence for your lifetime. You'd like to retain the right to rent your house or make improvements. You may also want a survivor (perhaps your spouse) to enjoy life occupancy. But, ultimately, you'd like for us to receive the property.

By deeding your home to us now, subject to all these rights, you can still obtain valuable tax savings. This arrangement is called a *retained life estate*. Even though we would not actually take possession of the residence until after the lifetimes of the tenants you've named, you receive an immediate income tax charitable deduction because the gift cannot be revoked. The amount of the deduction depends on the value of the property and your age (and the age of any other person given lifetime use of the property).

Example: *Robert, age 70, gives us the remainder interest in his home, which is currently worth \$200,000. He and his wife, age 69, retain a life estate for their lifetime. After both have passed away,*



we receive the home. Robert is eligible for an income tax deduction of \$64,848 in the year he establishes the life estate. Plus, this gift removes the full \$200,000 value from their federal estate.*

With this kind of gift, you retain the rights and responsibilities of ownership (such as maintenance, taxes, improvements and insurance)—other than disposing of the property after your death. That is, you may continue to live as you have with no interference from us. You may even decide to move out temporarily or permanently. Should you rent the home, all of the rent belongs to you.

You can make a retained life estate arrangement with any personal residence, including a vacation home, a farm, condominium or stock in a cooperative housing corporation (if it's used by you). A farm may include acreage with or without a house.

Obtain a Life Income From Your Gift

Instead of making an outright gift of real property or establishing a retained life estate, you can use unmortgaged property to fund a qualified *charitable remainder trust*. Once the property has been


*based on a 4.6 percent charitable midterm federal rate



transferred to the trust, the trustee can then sell it and invest the proceeds in income-producing securities, which become the source for lifetime income payments to you and any other recipient you name. When the trust terminates, we receive the remainder in the trust. This strategy avoids estate taxes when spouses are the only income beneficiaries.

You can benefit from a substantial current income tax deduction. The amount of the deduction is determined by the age of the income beneficiaries when the trust is created, the value of the trust assets, and the annual percentage or amount to be paid to the income beneficiaries. And when you transfer appreciated property, you won't pay any tax on the capital gain.

***Example:** Sam and Mary, both age 75, establish a charitable remainder trust with real property worth \$250,000. The trustee sells the land, invests the proceeds and pays Sam and Mary 5 percent of the trust's value each year. The first year, they will receive \$12,500 (5 percent of \$250,000). Each year thereafter, they will receive 5 percent of the trust's value (whether the value increases or*



*decreases). They are eligible for an immediate income tax deduction of \$124,948**; plus, the home's value avoids any estate taxes.*

Tax Savings for Partial Use

If you have a home you don't occupy year-round, you can make a deductible gift to us of an undivided interest—allowing us exclusive use of the property for part of each year.

A vacation home can be ideal for this purpose. For example, you could give us a one-half interest. You could continue to use the property for six months of each year while we, as half owner, could use it for the remaining six months. You receive an income tax deduction for the fractional interest contributed to us, based upon its market value. That interest will also escape estate taxes.

You can also give us a remainder interest in the part of the property you retain. Then you receive an additional income tax deduction, based on your age and other factors.

**based on quarterly payments from a unitrust and a 4.6 percent charitable midterm federal rate

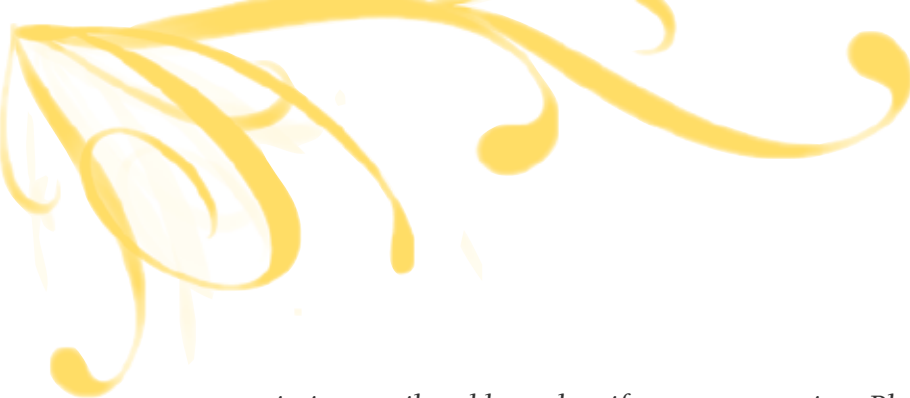


Bargain Sale Tax Benefits

You can sell long-term appreciated real estate to us for less than its value, subject to our consent. This transaction is part gift and part sale. You receive a charitable deduction for the difference between the sale price and the higher fair market value.

***Example:** Ellen sold the home she purchased for \$30,000 many years ago to a charitable organization for the same amount, even though it was really worth \$90,000 at the time of the sale. Her charitable contribution is \$60,000 (\$90,000 fair market value less the \$30,000 sale price).*

Ellen does incur a capital gain in this type of transaction, but it's much less than for a sale at full market value. She is treated as having sold one-third of the property, so one-third of the \$30,000 basis, or \$10,000, is allocated to the sale portion. Therefore, she has a gain of \$20,000 (\$30,000 received from the sale less the \$10,000 basis attributable to the sale portion). However, \$40,000 (\$60,000 gift portion minus \$20,000 allocated basis) of the



appreciation attributable to the gift escapes taxation. Plus, she receives a \$60,000 charitable deduction.

A bargain sale accomplishes the gift *and* provides you with immediate cash, while relieving you of the time, effort and costs of a normal sale.

Giving Real Estate Through Your Will

If making an irrevocable lifetime gift of the property through one of the options we've discussed is not to your liking, consider giving it to us in your will. Because your will is revocable (that is, you can change your mind at any time during your life), you will not be able to take an income tax deduction—but the property will not be taxed as part of your estate.

Through your will, you may also give another person life use before unrestricted ownership passes to us. Or you can bequeath full title to an individual if that person survives you, with our organization as the contingent recipient.

If you don't need to make a new will now for any other reason, ask your attorney to draw up a brief codicil for this purpose.



Suitable Property to Donate

Agricultural land tends to return a low percentage of its market value. This is especially true of absentee-owned land, where the owner's profit is often reduced by tenant shares and farm manager's fees. Also, the profitability varies, depending on the weather and commodity markets. These factors can make agricultural land an ideal charitable gift.

Real property, such as vacant land, has a cost of ownership (property taxes and insurance, for example) with no offsetting return. And a vacation home, that is no longer used enough to justify the investment, costs and responsibilities, may be suitable as a gift.

Also, not all property automatically rises in value. An older commercial building in a declining neighborhood may be worth as much to the donor currently, in terms of the charitable income tax deduction from an outright gift, as it is likely to be worth in the future. Or, it may be used to fund a charitable remainder trust paying an income for life. And developed investment or commercial property may provide significant capital gains tax savings when used to make a gift and avoid potential depreciation recapture as well.



A Summary of the Benefits

A charitable gift of real estate is advantageous for many reasons.

- Either an outright gift or a remainder interest results in valuable income and estate tax deductions, and tax on the capital gain can be avoided.
- A “bargain sale” to us gives you some money back and reduces your capital gains tax exposure.
- A gift in your will ensures that the value of the property will qualify for a charitable deduction for estate tax purposes.
- Giving us outright use of the property now will free you from the responsibilities and costs of looking after it.

Find Out More

You create a tangible and enduring testimonial of your interest in our goals when you give your home or other real property. It’s one of the most fitting contributions you can make. Your personal satisfaction is complemented by significant tax benefits.

You may have questions about appraisals, tax savings and other details. You’ll also want to know which gift arrangement is best for you.



We would be happy to assist your attorney and other advisors in designing the most suitable plan for you. Please call us anytime.

The information in this publication is not intended as legal advice. For legal advice, please consult an attorney. Figures cited in examples are based on current rates at the time of printing and are subject to change. References to estate and income tax include federal taxes only; individual state taxes may further impact results.