Tax Benefits of

GIVING REAL ESTATE

a donor's guide

GIFTS OF REAL ESTATE

Learn about the benefits to you and us.

If you've owned your home or other real estate for a long time, no doubt it has increased in value significantly. 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). However, this opportunity to avoid capital gains tax doesn't apply 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 also 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 opens 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 contribution 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 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, 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 either 30 percent or 50 percent of your adjusted gross income (whichever applies in your case), again with a five-year carryover for any excess value.

Your gift is usually effective when a properly executed and notarized deed, suitable for recording, is delivered. The amount of your deduction for a gift of real estate (if it is 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 life use).

Setting up a retained life estate through us is particularly attractive if you want someone other than a spouse to have use of the property after your lifetime. Leaving a home to a spouse through a will or some form of joint ownership generally does not result in a federal estate tax under current laws. However, if you want one of your children or a relative or friend to live in the home after your lifetime, you may find that a substantial estate tax will have to be paid in order to leave the property to that person.

With this kind of gift, you retain the rights and responsibilities of ownership—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 farm, vacation home, condominium, or stock in a cooperative housing corporation (if it's used by you). A farm may include an 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 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 (without exposure to estate taxes when spouses are the only income beneficiaries).

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

Tax Savings for Partial Use

Say 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 half interest. You would continue to use the property for six months of each year while we, as half owner, would 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.

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 many years ago for $30,000 to a philanthropic institution 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 $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 $10,000 basis attributable to the sale portion). However, $40,000 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 also relieving you of the time, effort and costs of a normal sale.

Keeping Mineral Rights When Giving Real Estate

You can make a partially deductible gift of your entire interest in certain real estate, reserving the right to subsurface minerals and the access to them (but not surface mining rights).

However, there's an important restriction. Your contribution must be to a qualified organization and exclusively for conservation purposes. Otherwise, you won't receive an income, estate or gift tax deduction. Conservation purposes include public outdoor recreation and scenic enjoyment, protection of plant and wildlife habitats, and preservation of historic structures and land.

Giving Real Estate Through Your Will

If making an irrevocable 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 in your estate.

If you wish, you can 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 institution as the contingent recipient. When an individual is given life use, it is best to make it clear that he or she is responsible for maintenance, insurance, repairs and improvements.

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

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.

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 estate. 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 assures 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.