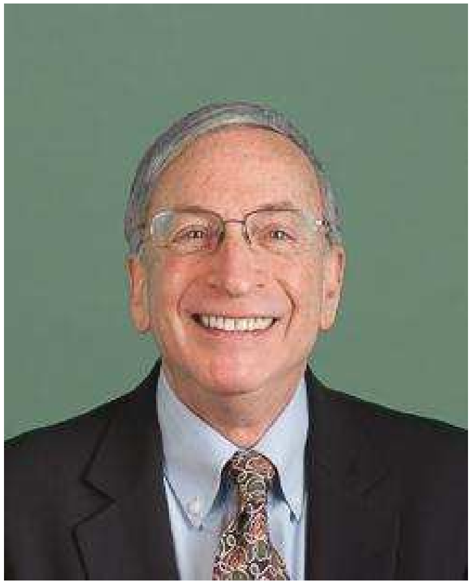
Successfully Navigating Gifts of Real Estate



Date:	March 30, 2017
Time:	1:00 – 2:30 Eastern Time
Presenter:	Mike Valoris Senior Consultant PG Calc

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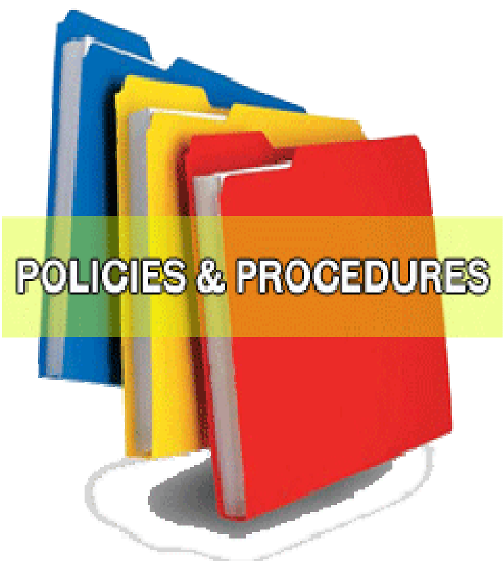
Our Discussion Today

- A different approach to this topic
- Why charities fear gifts of real estate
- Developing an infrastructure
- Due diligence in stages
- Ways to make a gift using real estate
- Promoting gifts of real estate

Developing The Infrastructure

- Why charities fear gifts of real estate
- Create a procedure for when
- a gift is offered
- Drafting Gift Acceptance Policies
- Have a Gift Acceptance Committee
- Steps in the due diligence process

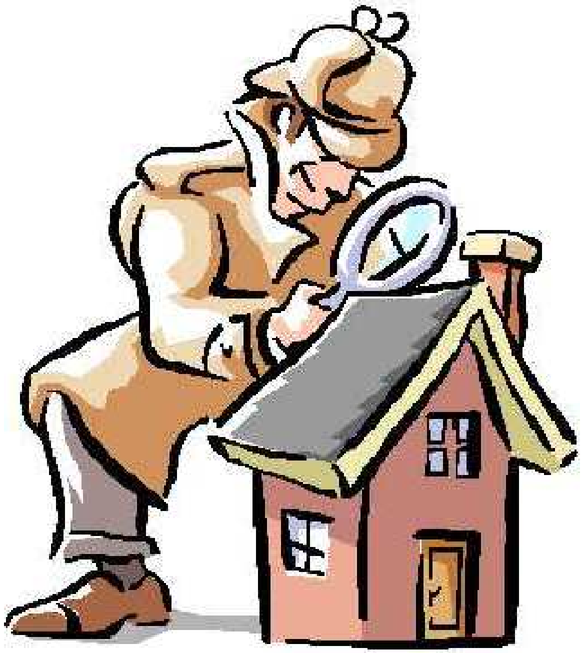


Due Diligence – First Stage

- Staff-driven with minimal costs
- Property questionnaire & property description
- Order a title search
- Local government offices
- Site visit
- On-line databases

Due Diligence – Second Stage

- Retain professionals – incur fees
- Local attorney
- Building inspection and environmental report
- Meeting with real estate agents
- Gift Acceptance Committee



Qualified Appraisal

- IRS requirements – Publication 561
- Time frame
- Who pays for the appraisal
- IRS Forms 8283 & 8282
- Pricing the property for sale

Marketability

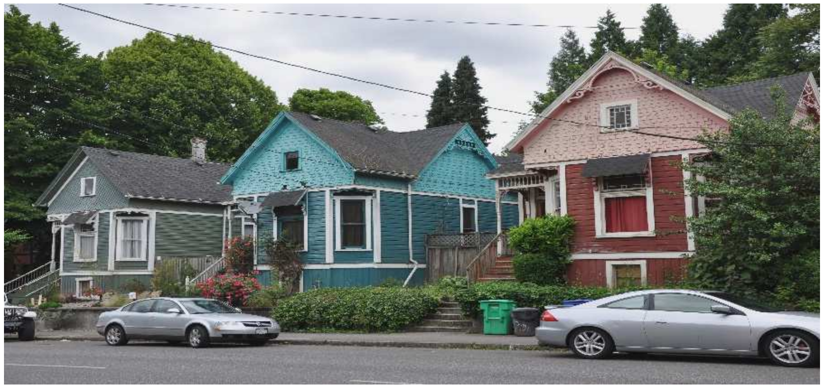
- Meeting with real estate agents
- Competitive market analysis
- Time anticipated to market

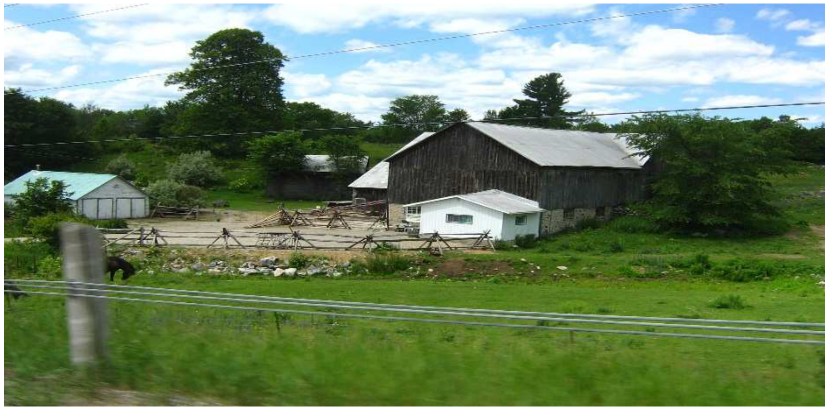
Alternatives to Accepting the Property

- Community foundation
- Another public charity
- Single-member limited liability company

Types of Properties

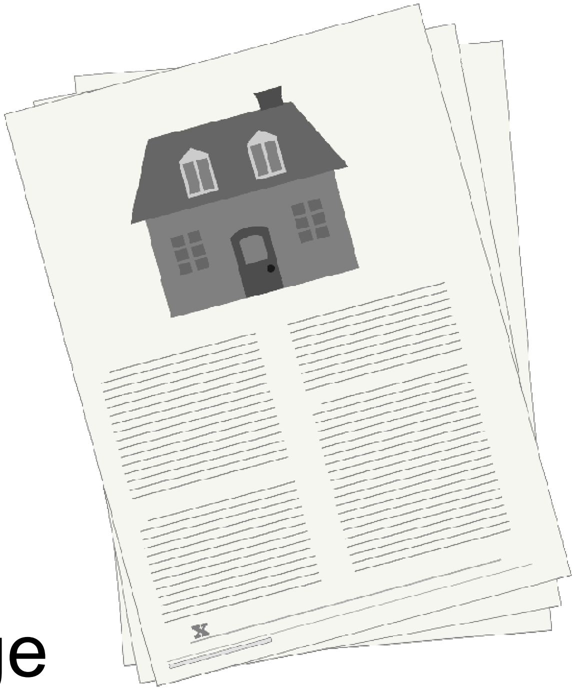
- Undeveloped land
- Single family house
- Apartments/Multi-family
- Farms
- Commercial property
- Condos, Co-ops, Timeshares, Easements
- REITs





Mortgaged Property

- To be avoided if possible
- Reduces the charitable deduction
- Donor may immediately recognize some capital gain
- Ways to get rid of a mortgage



Outright Transfer

- Donor deeds the property to charity
- Deduction for fair market value (FMV)
- Avoidance of capital gains taxes
- Giving vs. selling:
  - a primary residence
  - a vacation home
  - an investment property

Giving vs. Selling: Primary Residence (Ex. 1)

• FMV today	$ 300,000
• Purchase price in 1995	- 100,000
• Capital gain	$ 200,000
• Tax due on capital gain	-0-

- IRS exemption from tax on gain: $250,000/$500,000 (single/married couple filing jointly)
- Donor could sell and give cash

Giving vs. Selling: Primary Residence (Ex. 2)

• FMV today	\$ 600,000
• Purchase price in 1995	- 100,000
• Capital gain	\$ 500,000
• Tax due on capital gain	-?-

- IRS exemption from tax on gain: \$250,000/\$500,000 (single/married couple filing jointly)

Giving vs. Selling: Vacation Home

• FMV today	$ 300,000
• Purchase price in 1995	- 100,000
• Capital gain	$ 200,000
• Capital gain subject to tax:	$ 200,000

- No exemption from capital gains tax for sale of a vacation home
- Give to charity – avoid capital gain taxes

Giving vs. Selling: Investment Property

• FMV	$ 300,000
• Purchase price in 1995	100,000
• Depreciation taken	- 60,000
• Adjusted cost basis	$ 40,000
• Capital gain subject to tax	$ 260,000

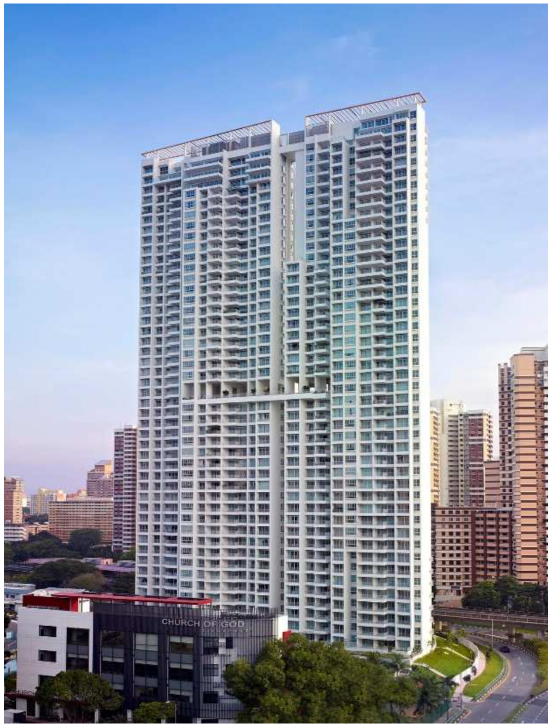
- Tax rate: Capital gain tax rate on appreciation (15% or 20%); 25% tax rate on deprecation
- Give to charity – avoid all capital gain taxes

Bargain Sale

- Sale to charity at bargain price
- Deed plus evidence of gift intent
- Charitable deduction =
  fair market value - sale price
- Cost basis proration
- Installment bargain sale

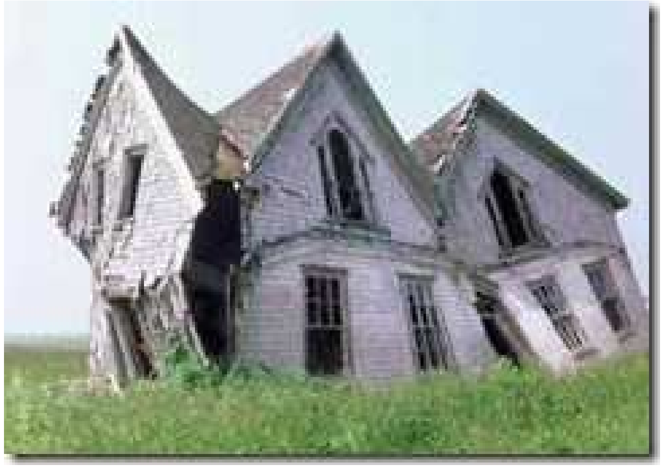
Example: Ms. Decker

- Condo worth: $250,000
- Cost basis: $150,000
- Sale price to charity: $150,000
- Deduction:
  FMV minus sale price = $100,000
- Recognized capital gain: $60,000
  (150,000/250,000) x 100,000



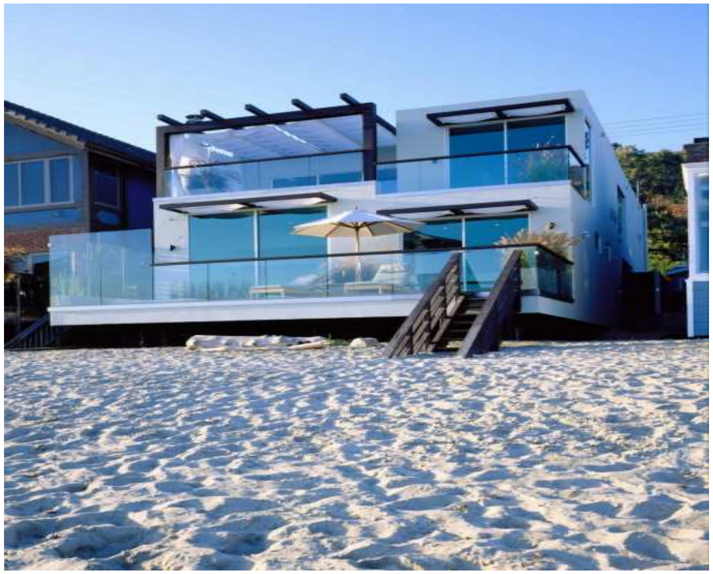
Retained Life Estate

- Which donors like this?
- Personal residence, vacation home, family farm
- Division of responsibilities between donor & charity
- Written agreement with donor
- Risks to the charity
- Termination of a RLE



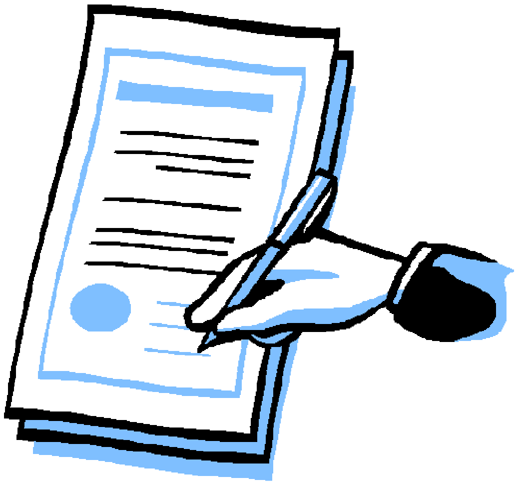
Example: Dr. & Mrs. Smith

- Dr. & Mrs. Smith – age 78
- Shore home FMV $770,000
- Improvements worth $513,300
- Improvements worth $128,300 in 45 years (salvage value)
- $495,695 charitable deduction



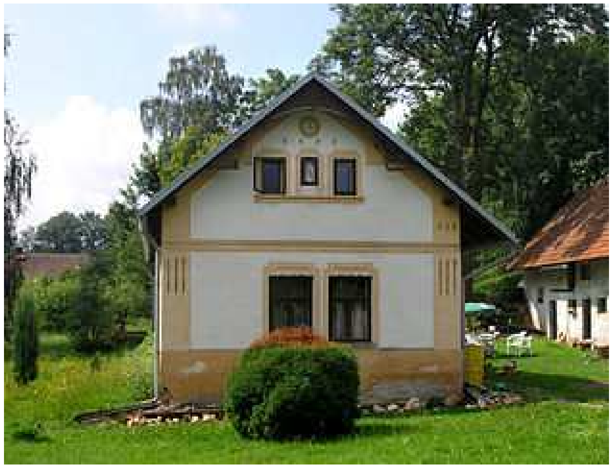
Charitable Remainder Trust (CRT)

- Basics of a CRT
- Types of CRT's
- Flip charitable remainder unitrust (flip CRUT)
- Property deeded to the flip CRUT
- Partial income tax charitable deduction
- Capital gain "postponement"
- Trustee options



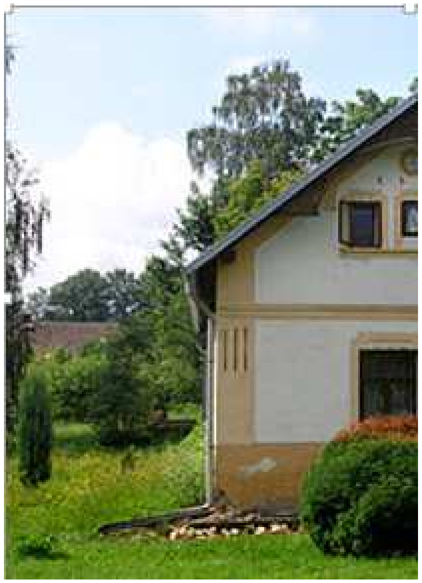
Example: Martha – 100% Deeded to Flip CRUT

- Martha's goals
- Investment property FMV: $450,000
- Cost basis: $175,000
- 100% interest deeded to 5% flip CRUT
- Trust pays no capital gains taxes
- Charitable deduction: $298,417
- Income for life to Martha



Example: Martha – 50% Deeded to Flip CRUT

- Martha's goals
- Mortgage: $50,000
- Investment property FMV: $450,000
- 50% deeded to flip CRUT; Martha owns other 50%
- Charitable deduction: $149,209
- After sale – net at closing: $425,000
  - $212,500 to Martha; $212,500 to trustee



Real Estate to Fund a CGA

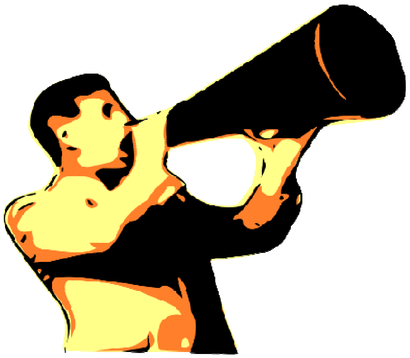
- Risks to charity for funding a CGA w/ real estate
- Qualified appraisal and agreement of gift amount
- Selling expenses/time to liquidate the property
- Lowering the annuity rate vs. lowering the gift amount
- Deferral of annuity payments

Other Ways to Give Real Estate

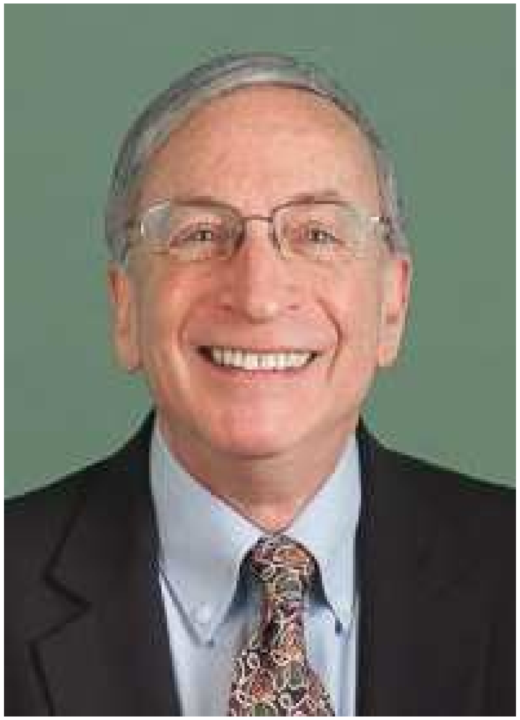
- Real estate to fund a RLE coupled with a gift annuity
- Real estate to fund a charitable lead trust

Promoting Gifts of Real Estate

- Most donors are not aware of this gift option
- Only a small number of donors are candidates
- Be efficient with marketing dollars
- Piggyback on other development marketing
- Give examples of how to give real estate



Questions and Answers



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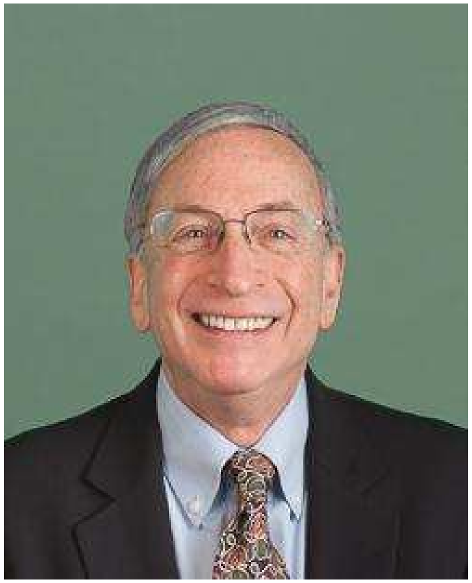

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