

## Ways of Giving Real Estate

### **Outright gift**

- a charity assumes clear title to real estate and sells the property for cash.
- a bargain sale where a donor sells property to the charity for less than market value. This provides the donor immediate cash and a charitable tax deduction for the difference between the property value and cash received.

### **Income stream to donors**

Gifts of real estate made through a Charitable Remainder Trust (CRT) provide payments for a limited number of years, or the life of the donors. There are two basic CRT options:

- **Fixed income option**  
payout is based on a percentage of the initial contributed principle value.
- **Variable income option**  
payout is based on a percentage of the earnings which fluctuate year-to-year.

### **Gift of Remainder Interest**

- does not financially benefit a charity immediately
- the charity receives remainder interest in the property. After death of the donor, the entire value of the property benefits ministry causes.

Benefits include:

- the donor does not pay capital gains tax because no property has been sold.
- the donor receives a charitable contribution tax deduction to counter income tax liability for the present value of the remainder interest.
- the value of the property is no longer included in the estate value.
- donor retains use of property
- at death, a charitable donation is effected
- donor's property is protected from probate

## The Benefits of Giving Real Estate

When giving appreciated real estate held longer than one year:

- get a charitable tax deduction based on the appraised market value.
- valuation is determined by a "qualified appraisal". In order to qualify it must be conducted by a certified appraiser meeting all the IRS requirements. The appraisal must be within 60 days of the sale of the property or the day before the due date of the tax return on which the gift is claimed.



### When Not to Give Real Estate

If market value is less than the amount originally paid plus improvements:

- sell the real estate to take credit for capital loss benefits
- take a charitable deduction based on the cash contributed to the charity.

### Documentation to Prove Gift

- keep all receipts and letters that substantiate deductions.
- refer to IRS publication 526 for details on charitable contributions



### Example

Jim and Donna Smith, age 71 and 69, own five acres of real estate in a growing residential area in Anchorage, Alaska. They paid \$1000 per acre (\$5,000) for the land 50 years ago. According to a recent appraisal, the land is now worth \$40,000 per acre, or \$200,000. To gain income in retirement, they have considered selling the land and investing the net proceeds. Jim and Donna would pay capital gains tax of approximately \$29,250. However, if the property is given through a CRT, proceeds on the increase in value are not subject to capital gains tax. Thus a trust set at a five percent pay out produces initial income of \$10,000, significantly more than reinvesting the after-tax proceeds. The couple is entitled to a charitable tax deduction equal to the appraised value of the land discounted for the present value of future cash flows in the year the CRT is created. The assets in the trust will be free from estate tax and claims of creditors. Most importantly, the balance of funds left in the CRT at Jim and Donna's passing will go to support Christian work they have specified with the charity.



The information presented in this brochure is for informational purposes only, is not to be construed as specific investment advice nor an exhaustive analysis of the topic. Prospective donors should always receive professional counsel tailored to the donor's specific needs and objectives. The Alaska Baptist Foundation assumes no liability, explicitly or implied, resulting from actions taken on the general information provided in this brochure.

Professional consultation is strongly encouraged to avoid tax and legal problems which can occur when property is already obligated to sell before it is transferred to charity, or the property is encumbered with a mortgage or divided interest.

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# Alaska Baptist Foundation



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