

**Are you promoting and accepting gifts of Real Estate?  
"If Not, Why Not?"**

Presented to  
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**Introduction**

**• Common Reasons for not accepting Real Estate**

- Fear
- Liability
- Too complicated
- What do we do with it?
- What if...



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**Introduction**

**Why should Non-Profits accept Real Estate?**

- 43% of Nation's wealth held in Real Estate
- Creates win-win for donors and agencies
- To do otherwise leaves gifts on table for other agencies



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**Who Benefits**

- a. Donor Benefits
  - Short Term
  - Long Term
  - Taxes
  
- b. Agency Benefits
  - Acquiring needed and usable property
  - Increased asset holdings
  - Increased endowments or fund balances



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**Donor Motivation for making gifts of real estate**

- Management concerns for residential
- Management Concerns for commercial property
- Excess corporate real estate holdings



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**Policies and Procedures**

- Acceptable Gifts
  - Raw Land
  - Commercial
  - Single family dwellings
  - Multiple family dwellings
  - Vacation property
  - Farm Land



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**Policies and Procedures**

- Conditions to accept gifts of real estate
  - Outright
  - Deferred
  - Planned Gifts
  - Bequests



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**Policies and Procedures**

- Required process prior to accepting gifts
  - Verify who owns the property
  - Outstanding Mortgages
  - Liens
  - Inspection
  - Phase I, II, or III studies
  - Committee Approval



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**Real Estate Committee or Planned Gifts Committee**

- Include members from real estate community
- Gift acceptance recommendations
- Assist with marketing sale of real property



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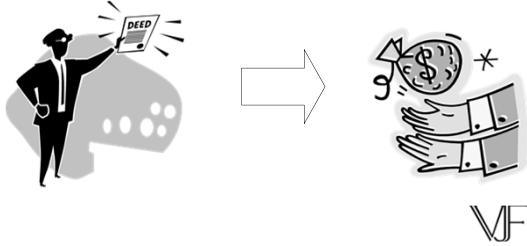
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### Sample gift arrangements using Real Estate

#### Outright Gifts

- Immediate use of real Estate by Non Profit to keep or sell
  - Donor Benefit: Immediate Income Tax Deduction
  - Benefit to Charity: Immediate use of property




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### Sample gift arrangements using Real Estate

#### Bequests

- Policy needed to accept or reject gift
- Policy needed for undesignated gifts
- Donor Benefit:
  - Estate Tax Deduction
  - Leave a Legacy
- Benefit to Charity:
  - Deferred use of property
  - Endowments




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### Blending Gifts-Bargain Sale Example

#### Property Owner Challenges

- Bought Growth Property
- Desire to Sell and Reinvest
- Don't Want to Pay 1/5 In Tax
- Willing to Help a Charity



How to Reduce Tax and Still Reinvest?

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**Bargain Sale Example**  
**Part Gift/Part Sale**

Benefit to Donor

- Income Tax Deduction
- Capital Gain Tax Savings
- Cash in the pocket



Benefit to charity:

- Immediate use of property
- Endowments/capital gifts




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**Bargain Sale Example**

Property Value	\$1,000,000
Cost	\$250,000
	\$750,000

Sale  
\$500,000

Gift to Charity  
\$500,000

Net Benefit to Donor	
Cash to Donor	\$500,000
Tax on Gain	\$56,250
Taxes Saved	165,000
Net to Donor	\$608,750

Bypass Part of Gain Tax  
Income Tax Deduction

Gain on Sale  
Offset By Gift

Cash Plus Net  
Taxes




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**Charitable Trust Example**

Property Owner Challenges

- Bought Growth Property
- Increased Value
- Low Income
- Desires Higher Income
- Don't Want to Pay 1/5 In Tax



How to Reduce Tax and Still Reinvest?




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Charitable Trust Example

Solution: Consider a Charitable Trust

- Bypass Gain
- Increased Income
- Charitable Deduction




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Charitable Trust Example

Donor Ages 75, 73

Property	
Value	\$1,000,000
Cost	\$200,000
	\$800,000

5% Unitrust  
Principal  
\$1,000,000

Charity
\$1,405,960

Tax Free Sale  
Income Tax  
Deduction

Income to  
donor  
\$50,000

Remainder to  
Charity




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Charitable Trust Example

Benefit to Donor:

- Immediate Income Tax Deduction
- Capital Gain Tax Avoidance
- Estate Tax Deduction

Benefit to Charity:

- Deferred use of property
- Deferred Gift
- Endowments/Capital Campaigns




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Charitable Trust Example

Property Value	\$1,000,000
Cost Basis	\$ 200,000
Capitol Gains Savings	\$ 160,000
Income Tax Savings	\$ 165,840
Prior Income	\$ 25,000
Increased Income	\$ 50,000
Unitrust Income (first year)	\$ 70,000
Total Income (18.4 year)	\$1,086,170
Effective Return Rate	5.99%




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Retained Life Estates

Property Owner Challenges

- Own Home
- Plan to Live There
- Donate to Charity
- Can Use Tax Deduction
- Desire Tax Savings




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Retained Life Estates

Consider Retained Life Estates

- Live in Your Home
- Income Tax Deductions
- Substantial Tax Savings




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Retained Life Estates

Donor Benefit:

- Immediate Income Tax Deduction
- Estate Tax Deduction
- Lifetime use of property

Benefit to Charity

- Deferred use of property
- Irrevocable gift arrangement
- Endowments



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Retained Life Estates

Donor – Age 75

Property Building \$400,000 Land \$600,000 Value \$1,000,000	Deed to Charity Reserve Life Use \$1,000,000	Charity \$1,486,000 (Potential Growth)
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One Life

1. Transfer deed to charity and reserve right to use property for one life. Owner pays for maintenance, taxes and insurance.
2. Live in home for one life. Receive a charitable income Tax deduction of \$575,801. Current deduction may save up to \$201,530 in income taxes.
3. After one life, Property transferred to charity. Full charitable estate tax deduction.



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Retained Life Estates

Donor Benefits

Charitable Deduction	\$575,801	
Income Tax Savings	\$201,530	
Remainder	\$1,000,000	



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Variations

Blended Gifts

- CRUT with Insurance Trust
- Bargain Sale with CRUT
- Education CRUT/CRAT
- Retained Life Estate W/CGA
- Current Gift to CGA
- Split interest with CGA




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Variation Charitable Trust W/Insurance Trust

Donor Ages 75, 73

Property Value	\$1,000,000
Cost	\$200,000
	\$800,000

5% Unitrust Principal	\$1,000,000
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Charity	\$1,405,960
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Tax Free Sale  
Income Tax Deduction

Income \$50,000

Remainder to Charity

ILIT Insurance

Insurance Gift to Heirs
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Bargain Sale CRUT Example

Donor Ages 75, 73

Property Value	\$1,000,000
Cost	\$200,000
Gain	\$800,000

Sale \$500,000

Gift to 5% CRUT \$500,000

Net Benefit to Donor	
Cash to Donor	\$500,000
Tax on Gain	\$80,000
Taxes Saved	\$82,500
Net to Donor*	\$502,500

1ST YR Income \$25,000  
Life Income \$543,085

Remainder to Charity	\$704,960
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Bypass Part of Gain Tax Income Tax Deduction

Gain on Sale Offset By Gift

\*Cash Plus Net Taxes




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**Retained Life Estate With CGA**

Donor – Age 75

Property	Deed to	Charity
Building \$400,000	Charity	\$1,486,000
Land <u>\$600,000</u>	Reserve	(Potential
Value \$1,000,000	Life Use	Growth)
	\$1,000,00	

One Life

1. Transfer deed to charity and reserve right to use property for one life. Owner pays maintenance, taxes and insurance.
2. Live in home for one life. Income tax deduction of \$575,801 may be used for \$450,000 CGA may save up to \$64,445 in income taxes.
3. Donor receives \$26,100 annual income;
4. After one life, CGA & Property transferred to charity. Full charitable estate tax deduction.




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**Charitable Gift Annuity Example**

Donor Ages 75, 73

Property Value \$1,000,000 Cost <u>\$200,000</u> \$800,000	4.9 % CGA Principal \$1,000,000	Charity \$1,000,000
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Tax Deferred Sale	Income to	Remainder to
Income Tax Deduction	donor	Charity
Fixed Income Lifetime	\$49,000	
Capital Gain Income		
Income Portion Tax Free		




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**CONCLUSION**

- Don't be afraid to look at Real Estate
- Establish Policies with conditions to accept or reject gifts of Real Estate
- Develop Relationships with Donors and Realtors
- Listen to Client Needs
- Many Charitable Alternatives for Donors
- Opportunities for Real Estate Professionals




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Resources

Real Estate For Charities  
Chase V. Magnuson, President  
Chasemagnuson@msn.com  
[www.realestateforcharities.org](http://www.realestateforcharities.org)  
Phone: 714-815-8889

Realty Restoration Gift Fund  
P.O. Box 22865  
Santa Fe, NM 87502  
714.815.8889 (Direct)  
Chase@realtygiftfund.org  
[www.realtygiftfund.org](http://www.realtygiftfund.org)



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