Gifts of Real Estate

Unlocking the Financial Benefits

Many financial planners would agree that real estate has been a sound investment over the years. Today, many people own long-term, highly appreciated real estate. In addition to a principal residence, they may own a second home or a vacation property they no longer use, or investment property such as condos, apartment buildings or even shopping malls they no longer wish to manage. In many cases, they are looking for tax-efficient ways to pass along the property or convert it into an income stream.

If you are one of these property owners, you may want to consider charitable giving options. Often, you can unlock the earning potential of the property, create tax savings, and at the same time, make a substantial contribution to further our charitable work.

Why a Gift of Real Estate?

Before looking at creative ways in which both you and charity can benefit, consider the real estate you own—a personal residence, vacation home, farmland, rental or investment property, office building, undeveloped land, inherited property—and ask yourself some questions:

- What are your personal and financial goals?
- Do you plan to move or stay in your residence?
- Is the property more than you care to own?
- Are you bothered by the headaches of managing or maintaining the property?
- Is the property generating the rental income you expected?
- If you sell the real estate, will you incur a significant capital gains tax?
- Do you need increased cash flow now?
- Do you want a charitable deduction to help shelter income?
- Do you want to convert the property into an income stream?

Once you have clearly defined your goals, you will be in a better position to select the gift option to best fit your needs. Let's look at some of the possibilities.

Benefits of Outright Transfers

Outright Gifts

When you make an outright gift of real estate, you can claim an income tax deduction for its current fair market value, subject to annual limits on the charitable deduction based on your adjusted gross income. You can claim this deduction in the year of your gift, and you have five subsequent years to claim any excess deduction that exceeds the deduction limit. You also avoid any capital gains tax on a gift of long-term appreciated property (property held for more than one year). Finally, you remove the donated property from your estate, thus bypassing any potential federal estate tax.

Subdividing Property

You may subdivide your property and make an outright gift of one or more of the parcels. You receive an immediate income tax charitable deduction for the gift and retain ownership of the land you wish to keep. The property subdivision option also may be attractive in situations where a gift of the entire property would create an income tax deduction greater than the maximum deduction in the year of the gift.

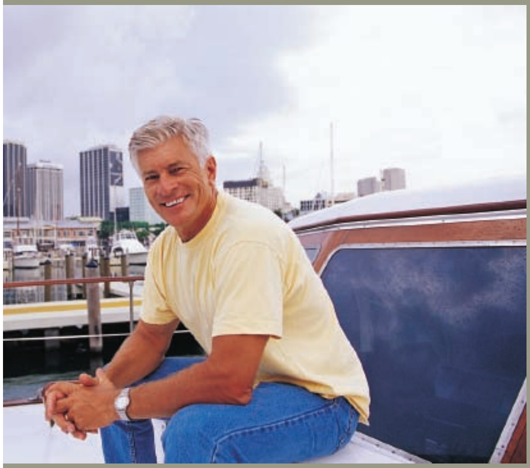
Gift with a Retained Life Estate

Under a life estate arrangement, you retain the right to live in or use the property for the remainder of your lifetime. Upon your death, the property is transferred to us and the gift is completed. A current income tax charitable deduction is allowed for your gift based on the present value of our remainder interest.

Even after you make this gift, you can explore options if you no longer wish to live in or use the property. For example, if you decide later to relocate, you may want to donate your life estate to us, which would generate another income tax charitable deduction.

Gifts through a Will or Trust

You may transfer your real estate to us through your will or trust by designating the property as a bequest. While such a designation does not generate any income tax savings,



bequests to charity from a will or trust can qualify for an unlimited estate tax charitable deduction. You will want to consult your attorney and call us for sample bequest language.

Gifts Providing Income

Donors can also make gifts of real estate through arrangements that pay an income for life or a term of years.

Charitable Remainder Trust

The charitable remainder trust (CRT) is one of the most popular gift planning techniques. By funding a CRT with real estate, you can postpone or spread out capital gains tax liability. The trust invests the proceeds from the sale of real estate in a diversified portfolio of stocks, bonds and other investments. The trust will pay an income to you (and/or others designated by you) for life, or a term of up to 20 years. You receive an immediate income tax charitable deduction for the present value of our remainder interest and reduce your potential estate tax liability by removing an asset from your estate.

Example: Andrew is a 72-year-old widower whose wife had been a generous supporter of our programs and services. Andrew wants to establish a gift in her memory by creating a charitable remainder unitrust funded with commercial real estate. He recently had the property appraised at $400,000. Discussing the matter with his advisor, Andrew admits he no longer wants to contend with the constant maintenance and tenant problems.

Andrew chooses a 5% payout for the charitable remainder unitrust. This means that every year the assets in the trust will be valued, and every year 5% of the value of the trust assets will be his payout. Currently, the commercial real estate generates about $10,000 a year or 2.5% of the current property value. The charitable remainder unitrust payout effectively doubles that return in the first year.

Of course, Andrew receives an income tax deduction for creating the trust. The remainder—or what is expected to be in the unitrust at the end of the trust term—is $222,960.* If deduction limits prevent Andrew from deducting the full $222,960 in a single year, he can carry the deduction forward for up to five successive years.

Andrew originally purchased the property in 1988 for $80,000. If he sold the property, Andrew would have realized a capital gain of $320,000 and paid taxes of up to $76,160. But, transferring the property to a charitable remainder trust does not trigger capital gains.

In establishing the charitable remainder unitrust, Andrew makes a substantial gift in memory of his wife and realizes several benefits:

- Potentially increases his annual cash flow
- Avoids an immediate capital gains tax on $320,000 worth of appreciation when the real estate is transferred to the charitable remainder trust
- Receives an income tax charitable deduction for the remainder interest that generates substantial income tax savings
- Removes a large asset from the potential gross estate for federal estate tax purposes
- Finds relief from the burden of managing the property

Please note that other life income gift plans may be available to you. We'll be happy to help you find the plan that best fits your situation.

**Based on an AFR of 2.4% and an annual payment. This rate changes monthly and will affect the amount of the deduction.*

Installment Bargain Sale

In appropriate circumstances, you may wish to consider selling your property to us for less than its fair market value. Such a "bargain sale" provides you with immediate payment for the sale amount and an income tax charitable deduction for the difference between the purchase price and the fair market value. You also avoid tax on a portion of the capital gain.

This option can be particularly useful if you need cash for a down payment on new property or if you need to pay off debt when you transfer the property.

A bargain sale also may be set up so that you receive both up-front cash and income for life or a period of years. When the charity pays the bargain price in installments, you receive a periodic cash flow and spread your gain over the payout period.

Example: Mary owns 20 acres of unimproved real estate appraised at $500,000. Her cost basis in the land is $100,000 and there is no debt on the property. The location is attractive to our organization as a possible future building site. We agree to purchase the property for $300,000 and to pay that sum in equal annual installments over 10 years. Mary also makes a deductible gift of the remaining $200,000 in value.

In her 33% tax bracket, the $200,000 charitable deduction will result in federal income tax savings of $66,000. Mary's $100,000 basis must be allocated between the gift and the sale portions of the transaction, as in any bargain sale. Here, $60,000 is allocated to the sale portion and $40,000 to the gift portion. Mary's taxable gain on the sale portion is $240,000 ($300,000 sale price minus $60,000 allocated basis). Recognition of this gain for tax purposes is spread over the installment payment period. Mary will receive payments of $30,000 per year, and $24,000 of each payment will represent taxable gain.

What goals have been accomplished? Mary has:

- Converted an unproductive asset into a 10- year income stream of $30,000 per year.
- Secured income tax savings of $66,000 from the charitable deduction for the gift portion of the transaction.
- Avoided incurring a huge capital gains tax in the year of the gift, and spread this liability over 10 years.
- Avoided the legal and administrative expense of setting up a charitable trust.
- Made a significant gift to further our work.

Important Considerations in Planning Gifts of Real Estate

A gift of real estate requires careful planning. In order for us to accept such a gift, the property must be suitable for our use or for sale.

If you are considering a gift of real estate, first consult your advisors (your attorney, accountant, etc.) and then contact our development office. We can discuss the property's suitability and provide you and your advisors with detailed illustrations describing the potential tax savings, available income, and other advantages of any type of gift plan. In addition, we can provide you and your advisors with sample forms and other information helpful to completing your gift.

Some of the key considerations involving a gift of real estate include:

Marketability

Most outright gifts of real estate should be readily marketable so that we have the option of selling the property if that would best serve our charitable purposes. If the gift will fund a charitable remainder trust to provide income for you or your loved ones, a sale of the property may be appropriate if it does not produce rental income. Note: Current law prohibits you from agreeing to sell the property to a third party prior to donating it to us or to a charitable remainder trust.

Professional Appraisal

The Internal Revenue Service requires that a donor obtain an appraisal from a qualified appraiser to substantiate the value of property claimed as the basis for a charitable deduction over $5,000. Aside from meeting the strict requirements for a qualified appraiser under federal law, the appraiser should be independent and familiar with real estate values in your area so that the appraisal is both accurate and current. It is the donor's responsibility to get and pay for the appraisal.

Environmental Review

A gift of commercial real estate often requires at least a preliminary environmental review to ensure that property is not subject to unknown contamination. This may involve a site reconnaissance and inspection of town and state records, securing the services of an environmental testing company or having a survey prepared to determine the boundaries of a property. Gifts of residential real estate usually require a thorough inspection.

Other Considerations

Donated property generally should be free of debts, liens, mortgages, etc. A donor may need to transfer debt to another property or pay it off prior to donation. The property should be properly zoned to assist marketability. The transfer of title usually requires a warranty deed.

Let Us Hear from You

Gifts of real estate offer you the opportunity to make large, meaningful charitable gifts and to enjoy substantial tax and financial benefits. The key is careful planning.

To find out more about the exciting opportunities available to you through a gift of real estate, we invite you to contact our office. Be assured that you can explore the benefits without obligation and that your inquiry will receive prompt and courteous attention.

Tax information provided herein is not intended as tax or legal advice and cannot be relied on to avoid statutory penalties. Always check with your tax and financial advisors before implementing any gift.

Delta Tau Delta Educational Foundation

Steve Vedra
Director of Development

10000 Allisonville Road
Fishers, Indiana 46038

Office: 317-284-0210
Fax: 317-284-0215
foundation@delts.org
www.deltfoundation.org