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You deserve independent advice

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Donating Real Estate to Charities

Donating real estate to a qualified charity can help you accomplish your philanthropic goals without impacting your investment portfolio or your current cash flow. Common property donations include undeveloped land, resort condos, shopping centers, apartments and office buildings. But charities may also be interested in gifts of a primary residence, a vacation house or even foreign property.

Through donating real estate, you can:

- Realize an immediate tax deduction for the appraised value of the property
- Avoid capital gain taxes
- Move highly appreciated assets out of your taxable estate
- Meet your philanthropic goals

Real estate gifts can be complex. Creating a successful gifting strategy includes identifying what you want to accomplish with the gift, how to structure the gift, determining the property's value to the charity, gaining the charity's acceptance of the gift and coordinating the transfer through a team of qualified advisors.

MEETING MULTIPLE GOALS

"Presently, universities and churches have more experience accepting gifts of property," says Charles Magnuson, president of Real Estate for Charities in Albuquerque, N.M. "But more philanthropic organizations are considering real estate as an unrealized funding opportunity, since it represents 50% of the equity Americans own, and only 2% of charitable donations."

While you can make a direct gift by transferring the property title to the charity, donors with multiple goals such as realizing some income, exchanging properties or controlling their donation should consider the following options:

- **Charitable gift annuity.** Place the property in a charitable remainder trust (CRT) with an income-generating portfolio for the donor's life, and the remaining assets going to the charity upon the donor's passing. "Donors interested in recapturing the benefit of a property asset for heirs can use part of the annuity income stream to purchase a life insurance policy," suggests Bernard Rethore, a partner with the Phoenix-based estate planning group Graves and Rethore.

- **Retain a "Life Estate."** Donate property with the condition that you live in the home until your death, or be able to rent it out if you choose to move into a retirement home or assisted-living facility.

- **Bargain Sale agreement.** Sell the property to the charity at a price below its "fair market value." The difference between the market and selling price is the tax-deductible gift value. The donor gets the sale price, reduced capital gains taxes and a charitable deduction. The charity can then sell the property and take the gain, tax-free.

- **1031 Exchange.** Defer the taxes due on the sale of a property by rolling the gains into a new property. It may be most efficient to look for a charity that has a property you are

Continued on page 2

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Continued from page 1

interested in switching for. "Investors who have been using 1031 Exchanges for real estate development, and expect capital gain rates to increase in the next few years, may benefit most by donating property to a CRT," explains Rethore.

- **Donor-Advised Fund.** Transfer the property to a donor-advised fund, receive a tax credit and retain partial control over distribution to the charity.

MARKETING PROPERTY TO A CHARITY

In general, charities want property that they can sell immediately rather than maintain or hold for investment, which subjects them to income taxes on the cash flow from an unrelated business. "Most charities are interested in generating cash for ongoing programs or to meet the current or future needs of the organization," states Magnuson. This minimizes their cost and risk of holding a property that may lose value.

"Current estimates suggest that 80% of all real estate offered to charity is rejected," says Magnuson. He explains that some charities do not have the expertise or cannot afford to accept property donations, while others are concerned about the risk of accepting property that is expensive to hold, difficult to value, debt-encumbered, environmentally challenged or has title issues.

Your best option may be to select a charity with experience accepting property gifts. It is also important to consider how your property can meet their unmet needs. Charities may be more receptive to discussing a gift of property if you provide a complete proposal that describes your gift and the way you intend to give it. Magnuson suggests that a letter of "Intent to Donate" accompany the following documents:

- Legal description of property
- Valid "fair market value" appraisal
- Property tax assessment
- Income and expenses for investment property
- Lease documents
- Copies of existing liens
- Mortgage information
- Property title(s)

SEEK EXPERT GUIDANCE

Evaluating charitable giving options as they relate to your estate plan and financial goals requires expert guidance from your financial advisor, estate planning attorney and tax advisor. Once you determine that a charitable gift of property meets your financial goals, you can work to identify an appropriate recipient. If a charity you wish to support cannot manage your gift of real estate, your financial advisor can discuss with you how donating the property through a donor-advised fund or a trust can help ease the process. ■