

KEYS TO EFFECTIVE GIVING

Charitable Remainder Trust – Real Estate

When you consider making a charitable gift, you have many options as to what you contribute. You can give cash, stock, bonds, land, buildings, or virtually anything of value. When making the choice, you should be aware of the special incentives Congress has created to encourage certain forms of charitable giving, especially gifts of real estate. Substantial benefits may include:

- Reduced income, estate and property taxes.
- Avoidance of capital gains taxes.
- Charitable income tax deduction.
- Increased lifetime income.
- Financial security for self or loved ones.
- Diversification of assets and increased stability.
- Capitalizing on the appreciation in value/market conditions.
- Accelerating world evangelism and church planting.

Obstacles to selling the property outright are:

- Capital gains taxes
 - 15% Federal on long term gains.
 - 25% Federal on gains due to straight line depreciation.
 - State income taxes.
- Market conditions.
- Personal attachment.

Presently, market conditions are generally favorable and in some areas of the country a possible real estate bubble exists as a result of historically low interest rates, and demand exceeding supply. For those investors wanting to exit the real estate market or reduce exposure, there are multiple opportunities.

Outright Gifts

Generally, a person who makes a gift of real estate held for more than one year is entitled to an income tax deduction equal to the market value of the gift if given outright to a qualified charity. The donor avoids the capital gains taxes on the profit that would have been realized if the property were sold directly by the owner.

Gifts to Charitable Remainder Trust

You may consider creating a Charitable Remainder Trust (CRT): a special trust that pays income to you, you and your spouse, or loved ones, for life or a period of up to twenty years. After all the income payments have been completed, the remainder is distributed to The JESUS Film Project and/or other qualified charities. The person who establishes the trust may select what percentage will be paid out of the trust, who will receive the trust income, and who will be the trustee. You also receive an income tax charitable deduction for the portion donated to The JESUS Film Project.

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The JESUS Film Project is a ministry of Campus Crusade for Christ International



Contribute Just a “Slice”

You may find that gifting a “partial interest” to the ministry is a better scenario for you. In this scenario you transfer an undivided interest in the property and receive an immediate tax deduction. To illustrate this approach a couple, George and Martha Washington, age 70, own an apartment with a current market value of \$1 million. They originally paid \$200,000 for the units, and as a result of depreciation, the current cost basis is \$30,000.

Their objectives are:

- Sell the apartments to take advantage of current market conditions.
- Keep 30% of proceeds for additional liquidity.
- Put 70% in a Charitable Remainder Unitrust (CRUT).
- Use the charitable deduction to partially offset taxes on retained proceeds.
- Reinvest proceeds to obtain 7% or better return.
- Provide a potential inflation hedge to income.
- Diversify assets. George & Martha have other real estate holdings.
- A \$50,000 cash gift to The JESUS Film Project.

To achieve their objectives, George and Martha transfer a 70% undivided interest in the apartment to a 7% CRUT where they are the lifetime income beneficiaries, and then sell the property. Total selling expenses are \$50,000. From their 30% interest, they receive \$300,000 in cash, less their portion selling expenses (\$15,000), taxes of \$23,000 and their donation to The JESUS Film of \$50,000. This leaves them a net of \$212,000. The \$700,000 CRUT will pay them 7% annually for the balance of their lives (approximately \$47,000 in year one). This scenario saves them more than \$213,000 in taxes, and increases their annual income by more than \$15,000 and at the same time allows them to make a significant charitable contribution. In addition, they have a charitable gift carryover of \$131,800 which they can use for the next five years to reduce income taxes. This carryover would be worth approximately \$39,500 at a 30% tax rate.

George and Martha could have considered combining the sale with a partial tax free exchange and used a CRT to partially offset taxes; gifted a portion to CRTs for their children (gift taxes must be considered); or evaluated many other alternatives based on their unique objectives.

In summary, the advantages of a CRT are:

- Lifetime Income, you name the beneficiary/ies; select payout rate/method
- Immediate Income Tax Charitable Deduction
- Avoidance of Capital Gains Tax on the portion sold in the CRT
- Your charities benefit from the remainder interest

The Charitable Remainder Trust can be tailored to meet your individual goals and objectives. It can be a rewarding part of your investment plans, your retirement plans, and your estate plans. It can be a means of increasing your income or providing income for another person. Please contact us to inquire how a custom CRT may be designed for you.

