The GOD'S CHILD Project Gifts of Real Estate

Getting Started
Successful business founders often hold assets that are greatly appreciated. In many instances, the basis can be practically zero.

If you've owned your home or other real estate for a long time, no doubt it has increased in value significantly. What happens if you sell the property?

First, the sale is subject to capital gains tax on the property's appreciation. If the property has been your main home for at least two of the past five years, you can exclude up to $250,000 of gain ($500,000 for married couples). However, this opportunity to avoid capital gains tax doesn't apply if the property is a vacation home, land or any real estate other than your primary residence. Additionally, there's the cost of marketing and selling real estate, which takes time and effort, even if you use professional assistance.

Before selling real estate, consider an alternative option. If you'd like to help fulfill our mission, your property opens provides a unique giving opportunity: donate the property to us. You can give the property outright, place it in trust or donate it by will. All of these methods will enable you to enjoy personal financial benefits while supporting our work in a meaningful way.

Tax Benefits of an Outright Gift
When making an outright gift of real property held for more than a year, you obtain an income tax charitable deduction equal to the property's full fair market value. This deduction helps reduce the cost of making the gift and frees cash that otherwise would have been used to pay taxes.

By donating the property to us, you also avoid capital gains tax on the property's appreciation. Furthermore, the transfer isn't subject to the gift tax, and the gift reduces your taxable estate.

Example: *Mary gives us a vacation cottage she no longer uses. It originally cost $50,000 but is now worth $150,000. She gets a $150,000 charitable deduction, which represents a tax savings of $42,000 in her 28 percent tax bracket. And she completely avoids tax on the $100,000 of appreciation. Now she no longer has to maintain the cottage, and the property won't be taxable in her estate*.

Your deduction for a gift of appreciated real estate in any year is generally limited to 30 percent of your adjusted gross income, with a five-year carryover of the unused deduction. If you elect to base your charitable deduction on the cost of the property, this raises your AGI limitation to 50 percent with a five-year carryover, but this has implications for all gifts made during or carried over to that year.

For real estate you've held only short-term, your charitable deduction is limited to the property's cost basis, but there's still no tax on the appreciation. The deduction may be claimed up to 50 percent of your adjusted gross income, again with a five-year carryover for any excess value.

Your gift is usually effective when a properly executed and notarized deed, suitable for recording, is delivered. The amount of your deduction for a gift of real estate (if more than $5,000) must be substantiated by a qualified appraisal of its fair market value.

Obtain a Lifetime Income from Your Gift
Instead of making an outright gift of property, you can use un-mortgaged property to fund a qualified charitable remainder trust. Once the property has been transferred to the trust, the trustee can sell it and invest the proceeds in income-producing securities, which become the source for lifetime income payments to you and any other recipient you name. When the trust terminates, we receive the remainder (without exposure to estate taxes when spouses are the only income beneficiaries).

If you itemize, you benefit from a substantial current income tax deduction. The amount of deduction is determined by your age when the trust is created, the value of the trust assets, and the annual percentage or amount to be paid to you. And when you transfer appreciated property, you won't pay any up-front tax on the capital gain.

Tax Savings for Partial Use
If you have a home you don't occupy year-round you can make a deductible gift to us of an undivided interest, allowing us exclusive use of the property for part of each year.

A vacation home can be ideal for this purpose. For example, if you gave us a half interest, you would continue to use the property for six months each year while we, as half owner, would use it for the remaining six months. You receive an income tax deduction for the fractional interest contributed to us, based upon its market value. That interest also avoids estate taxes.

Bargain Sale Tax Benefits
You may sell long-term appreciated real estate to us for less than its value, subject to our consent. This transaction is part gift and part sale. You receive a charitable deduction for the difference between the sale price and the higher fair market value.

Example: *Ellen sold the home she purchased many years ago for $30,000 to a philanthropic institution for the same amount, even though it was really worth $90,000 at the time of the sale. Her charitable contribution is $60,000 ($90,000 fair market value less $30,000 sale price).*

Ellen does incur a capital gain in this type of transaction, but it's much less than for a sale at full market value. She is treated as having sold one-third of the property, so one-third of the $30,000 basis, or $10,000, is allocated to the sale portion. Therefore, she has a gain of $20,000 ($30,000 received from the sale less $10,000 basis attributable to the sale portion). However, $40,000 of the appreciation attributable to the gift escapes taxation. Plus, she receives a $60,000 charitable deduction. A bargain sale accomplishes the gift and provides you with immediate cash, while relieving you of the time, effort and costs of a normal sale.

Keeping Mineral Rights When Giving Real Estate
You can make a partially deductible gift of your entire interest in certain real estate, reserving the right to subsurface minerals and the access to them (but not surface mining rights).

However, there's an important restriction. Your contribution must be to a qualified organization and exclusively for conservation purposes. Otherwise, you won't receive an income, estate or gift tax deduction. Conservation purposes include public outdoor recreation and scenic enjoyment, protection of plant and wildlife habitats, and preservation of historic structures and land.

Giving Real Estate through Your Will
If none of these options we've discussed so far appeals to you for making an irrevocable gift of the property, consider donating it to us in your will. Because your will is revocable (that is, you can change your mind at any time during your life), you will not be able to take an income tax deduction, but the property will not be taxed on your estate.

If you wish, you can give another person life use before unrestricted ownership passes to us. Or you can bequeath full title to an individual if that person survives you, with our organization as the contingent recipient. When an individual is given life use, it is best to make it clear that he or she is responsible for maintenance, insurance, repairs and improvements.

If you have no need for making a new will now for any other reason, ask your attorney to draw a brief codicil for this purpose.

Suitable Property to Donate
Agricultural land tends to return a low percentage of its market value. This is especially true of absentee-owned land, where the owner's profit is often reduced by tenant shares and farm manager's fees. Also, the profitability varies depending on the weather and commodity markets, making this type of land suitable for a charitable gift in exchange for a life income arrangement.

Real property, such as vacant land, has a cost of ownership (property taxes and insurance, for example) with no offsetting return. And a vacation home that is no longer used enough to justify the investment, costs and responsibilities may be suitable as a gift.

Also, not all property automatically rises in value. An older commercial building in a declining neighborhood may be worth as much to the donor currently, in terms of the charitable income tax deduction from an outright gift, as it is likely to be worth in the future estate. Or it may be used to fund a charitable remainder trust paying an income for life. And developed investment or commercial property may provide significant capital gains tax savings when used to make a gift and avoid potential depreciation recapture as well.

Summary of Benefits
The many advantages of a charitable gift of real estate include:

- An outright gift results in valuable income and estate tax deductions, and tax on the capital gain can be avoided.
- A "bargain sale" to us gives you some money back and reduces your capital gains tax exposure.
- A gift in your will assures that the value of the property will qualify for a charitable deduction for estate tax purposes.
- Giving us outright use of the property now will free you from the responsibility and costs of looking after it.

Find Out More
You create a tangible and enduring testimonial of your support of our goals when you donate your home or other real estate. It's one of the most fitting contributions you can make and is complemented by significant tax benefits.

If you have any questions about appraisals, tax savings and would like to know which gift arrangement most suits you, we would be happy to assist your attorney and other advisors in designing the best plan for you. Please contact us at The GOD'S CHILD Project Foundation at PO Box 1573, Bismarck, ND, 58502, Tel: 701-255-7956.

Does Your Home Need a New Home?
Your home has acted as an anchor and safe haven, providing a sense of security. It may have been the location for joyful experiences with family and friends, but is now it more than you need.

Often people embark on a new lifestyle, and their grown children are not interested in taking over the family homestead. Perhaps relocating to a different climate or a retirement community is pending. However, you can still derive further benefits from your home.

Turn Your Home into a Charitable Gift which Also Benefits You
A home can be used to create income, save taxes, reduce probate costs for your estate and serve a charitable purpose.

Consider giving your unoccupied home to a charitable remainder Unitrust with net income with make-up provisions. This trust makes lifetime payments to you after which time it distributes the remaining assets to a charity to support its mission. If you name The GOD'S CHILD Project Foundation as the recipient of the remainder interest, you will:

- make a significant gift which we can access after your lifetime;
- avoid up-front capital gains tax on the increase in the property's value since you bought it;
- receive an immediate income tax deduction for the value of the remainder interest;
- receive an income from the trust for the rest of your life;
- reduce probate costs by eliminating the property from your probate estate;
- Be relieved from selling the property or maintaining it and paying property taxes.

This special type of Unitrust can be invested to either produce income later in retirement or presently if you want payments to begin soon.

How You Benefit from Giving Real Estate
If you've owned your home or other real estate for a long time, no doubt it has increased in value appreciably. What happens if you sell the property?

In many circumstances, if you don’t meet the requirements of available tax breaks, you must pay capital gains tax on the property's appreciation. Plus, marketing and selling real estate takes time and effort, even with professional assistance.

If you'd like to help meet our critical needs, your property opens the door to a unique giving opportunity of donating the property to The GOD'S CHILD Project Foundation, either now or whenever it’s no longer needed.

Exceptional Gift Options with Benefits for You
Whether you're ready to move into a smaller house, condominium or a retirement home, have a vacation home you no longer use or would like to give up farm life for a place in town, you have options:

- **Outright gift:** The home you're leaving can be given to The GOD'S CHILD Project Foundation outright. If you have owned it for more than a year, you receive a tax deduction for the full current market value (rather than your lower cost basis), and avoid capital gains tax on the appreciation. Your gift is deductible up to 30 percent of your adjusted gross income, with a five-year carryover allowed for any excess.
- **Charitable remainder trust:** Another alternative is to transfer your un-mortgaged home you no longer reside in or other un-mortgaged real estate to a charitable remainder trust. This can benefit both of us, securing a life income for you and a survivor (such as your spouse), and provide us with much-needed assistance when the remainder comes to us at the termination of the trust. It works this way: Once the property has been transferred to the trust, the trustee can then sell it and invest the proceeds in income-producing securities, which become the source for the income payments to you and any other recipient you name.

When you give us real estate, it serves our long-term goals while meeting your short- and long-term desires.

A Strategy to Avoid Capital Gains Taxes
Many people, once they approach retirement, have acquired assets which have increased in value over time. In addition to accumulating the typical assets, such as securities and mutual funds, people often own real estate. After decades, the real estate has typically increased in value significantly. Therefore, selling the real estate results in a capital gains tax, which reduces the value of the proceeds.

If you find yourself facing this tax trap, whether it be with your office building, other real estate or some other appreciated asset, we have a suggestion for you. Consider making a charitable gift of the property. You may be surprised by all the benefits!

Outright Gift
You can contribute the appreciated property outright to The GOD'S CHILD Project Foundation. This avoids a capital gains tax on the transfer, because the recipient of the property is a charitable organization. Therefore, we receive the full value of the asset, undiminished by taxes. (Very important: The charitable gift should be made before any party attempts to sell the property. If a sale takes place when you still own the property, you will pay the capital gains tax.)

Generally, as an individual, you're able to deduct the full fair market value of the gift up to 30 percent of your adjusted gross income in the year the gift is made. If the gift exceeds that amount, you may carry forward the excess deduction for up to five additional years.

Example: *Dr. Jensen owns property valued at $250,000. The amount she paid for the property long ago was $15,000. She donates the property to a charitable organization, which sells it for its fair market value and uses the proceeds to further its work. No taxes are paid on the $235,000 gain in value. Dr. Jensen receives an income tax charitable deduction of $250,000. If her adjusted gross income at the time of the gift is $200,000, she is able to claim 30 percent, or $60,000, in the year of the gift. In the 5 years following, she can continue to claim the excess.*

Charitable Remainder Unitrust
This type of trust is an ideal option when you want to receive an income from the asset. By giving the real estate to a charitable trust, you avoid up-front capital gains taxes. Then when the trustee sells the property (tax-free), the proceeds can be used to provide you with a lifetime income.

Upon the eventual sale of the property, the proceeds received by the trust are invested, producing a stream of income (usually equal to the stated percentage of the trust's value) for your lifetime and perhaps that of your spouse or another beneficiary.

In addition to the income, you also receive an income tax deduction based on what the charitable organization will receive someday. This amount depends on the age of the income beneficiary and the amount of the selected income, but often is approximately 30 percent to 40 percent of the gift's value.

A charitable remainder Unitrust funded with real estate must pay the property taxes and other costs. Because the trust cannot borrow money, the donor should be prepared to add sufficient cash or marketable securities to the trust in order to meet expenses such as real estate taxes, insurance and maintenance costs until the property is sold. These additions to the trust are also deductible gifts.