

## For advisors: Real Estate, Timing Is Everything ©

COF and CFA

At the age of 76, Peggy Phelps decided to make some dreams come true. She had dreams of helping to enrich the arts, support arts education, and address health issues including AIDS and the growing problem of obesity in children. Her income might not support all her giving goals, but as the owner of a highly appreciated vacation home in Aspen, she had a valuable asset to give.

For hundreds of thousands of Americans, their most significant share of wealth lies in appreciated real estate. For them, that asset affords the greatest opportunity for giving a significant charitable gift.

But that opportunity may be short-lived if Congress changes the deduction allowance for gifts of appreciated property, including real estate. Currently, such gifts to public charities, such as community foundations, afford a deduction for the fair market value of the property.

Ms. Phelps gave her vacation home to the Pasadena Community Foundation, her local community foundation in California. With the proceeds from its sale, the foundation created a donor advised fund that will allow Ms. Phelps to turn one gift of property into many gifts to charity. As an active volunteer who supports many charities, she plans to give all the money away over 10 years, at about \$100,000 per year.

Under proposed new rules—currently the subject of congressional debate—a gift like Ms. Phelps' would qualify for only a cost basis deduction (usually the donor's purchase price). Without the fair market value deduction, it might not have made sense for Ms. Phelps to give the gift at all.

Individuals, couples and families who are currently considering similar gifts of appreciated property and counting on a fair market value deduction might want to give now to gain the maximum tax benefit.

If you'd like to know more about how proposed congressional legislation might impact your client's ability to achieve maximum tax benefits through a gift of real estate, contact the giving professionals at your local community foundation. For a community foundation locator, go to

[www.communityfoundations.net](http://www.communityfoundations.net)

### **Real Value**

The value found in real estate far exceeds that of any other single asset type, both in the aggregate and, in many instances, in individual portfolios. Of the trillions of dollars economists estimate will pass from one generation to the next during the 25 years ahead, approximately 35 to 40 percent are in the form of real estate. According to data drawn from federal estate tax returns, approximately 30 percent of assets belonging to individuals who have a net worth between \$1 million and \$10 million are in real estate. For estates under \$1 million, the percentage of real estate value within a portfolio rises to

somewhere between 45 and 50 percent.

For more than 700 community foundations nationwide, gifts of real estate represent a significant share of the contributions used to invest in local arts and culture, community development, education, environment, health and human services. In recent years, gifts of real estate have helped:

- create endowments for hundreds of local nonprofits across the U.S.
- fund projects for disaster preparedness, senior nutrition and volunteer fire departments
- feed hungry children through food banks
- prevent the demise of a community-oriented classical radio station
- create affordable housing

### **Covering All the Bases**

While gifts of real estate present more complexities than gifts of cash or marketable securities, community foundations have developed sound policies and practices to ensure that valuations are fair, costs are appropriately borne by the donor, and transactions are in compliance with the spirit and the letter of the law. Community foundations use detailed policies and effective practices as they accept gifts of real estate, said Feurt. These are complex transactions, and you can count on the community foundation to help you cover all the bases. Charitable instruments for gifts of real estate can be structured to provide lifetime income, retain use of residential property, or provide ongoing involvement in giving.

### **Outright gifts**

The donor may use the gift of real estate to establish a fund that supports a designated organization, cause or field of interest. The donor may also establish a donor advised fund and recommend specific grants in the future.

### **Planned gifts**

Individuals may donate real estate to a charitable remainder trust that will sell the property and make lifetime payments to the donor or designated beneficiary. Eventually, assets that remain in the trust will be donated to charity. A similar, but simpler option is a charitable gift annuity.

Donors may opt to give a home or a farm to charity, while continuing to live in or use the property. In such cases, the upfront tax deduction is reduced to a percentage of the property's value; the longer the charity is expected to wait, the smaller the immediate tax benefit. With retained life estates, the donor retains the responsibility to maintain the property and pay expenses along with the ability to use it. In many cases, individuals choose to give real estate through a simple bequest in their will.

### **Your Charitable Giving Partner**

"Community foundations have been instrumental in transforming gifts of appreciated property into projects and programs for the common good," said Suzanne Feurt, Managing Director of Community Foundation Services for the Council on Foundations. "Their charitable experts are pros at handling complex gifts to provide the maximum benefit to the donor, the foundation, and the community."

Throughout the United States, community foundations help create more vibrant communities by providing valuable leadership, advocacy, and support for the nonprofit sector. As non-partisan, non-sectarian centers for giving, they also help people from all walks of life achieve a wide range of charitable goals. "The great thing about community foundations is that you can support just about any legitimate charitable cause through them," said Gloria Royal of the Kalamazoo Community Foundation. "Whether your clients want to support artistic expression or fight for animal rights, fund environmental preservation or endow medical research, promote literacy or champion downtown development, your local community foundation can help."

Community foundation charitable experts can help you help your clients:

- Identify charitable giving interests and motivations
- Match personal charitable interests with tax planning needs
- Integrate charitable plans with major business, personal and financial decisions
- Learn about community needs and local agencies and programs that make a difference