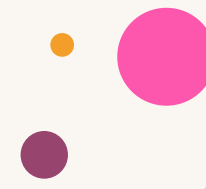




Gifts of real estate

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Fun Facts

Value of US Residential Real Estate is estimated as of 2023 to be about \$25T

About 5M US households have a second home, timeshare or vacant land

Real Estate represents about 27% of privately held wealth in the US

In 2020, of all non-cash donations, the IRS reported only about 3% of charitable gifts are made with real estate



Pros of Real Estate Gifts

Often highly appreciated, meaning a large deduction for donors

The laws governing real estate transactions are generally readily available in most states and counties

Real Estate is both a great outright gift and gift to fund a Charitable Remainder Trust or Charitable Lead Trust



Cons of Real Estate Gifts

Charity needs comprehensive screening procedures and policies and internal structure to manage the gift

Real estate may create unrelated business income tax for the nonprofit if it is an income generating property

Real Estate may create gain recognition for the donor if it has debt on it

Can be challenging to fund a Charitable Gift Annuity because of gap in time and value between the donation and the sale



Scenario



What we will cover

Taxes – Gains, Deductions and Savings

Valuation

Prior Agreements

Debt

Life income gifts

What should we (the charity) do?



Taxes: Answer

A Donor may get an income tax deduction equal to this if the property being donated was owned 12+ months



Taxes: Question

What is Fair
Market
Value?



Taxes: Considerations

Who is making the donation?

What if the entire deduction can't be used?

Is it a partial interest gift?

What taxes is the donor concerned about?

Did the donor accelerate depreciation?

How long was the property owned? ●



Valuation: Answer

This is needed to establish fair market value of gift.



Valuation: Question



What is a
Qualified
Appraisal?



Valuation

Qualified Appraisals

Qualified Appraisers (*Hoensheid*)

Partial Interests

8283 and 8282



Prior Agreements: Answer

The IRS may find this if the donor has gone too far in a transaction before donating the property.



Prior Agreements: Question

What is a
prearranged sale
(or assignment of
income)?



Prior Agreements: How far is too far?

Prearranged sale

Keifer case



Answer

Real estate that is donated with debt on it is treated as this.



Question

What is a
bargain-sale?



Debt

Can the donor still get a deduction?

Does the charity have to pay tax?



Answer

A charitable trust that pays a fixed percentage based on the balance of the assets.



Question

What is a a
Charitable
Remainder
Unitrust (CRUT)



Answer

Charitable trust that does not permit additional contributions once established.



Question

What is a
Charitable
Remainder Annuity
Trust (CRUT)?



Life Income Gifts

Why donate real estate to a CRT?

Can real estate fund a CGA?

Overview of other options



Should we do this ourselves?

Do we have buy in from finance and the board?

Do we have a screening and due diligence process?

Will we only accept gifts in California? With debt? With tenants? Minimum value?

Do we have trained staff to manage and sell the property? Does finance understand the gift and taxes?

Should we consider using a third-party foundation, DAF provider, etc.



Summary

Consider the risk and the reward

Update your policies

Understand your options



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