

Stepping Through the Complexities of a Bargain Sale:

A CASE STUDY

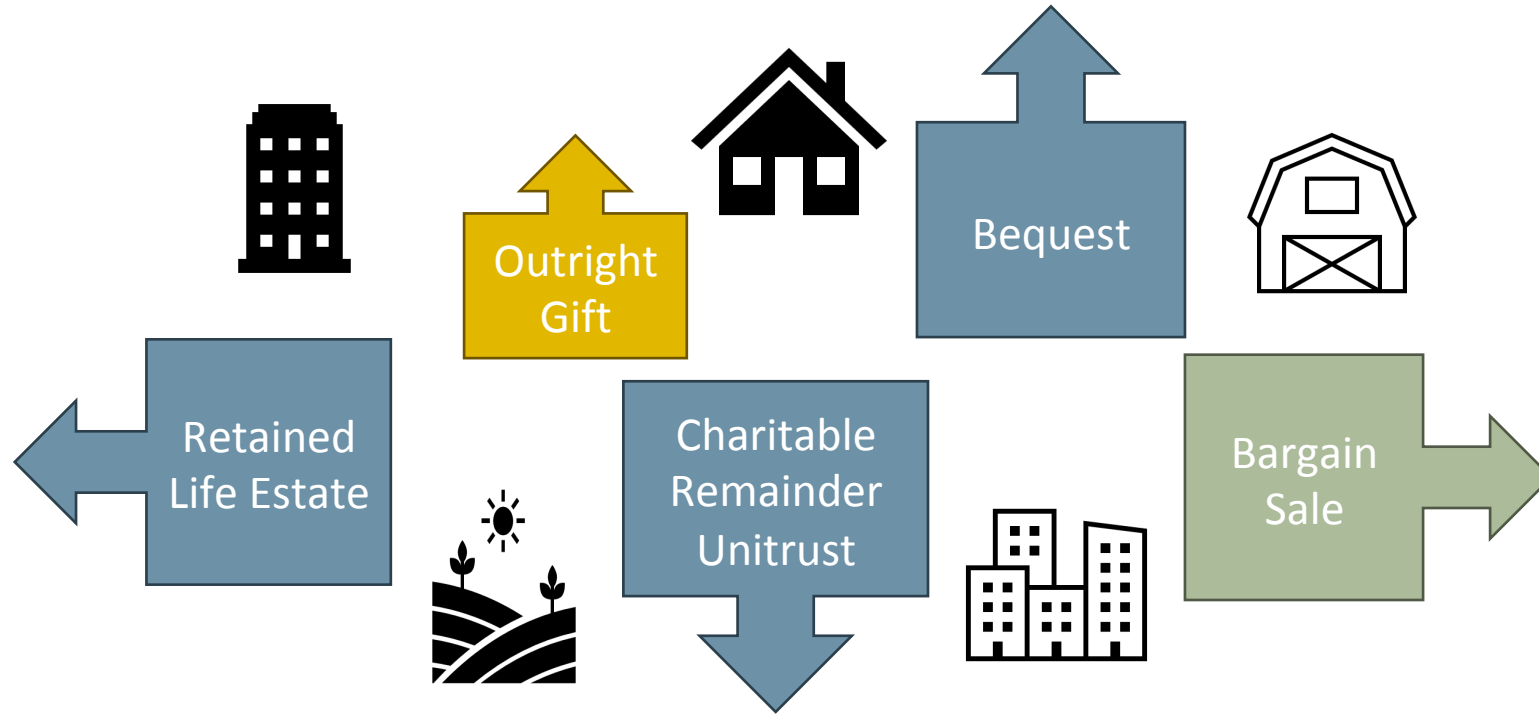
Bargain Sale

A bargain sale occurs when a taxpayer sells property to a charitable organization for less than the Fair Market Value.



Photo courtesy of Architectural Digest

Ways to Give Property to Charity



“Sorry, haven’t had any exposure to them [bargain sales] in order to provide an opinion.”

-CFP® friend #1

“Bargain sales might make sense for some clients. If you ask me, they have a PR problem. Affluent clients don’t want to sell their assets at a “bargain” price. Why don’t they call them “donor tax-advantaged sales” or something else?”

-CFP® friend #2

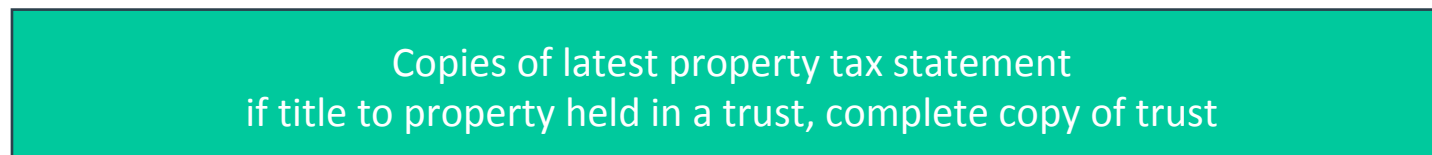
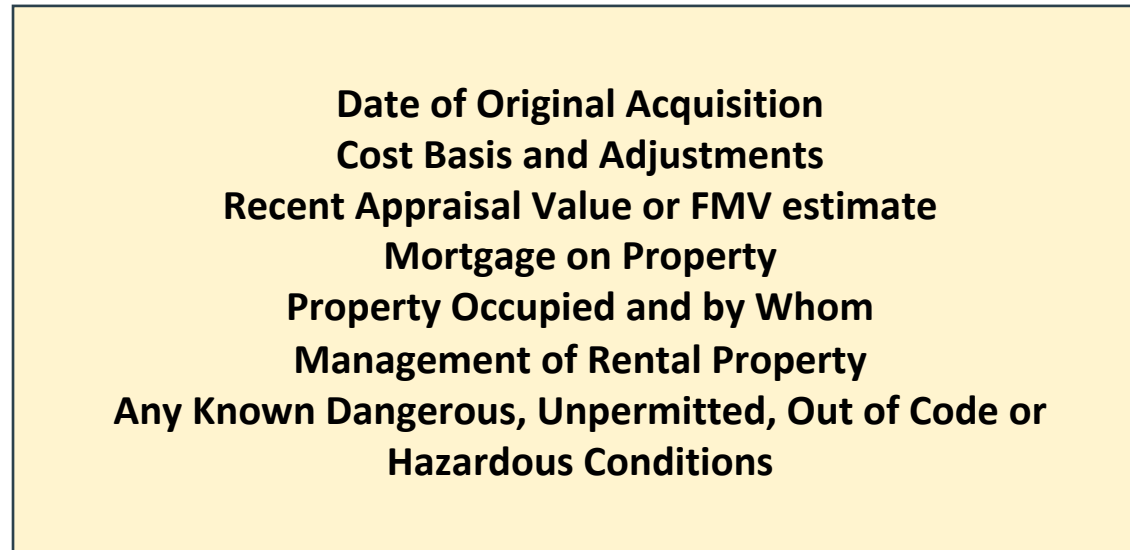
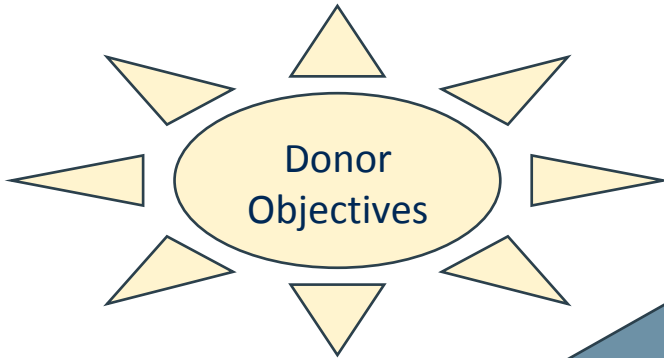
George and Marianne

- Retired; In their 70s
- Loyal donors; members of Shields Society
- Considered an outright gift of their home
- Planned to buy another home on East Coast
- Heard about bargain sale concept; a win-win situation for them and UC Davis



Photo courtesy of Peakpx

Initial Checklist Questions



Bargain Sale Comparison for George and Marianne

| | Outright Sale | Bargain Sale |
|---|---------------|--------------|
| From Sale | | |
| 1) Fair Market Value | \$2,500,000 | \$1,250,000 |
| 2) Net Sale Proceeds | \$2,300,000 | \$1,200,000 |
| 3) Less: Tax Basis | \$1,000,000 | \$500,000 |
| 4) Long Term Capital Gain 2 - 3 | \$1,300,000 | \$700,000 |
| 5) Less: Personal Residence Exemption | \$500,000 | \$500,000 |
| 6) Net Long Term Capital Gain 4-5 | \$800,000 | \$200,000 |
| 7) Fed/State Tax Rate | 23.00% | 23.00% |
| 8) Fed/State LTCG Taxes Due 6 X 7 | \$184,000 | \$46,000 |
| 9) Net After Tax Proceeds 2 - 8 | \$2,116,000 | \$1,154,000 |
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| 11) Fed/State Tax Rate | 41.00% | 41.00% |
| 12) Cash Savings From Deduction 10 X 11 | \$0 | \$512,500 |
| Total 9 + 12 | \$2,116,000 | \$1,666,500 |
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| Difference | \$449,500 | |

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GENERAL TIMELINE

Due Diligence Process

Site visit

Home
Inspections

Search for Financing

Appraisal
(60 day)

OK
Purchase
\$\$

Bargain Sale
Price

House goes on market

Outright
Offer
Accepted

Form
8283

Gift Booked

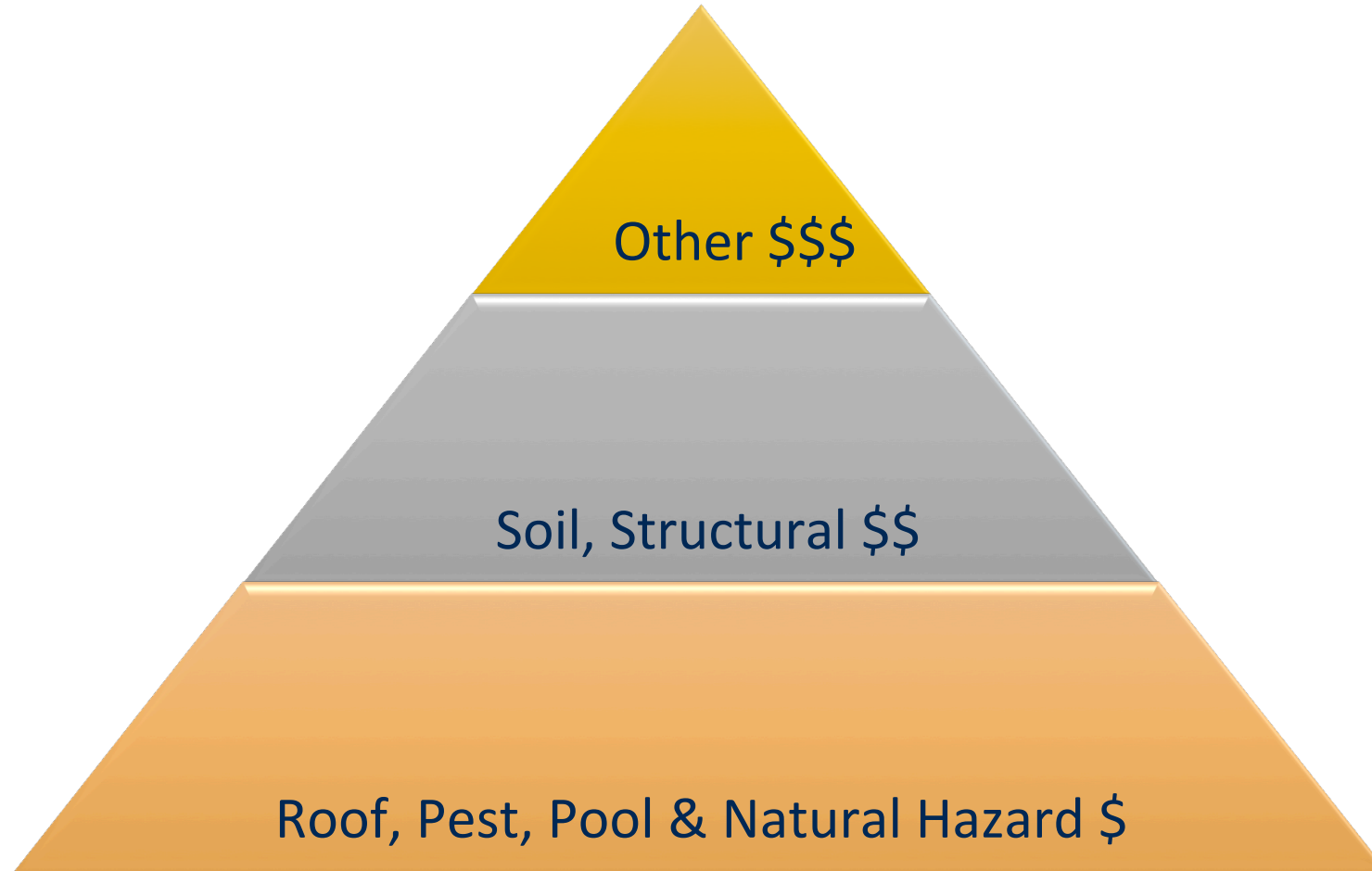
It takes a village

| Title | Department |
|--|---|
| Development Officer | School, College or Unit |
| Planned Giving Officer | UC Davis Office of Planned Giving |
| Executive Assistant Dean - Admin | College |
| Executive Director and Counsel for PG Admin | UC Davis Office of Planned Giving |
| Senior Trust and Administration Specialist | UC Davis Office of Planned Giving |
| Senior Real Estate Officer | University of California, Office of the President |
| Executive Director | Real Estate Services, UC Davis |
| Realtors | Compass Bank |
| Home Inspectors (HVAC, termite, roof, pool) | Various companies |
| Principal Counsel, UC Legal | University of California, Office of the President |
| EVP, UC Finance | University of California, Office of the President |
| Chief Investment Officer & VP of Investments | University of California, Office of the President |

Key Documents

| Document Name | Purpose |
|---|---|
| Qualified Appraisal | Donors tax deduction; gift negotiation; Required to book gift |
| Memorandum of Understanding | Agreement between donors and UC Regents |
| Internal Agreement to Conduct Due Diligence | To determine which College, School or Unit will cover due diligence costs if gift falls through |
| Purchase Sales Agreement | Conduct sales; Required to book gift |
| Gift Agreement | To direct gift within UCD; Required to book gift |
| Copy of signed recorded deed | To finalize ownership change; Required to book gift |
| PG Calcs | Required to book gift |
| Buyer's (UCD) HUD Final Settlement Statement | Required to book gift |
| Seller's (Donors) Final Settlement Statement HUD-1 | Figures from settlement are needed on Form 8283 |
| Form 8283 & Contemporaneous Written Acknowledgement of the Gift | Required for Donors to report noncash charitable contributions over \$5k |

Inspections and Other Due Diligence Costs



MOU – Confirming Our Understanding of the Transaction

Key Items:

- #1** – Donors intend to transfer a 100% undivided interest in the Real Property to Charity
- #2** – The Donors represent that they are the currently acting Trustees of the Trust and that they have the authority to make this gift transfer under the terms of the Trust
- #3** – No debt or mortgage
- #4** – Donors should be aware that all costs incurred will be deducted from the gross sales proceeds, including due diligence expenses, closing costs, pre-sale ongoing carrying costs of the property, and costs of preparing the Real Property for sale.
- #5** – Donors also confirm that they are not under any legally binding obligation to sell or convey the Real Property
- #6** – Real Property will be listed at the price recommended by its listing broker
- #7** – Donors are solely responsible for valuing the Real Property for their own tax purposes
- #8** – It is extremely important that the Donors review all documents and information pertaining to this gift of real estate with their own attorney and/or tax advisor.

Highlight #1 - Appraisal is a Pleasant Surprise

“Attached is the appraisal report for 555 River Drive. I received the report this evening at 8 pm. Home is appraised at \$2,500,000. I think that number is most reasonable.

I will work on a "bargain sale" number this weekend and we will discuss on the Monday zoom call.

Have a good weekend!

Regards,

George”

Highlight #2 – Pivotal Moment

After learning that the donors experienced a set-back when they were not able to buy their replacement home on the East Coast due to unforeseen circumstances.

“We completely understand and remain interested in your generous gift. The most important consideration is your timeline, and we will work around it. We can continue our process and delay the gift if your home search takes longer than expected. Sorry to hear that you lost the opportunity to submit a counter-offer. Best of luck with the new realtor.”

-Aydee

Highlight #3 – Home Inspections

“Hi Aydee, the dean and I had a warm and upbeat meeting with George and Marianne this morning. They were very impressed with the coordination and professionalism of everyone at the house yesterday.”

- College Development Officer

BUT where
is the interim
funding?



Due Diligence Process

Search for Financing

Legacy Management Interview

\$\$

Sale Date #1

Appraisal

Sales Price

Home Inspections

Gift Agreement

Offer Accepted

Form 8283

Sale Date #2

Site visit

Unit Accepts DD costs

Jan 2021

Jun 2021

Aug 2021

Gift Booked

Gift Allocated

Just landed a short-term loan!



Photo Courtesy of Space.com

Highlight #4 – Financing Secured

“Dear George and Marianne,

This email is to inform you that the University of California is removing its buyer’s contingencies at this time. We are looking forward to closing on your property on June 1st.

If you should have any questions, don’t hesitate to call. Hope you have a nice and relaxing Memorial Day weekend.

Sincerely, Eric”

Highlight #5 – Winners of the Bidding War

PG Staff just informed us that an offer was just accepted for **\$3,000,000!!**

Wow, \$500,000 over listing price. There were five offers received all above asking price. The Regents countered with a "Seller Multiple Counter Offer" approach for \$2,900,0000 to the three top offers. Although one of the three accepted this price, another of the three sweetened the deal by offering \$3,000,000, so we had a winner! We are in the process of obtaining The Regents signature now. Closing is in 30 days and all contingencies were waived. Congratulations to all!

Highlight #6 – What Inspired You to Make Your Gift?

“#1 I owe my success, or at least a great deal of it, and my wonderful credentials to the education that I received at UC Davis and the productive life outside of the university. Everyone should have the same wonderful opportunity that I had. I have been so incredibly fortunate and feel obligated to give back. “

- George, UC Davis Alumnus

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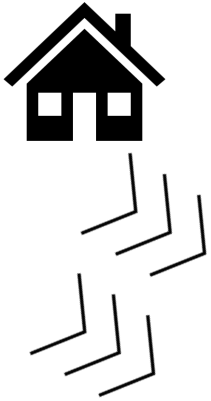
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| 6) Net Long Term Capital Gain 4-5 | \$800,000 | \$200,000 |
| 7) Fed/State Tax Rate | 23.00% | 23.00% |
| 8) Fed/State LTCG Taxes Due 6 X 7 | \$184,000 | \$46,000 |
| 9) Net After Tax Proceeds 2 - 8 | \$2,116,000 | \$1,154,000 |
| From Income Tax Contribution Deduction | | |
| 10) Income Tax Contribution Deduction | \$0 | \$1,250,000 |
| 11) Fed/State Tax Rate | 41.00% | 41.00% |
| 12) Cash Savings From Deduction 10 X 11 | \$0 | \$512,500 |
| Total 9 + 12 | \$2,116,000 | \$1,666,500 |
| | | |
| Difference | \$449,500 | |



Photo courtesy of Getty Images

\$1.25M for donor's down payment on a new home on the East Coast

\$1.75M in gifts to UC Davis
Capital project, Equipment fund, New faculty start-up fund



Any Questions?



Photo Courtesy of Scouting Magazine

Thank you!!

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