Gift by Estate Distribution

Lifetime transfers of appreciated real estate to a charitable organization have the advantage of two tax savings:

* An income tax charitable deduction and avoidance of capital gains tax. Yet not everyone is willing to give away property during life. Depending on your circumstances, a charitable gift through a will or living trust may be the better choice.

* A single property thus removed from your taxable estate may eliminate a federal estate tax, if applicable, and it avoids the costly process of selling the real property in order to obtain proceeds for distribution in an estate, as well. In addition, leaving property to a charitable organization in your estate plan allows you to retain access to the market value during your life should it ever be needed.

A major charitable gift based on real estate can prove highly satisfying. However, there are special aspects of such gifts you should consider, particularly if you are considering using mortgaged property. Thus, it is important to discuss with the RMS and your tax advisor the nature of your gift of property. Each piece of real estate (and situation) is unique.
One property may sell readily, while another may require time to realize its full market value. A delay in sale of the gift is significant when the gift calls for an income distribution to the donor or person named by the donor. When real estate is contributed to a charitable remainder trust, it may be best to use a charitable remainder unitrust (CRUT), which is a trust that pays the individual beneficiaries a percentage of annual market value rather than a fixed annuity amount. The CRUT is generally structured to limit annual distributions to the lower of actual income of the designated payment amount until the property is sold.

If you make a gift of real estate now, assuming you itemize deductions on your return, you will get a substantial income tax deduction. Plus, you will have the satisfaction of seeing the results of your generosity. Instead, you may want to use the property a while longer or even retain lifetime use. In any case, you can still make the necessary arrangement now and benefit from a sizable current income tax deduction. When you make an outright gift of real property, you obtain an income tax charitable deduction equal to the property's full fair market value (if held long-term) instead of the lower cost basis -- to the extent the property would produce long-term capital gain if sold.

This deduction allows you to reduce the cost of making the gift and frees up cash that otherwise would have been used to pay for taxes and upkeep. Also, you avoid tax on the property's appreciation, the transfer is not subject to the gift tax and the gift reduces your taxable estate.