Gifts of Real Estate

Thinking of selling land or a building? You may be surprised to find that your personal residence, farm, vacation home, commercial property, or parcel of undeveloped land, held for more than one year and debt-free, can be a tax-smart donation. A present or future gift of real estate offers valuable income tax and estate tax savings. Donors can usually receive a federal income tax deduction for its fair market value of up to 30 percent of the donors' AGI, with a five-year carryover for any excess. Many donors find themselves with non-income producing real estate which requires cash to maintain and may be costly to dispose of at their death. They would like to sell the asset but learn significant capital gain taxes might be owed once sold. You can also free yourself of burdensome management and the problems involved in selling the property or leaving it to estate liquidation. A property inspection and appraisal will be required before the gift is made, so allow ample time for any transfer if you are seeking a tax deduction for a particular year. The day the RMS receives the signed deed is the date of the gift. If your state law requires recording the deed to fulfill the title, then the date of recording is the gift date. There are several ways to donate properties that have appreciated in value without incurring tax on the appreciation. You can give the entire property, a portion of the property (undivided interest), use the property to establish a charitable remainder trust, or donate with conditions (retained life estate gift), i.e., retain residency rights.

A gift of land or developed property to the RMS, with a fair market value above the cost basis, produces the same double tax savings as a gift of securities, and certain types of real estate are favorable for unique reasons.

* Agricultural land, for example, tends to return a low percentage of its market value.

* Real property, such as land or a vacation home that is no longer used, has a cost of ownership.

* An older commercial building may be fully depreciated, costly, and time-consuming to manage.

* Developed investment or commercial property on which straight-line depreciation was taken may provide significant capital gains savings.

Remainder Interest in a Residence or Farm

A general rule of tax law is that no charitable deduction is usually allowed for the gift of a partial interest in property. However, an exception exists for a remainder interest in a personal residence or farm in which you retain a life estate. In a retained life estate situation, you deed the property to a charitable organization, but you (and/or others you name) still have lifetime use of the property. You continue to maintain and insure the property and pay property taxes.

Because this donation is irrevocable, you are allowed a current income tax charitable deduction equal to the market value of the property, reduced by your life income interest. This strategy is especially valuable to those donors who will not pay estate tax under the new estate tax structure, since it allows the donor to receive a current tax deduction for the gift.