

## FOUR GIFT OPTIONS WITH REAL ESTATE



Donors who own real estate available to them for gifting purposes have several options. Giving real property can simultaneously make a significant investment in the University of Maryland, Baltimore (UMB) and its seven schools while granting yourself significant benefits.

To identify the options, first ask yourself: Do you wish to continue living in, using, or collecting rents on the property? If the answer is yes, a **retained life estate** (option one) is a gift you might consider.

If the answer is no, here's a second question: Do you wish to receive income or partial payment for your property? If you answer yes, consider a **charitable remainder trust** (option two) or a **bargain sale** (option three).

If you answered no to both questions in that you neither want to live in the property nor receive income or payment as a result of the gift, you can consider an **outright gift** (option four), which itself confers benefits above giving other types of assets.

### *Option one: Donate the property but continue using it as if it were yours — aka the retained life estate*

Donors can give a property while retaining life tenancy rights, or the ability to use and enjoy the property for the rest of their lives. While they remain responsible for normal maintenance, taxes, insurance, and other annual costs, they also remove a large asset from their estate, receive a significant charitable deduction, and make a

generous irrevocable gift to the school of their choice without affecting living circumstances.

Example: Lee, age 78, decides to donate a vacation property worth \$200,000 to endow a new fund in the school but retains lifetime rights to use and enjoy the unit. Lee continues to pay annual costs as before but receives a charitable deduction of \$141,389, and the unit is removed from Lee's ownership and estate. If Lee later decides to stop using the property, Lee can enter into a joint sale agreement with the UMB Foundation (UMBF) to sell and divide the proceeds.

### *Option two: Convert the property into a new tax-efficient stream of income and give the remainder — aka the flip charitable remainder unitrust (Flip CRUT)*

If the donor no longer wishes to live in or use the property, but wishes to receive income or provide income to others, they can consider a special kind of charitable trust called a flip charitable remainder unitrust. The donor creates the trust with the services of an attorney, and donates the property to the trust for the trustee to sell and invest the proceeds. Before the sale, the trust pays only net income to protect the trust from payment obligations it can't meet. After the sale, the proceeds are reinvested, the trust flips to a normal unitrust paying a fixed

percentage (e.g., 5 percent, 6 percent) of its value every year to the named income recipients.

Example: Toni, age 68, establishes a 5 percent Flip CRUT and donates undeveloped farmland valued at \$200,000, naming UMBF the trustee and remainder beneficiary. While the property sits on the market unsold, Toni receives no income but does receive an immediate charitable deduction of \$98,878. Later, after the trustee sells the property and the sale nets \$95,000, the trust flips and Toni can expect to receive approximately \$9,500 (5 percent) annually for life.

### ***Option three: Sell the property at a discount to UMBF — aka bargain sale***

A donor who sells an asset to charity at less than market value is entitled to a charitable deduction for the difference. If that asset is real estate and the donor desires a lump-sum payout or series of payments, a bargain sale can provide that while simultaneously providing a significant gift to UMBF.

Example: Leslie owns property valued at \$225,000 that would be desirable to donate but needs to pull out some equity to invest in another property. Leslie negotiates the sale of the property to UMBF for \$75,000, which earns Leslie a charitable deduction of \$150,000 in addition to cash received from the sale. UMBF subsequently sells the property, pays itself back the funds given to Leslie, and directs whatever is left to the designation made by Leslie.

### ***Option four: Give it away***

What are the advantages of giving away property instead of selling it yourself? In addition to directing the sales proceeds to the school, fund, use, or designation of your choice, donors of real estate 1) receive a charitable deduction equal to the appraised value of the property, 2) avoid paying long-term capital gains tax on the sale of the property, and 3) avoid the time, risk, and hassle of the marketing and selling of the

property. There is a modest cost for the appraisal needed to claim the charitable deduction, but this is far offset by the tax savings produced by the deduction.

## ***Real Estate FAQs***

### ***What types of real estate can be used in giving situations?***

Personal residences, vacation properties, farms, timberland, and undeveloped land are all types of property that can be used for charitable gifts. In general, co-ops, timeshares, and REITs (real estate investment trusts) are not able to be used for charitable gifts.

### ***Can property be donated if it has a loan?***

Generally not, because of negative tax consequences of donating debt-encumbered property. If the debt is under 10 percent the value of the property, the benefits might offset the tax disadvantages, but usually a donor would need to pay off a debt before donating the property collateralizing the loan.

### ***What are the steps for giving real estate?***

To initiate a gift with real estate, please contact the UMB Office of Planned Giving with the address and other information about the property you wish to donate. Donations of real estate and other noncash property require the donor to obtain a qualified appraisal, which must be no older than 60 days before the date of donation. The donor also must file a Form 8283, which is signed by the foundation and the qualified appraiser. Because of the uncertainties involved, real estate gifts require more due diligence than other types of assets donated to the foundation. Thus, the donor should leave several months' time before the gift must be completed.

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*This publication is not intended to provide legal, tax, investment, or other professional advice, and should not be relied upon for such advice. In advance of any charitable gift plan, we encourage you to seek the advice of legal, tax, and investment professionals.*

THE **UMB OFFICE OF PLANNED GIVING** HELPS DONORS MAXIMIZE THEIR GIVING TO THE UNIVERSITY OF MARYLAND SCHOOLS OF MEDICINE, LAW, DENTISTRY, PHARMACY, NURSING, GRADUATE SCHOOL, AND SOCIAL WORK, THROUGH TAX-EFFICIENT STRATEGIES AND OTHER OPTIONS BENEFICIAL TO THE DONOR. PLEASE VISIT [www.umaryland.edu/plannedgiving](http://www.umaryland.edu/plannedgiving) OR CONTACT THE OFFICE OF PLANNED GIVING AT 877-706-4406 OR [plannedgiving@umaryland.edu](mailto:plannedgiving@umaryland.edu).