SCHWAB CHARITABLE®

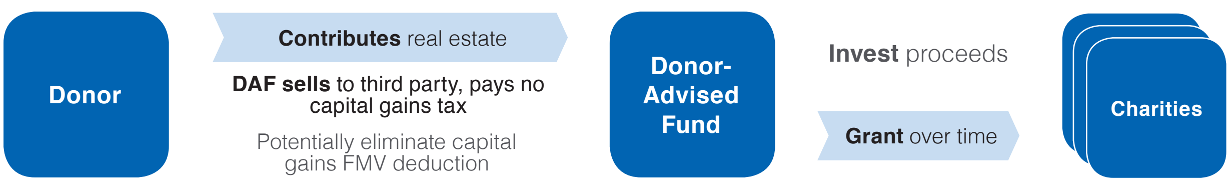
# Contributing Real Estate to Charity

## How Donors May be Able to Eliminate Capital Gains Tax on Real Estate

by Barbara Benware, Vice President – Investment Oversight and Risk

For philanthropically-minded investors, assets that have appreciated most in value can be among the most tax-advantaged items to contribute to charity. Donating such assets may enable the donor to enjoy a current year tax deduction and potentially eliminate capital gains tax liability on the sale of the asset while allowing the charities they support to receive the most money possible.

Many investors find that their most appreciated assets come in the form of real estate—a piece of raw land, an investment property or a vacation home—that has been held for a long period of time and could create significant capital gains taxes when sold. By donating such assets to a public charity (including a donor-advised fund account), they can take a full, fair market value income tax deduction for the donation while potentially eliminating capital gains tax liability on the sale of real estate. Contributions of similar assets to a private foundation would generally be deductible at the lower of cost basis or market value.




## Considerations include:

- Real estate interests are generally appropriate to give to charity when a sale will enable the charity to convert the illiquid interest into cash. It makes most sense to donate real estate that meets the following criteria:
  - The property has been held for more than a year and has appreciated significantly.
  - The property is marketable and relatively easy and cost-effective to liquidate.
  - The property is generally debt-free. (If there is debt on the property, the donor's contribution might be treated as a bargain sale to the charity, and the donor may be liable for certain taxes, e.g., capital gains.)
  - The owner is willing to transfer the property irrevocably to the donor-advised fund, which will negotiate the sale price and control the sale, often using an experienced intermediary.
- If a sale is expected, the terms of the sale should still be under negotiation. The documentation must not have proceeded to the point at which the IRS would consider it a prearranged sale. That could result in the donor bearing the tax liability for any gain on the sale.
- These criteria most often apply to donations of a primary or secondary home or other residential property held for some time. Commercial real estate may also be donated under certain circumstances. Such gifts involve additional legal and tax considerations.
- Contributions of real estate to a charity or donor-advised fund account are generally deductible at fair market value—as determined by an independent qualified appraiser—on the date of contribution, whereas contributions of real estate to a private foundation are generally deductible at the lower of cost basis or market value.

## Case Study—Contribution of Real Estate

New Hampshire vacation property worth $1,000,000—rented over the years with tax basis of $100,000. It is owned by a Living Revocable Trust, with no associated debt. Client, who is very charitably-inclined and wants to involve family across the generations, seeks advice from an advisor.

| | Sell property and donate proceeds to charity | Donate property directly to charity |
|---|---|---|
| **Asset Value** | $1,000,000 | $1,000,000 |
| **Capital Gains** (100% Long-Term) | $900,000 | $900,000 |
| **Sales Price** | $1,000,000 | $1,000,000 |
| **Taxes Paid**† | $214,200 | $ - |
| **Settlement Costs** | $60,000 | $60,000 |
| **Gift to Charity** | $725,800 | $940,000 |
| **Charitable Deduction**‡ | $725,800 | $1,000,000 |
| **Donor Tax Savings**§ | $73,217 | $396,000 |

## Learn More

For more information about the advantages of contributing real estate to charity and for a detailed consultation about your specific situation, please call us at 800-746-6216 or visit us at www.schwabcharitable.org.

Gifts of appreciated privately held business interests can involve complicated tax analysis and advanced planning. The above article is meant only to be a general overview of some of the considerations and is not intended to provide tax or legal guidance. If you would like to consider a donation, please consult with your tax advisor.

Schwab Charitable accepts contributions of some non-cash assets via a charitable intermediary, with proceeds of the donation transferred to the donor-advised account upon liquidation.

* Qualified appraisal by qualified appraiser received prior to sale

† Hypothetical Case study, for illustrative purposes only. Assumes cost basis of $100,000, that the investment has been held for more than a year and that all realized gains are subject to the 20% federal long-term capital gains tax rate plus the 3.8% Medicare net investment income surtax. Does not take into account any state or local taxes.

‡ Gifts to public charities, including donor advised funds, of real property are typically deductible at fair market value as determined by a qualified appraisal, obtained by the donor. The allowable deduction was based on the qualified appraisal, and assumes no debt associated with the property. The example assumes full deductibility (gifts to a public charity, including a donor advised fund, of real property held for more than one year are generally limited to 30% of AGI with a 5-year carryover of unused amount).

§ Assumes donor is subject to the maximum 39.6% federal tax and does not account for state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, and may be subject to reduction for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund, an independent nonprofit organization. The Schwab Charitable Fund has entered into service agreements with certain affiliates of The Charles Schwab Corporation.