Benefits of Donating Real Estate to Charity

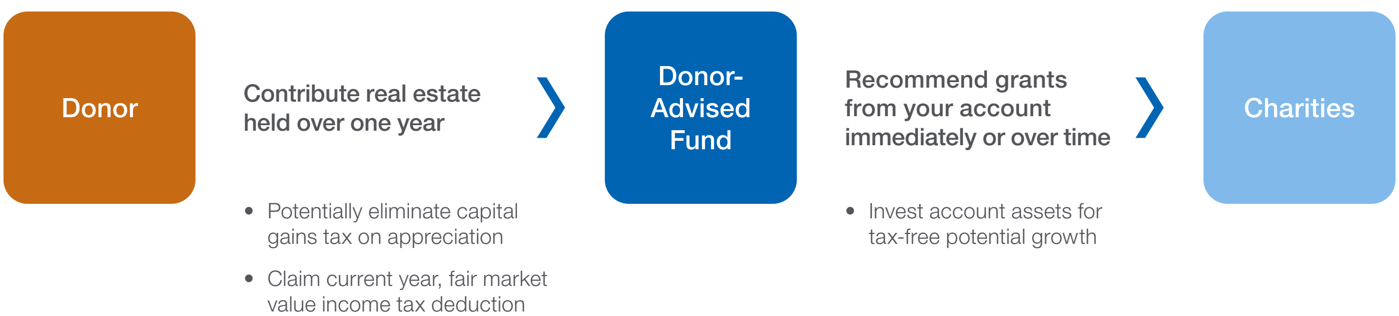
A tax-smart approach to maximize your philanthropic impact

by the Charitable Strategies Group at Schwab Charitable

Whether it's the family home, undeveloped land, a rental property, or some other investment, your real estate held for more than one year may be the most highly appreciated asset you own. This means you could face significant capital gains taxes if you sell your real estate. Depending on your particular financial and charitable goals, donating real estate to a 501(c)(3) public charity, such as a donor-advised fund, could allow you to leverage one of your most valuable investments to achieve maximum impact with your charitable giving.

What are the benefits of donating appreciated real estate held more than one year? If you itemize deductions on your tax return instead of taking the standard deduction, donating your real estate can unlock additional funds for charity in two ways. First, you potentially eliminate the capital gains tax you would incur if you sold the real estate yourself and donated the proceeds, which may increase the amount available for charity by up to 20%. Second, you may claim a fair market value charitable deduction for the tax year in which the gift is made and may choose to pass on that savings in the form of more giving.

Donor-advised funds, which are public charities, provide an excellent gifting option for contributions of real estate, as the funds typically have the resources and expertise for evaluating, receiving, processing, and liquidating this type of gift. How does gifting appreciated real estate to a donor-advised fund work?



Please be aware that gifts of appreciated non-cash assets can involve complicated tax analysis and advanced planning. This article is only intended to be a general overview of some donation considerations and is not intended to provide tax or legal guidance. In addition, all gifts to donor-advised funds are irrevocable. Please consult with your tax or legal advisor.

Case study: making a larger gift while increasing tax savings

To illustrate the impact of donating appreciated real estate, consider Jim. As he approaches retirement, Jim no longer wishes to manage a single-family rental property he inherited from his parents 25 years ago. Because Jim is charitably minded, he has considered selling the rental property and using the net sale proceeds to support various charities. Selling the rental property, however, will expose Jim to capital gains taxes on 25 years of appreciation. As it stands, Jim's adjusted cost basis in the rental is $50,000 and the property has a current estimated value of $350,000.

Assuming a 15% federal capital gains tax rate upon sale of his rental property, Jim would realize capital gains on $300,000 of appreciation and owe an estimated $45,000 in federal capital gains taxes ($300,000 x 15% = $45,000). In this scenario, as shown in Option 1, after paying the federal capital gains taxes, Jim's estimated net cash available for charitable giving is $305,000.

Jim's financial advisor suggests that Jim could instead donate his rental property to a public charity, including to a donor-advised fund, as a way to potentially eliminate federal capital gains taxes ($45,000) and claim a fair market value income tax deduction ($350,000, based on a qualified appraisal), as shown in Option 2.

Cost basis of real estate: **$50,000**

Federal long-term capital gains tax rate: **15%**

Fair market value of real estate:

$350,000

	Option 1: Sell real estate and then donate the after-tax proceeds		Option 2: Contribute real estate directly to Schwab Charitable	
Long-term capital gains taxes paid	$45,000		$0	
Charitable contribution and tax deduction	$305,000	vs.	$350,000	Additional amount available to grant to charities: **$45,000**
Tax savings	$28,200		$84,000	Additional amount saved on taxes: **$55,800**

By donating his rental property directly to charity, as shown in Option 2, Jim potentially eliminates federal capital gains taxes and thereby has an additional $45,000 available to grant to charities. He also has an additional $55,800 in tax savings.

This hypothetical example is only for illustrative purposes. The example does not take into account any state or local taxes or the Medicare net investment income surtax. The tax savings shown is the tax deduction, multiplied by the donor's income tax rate (24% in this example), minus the long-term capital gains taxes paid.

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. Deductions for charitable contributions, for those who itemize, may be limited based on the type of property donated, the type of charity, and the donor's AGI. Charitable contributions to public charities, including donor-advised funds, of capital gain property held for more than one year are usually deductible at fair market values. Itemized deductions for capital gain property held for one year or less are usually limited to cost basis. Gifts of long-term held and appreciated real estate in excess of $5,000 require a qualified appraisal from a qualified appraiser to substantiate fair market value for purposes of the income tax deduction.

Additional considerations

In addition to the potential tax benefits described above, the following considerations may apply.

1. Donate marketable real estate.

You may consider contributing real estate to charity as long as the charity can sell the property in a timely manner (i.e., it is a marketable property and relatively easy to liquidate). In addition, it makes sense to donate real estate where:

- The property has been held for more than one year and has appreciated significantly.
- The property is debt free. If there is debt on the property, you may be subject to IRS "bargain sale" rules, which can generate some capital gains tax and lower the value of your charitable deduction. In addition, the debt may be taxable to the charity when the property is sold (e.g., acquisition indebtedness).
- You are willing to transfer the property irrevocably to the donor-advised fund or other public charity, which will negotiate the sale price and control the sale, often using an experienced intermediary.

2. Avoid prearranged sales.

If a sale is expected prior to your charitable contribution of real estate, then 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. In that unfortunate instance, the IRS may deem your donation an "anticipatory assignment of income" to the charity. As such, you may be required to pay capital gains taxes when the real estate is sold by the charity.

3. Qualified appraisal requirements and annual deduction limits apply.

Overall deductions for donations to donor-advised funds are generally limited to 50% of your adjusted gross income (AGI). The limit increases to 60% of AGI for cash gifts, while the limit on donating appreciated non-cash assets held more than one year is 30% of AGI. The IRS permits a carryover for five tax years, should your charitable deduction exceed AGI limits in a given tax year.

To substantiate your charitable income tax deduction, you are required to complete Form 8283 and obtain a qualified appraisal from a qualified appraiser for contributions of real estate in excess of $5,000.

Interested in learning more?

The Charitable Strategies Group at Schwab Charitable is a team of professionals with specialized knowledge about non-cash asset contributions to charities. Our team stands ready to support you and your advisors, from initial consultation through asset evaluation, receipt, processing, and sale. We strive to provide unbiased guidance and frequent communication at every step of the process to help you and your advisors make informed decisions and stay aware of the time required for your transaction.

For more information about the advantages of contributing appreciated non-cash assets, you can review our infographic, read an overview article, or call us at 800-746-6216.

If you would like to learn more about Schwab Charitable donor-advised fund accounts, click here.

Giving is good.
Giving wisely
is great.

For questions or assistance with philanthropic planning or charitable giving:

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This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. A donor's ability to claim itemized deductions is subject to a variety of limitations, depending on the donor's specific tax situation. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified tax advisor, Certified Public Accountant, financial planner, or investment advisor.

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 subsidiaries of The Charles Schwab Corporation.