REAL PROPERTY

The following is a summary of six different ways donors can use real estate in charitable giving. Each offers its own set of benefits to the charity and the donor.

- Outright gift
- Bequest
- Bargain sale
- Retained Life Estate
- Charitable Remainder Unitrust
- Gift annuity (not recommended) or deferred payment gift annuity (under limited circumstances)

OUTRIGHT GIFT

A gift of real estate is a tax-wise method of providing support for Cal Poly because of the two-fold tax savings. A residence, summer home, farm, commercial property or vacant land may have appreciated in value to the extent that its sale would result in a sizable tax on the gain. If given outright to Cal Poly, the donor can avoid this tax and realize a charitable deduction for the full fair market value. The property gift also removes this asset from the donor's estate and avoids future taxes.

BEQUEST

Charitable bequests are made through a will or living trust. They can be revocable or irrevocable during a donor's lifetime depending upon how the bequest is documented. The donor may designate a specific property in estate plan for the benefit of Cal Poly. The donor may also establish a contingent bequest. If heirs predecease the donor then Cal Poly receives the remainder.

BARGAIN SALE

The bargain sale is part sale and part gift. A donor, who wishes to make a major contribution to Cal Poly using real property, but, at the same time would like some immediate cash from the transaction, can sell the property to Cal Poly in a bargain sale.

Example of Bargain Sale

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RETAINED LIFE ESTATE

An owner of a personal residence or farm may give the property to Cal Poly while retaining the right to occupy the home or operate the agricultural land. This gift vehicle provides an income tax deduction for the present value of the remainder interest.

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Example of Retained Life Estate

Polly has lived in her home for 40 years. Her will includes a provision that Cal Poly will receive the home at her passing. This arrangement does not provide any current tax deduction for her. As an alternative, Polly decides to give the home to Cal Poly now, while retaining the right to live on the property for life. Given the home's current value of $500,000, she will be entitled to a current income tax charitable deduction of over $240,000, which is the value of Cal Poly's remainder interest. By creating the retained life estate, Polly accelerates her gift and enjoys a large tax deduction without changing her lifestyle.

CHARITABLE REMAINDER TRUST

A charitable remainder trust (CRT) is a life income arrangement that enables a donor to convert an asset, usually appreciated stock or real estate, into an income stream by making an irrevocable gift of the property. Once transferred into the CRT, these appreciated assets can be sold and are reinvested into a diversified portfolio. As a result, the donor has the full fair market value of the gifted property available to produce life income for the trust beneficiaries. In addition, the gift will generate a charitable income tax deduction equal to the present value of the future gift. In the year of the gift, this deduction can be taken up to 30 percent of the donor's adjusted gross income. Any unused part of this deduction can be carried forward and deducted from the donor's income for an additional five years.

Example of a Charitable Remainder Trust

Mrs. Green, age 67, owns undeveloped land that has increased tremendously in value. The land generates no income and is a cash-flow drain because of real estate taxes. Mrs. Green faces capital gain taxes if she sells the property to reinvest for income, or eventual estate taxes if she keeps the property. Mrs. Green uses the land to establish a charitable remainder trust for the benefit of Cal Poly. The trust will pay Mrs. Green a 6 percent income for life and then distribute its assets to Cal Poly after her death. The trust provides a current tax deduction, avoids capital gain taxes and removes the land from her estate.

CHARITABLE GIFT ANNUITY

A charitable gift annuity (CGA) is a way to increase a donor's income, reduce taxes and make a generous future gift to Cal Poly at the same time. A CGA is a contract between the donor and Cal Poly. Usually donors use cash or appreciated securities. Occasionally, if not prohibited by state law, donors fund gift annuities with real estate. These cases are not common due to the legitimate concerns of the charity in promising a payment in exchange for an illiquid asset.

How a Charitable Gift Annuity Works:

- Donor makes an irrevocable transfer of cash, marketable securities, or real estate to Cal Poly. In exchange, Cal Poly agrees to make fixed payments to the donor or loved ones based on the ages of the beneficiaries for their lifetimes.
- A portion of this income will be tax-free over the beneficiary's life expectancy and the donor will receive a partial income tax deduction for the gift.

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- In addition, the assets transferred in exchange for the CGA will be considered outside of the donor's estate for federal and state estate tax purposes.
- Cal Poly uses the payout rates suggested by the American Council on Gift Annuities (ACGA), which are reviewed annually by the ACGA and adjusted based on a variety of economic factors.
- Donors can choose an immediate payment gift annuity or can defer payments for a length of time (deferred gift annuity).
- Although it is risky to take a piece of real estate for a deferred gift annuity, it can be done under certain circumstances. With a deferred gift annuity, the donor exchanges property for an annuity payment that begins more than a year following the gift, for example in five years, ten years, or at retirement. This gift option provides the window of time Cal Poly will need to ensure the funds are available to generate the payments when they come due.

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