

(continued from front)

Capability – “We want to make a gift to our favorite charity. The gift is complex (such as a charitable remainder trust or closely held stock). The charity does not know how to deal with gifts like that. How can we get the money to them?”

At the Community Foundation we have the expertise to accept complex gifts. Donors can establish a designated fund with us for the benefit of their favorite charity. The gift would come to us, but the earnings would benefit the selected charity.

Oversight – “We want to make an endowment gift to a charity, but we wish there was someone who would always make sure it is spent in the way we intend.”

Many people establish designated funds with the Community Foundation for just that reason. We invest the funds and make sure that the nonprofit is using them according to the donor’s intent. If the charity goes out of business or does not perform as it should, we redirect the funds to another charity that will fulfill the donor’s wishes.

Ease – “We give to many nonprofits, and it requires a lot of time to write the checks and maintain all the record keeping.”

If your clients establish a donor advised fund with the Community Foundation, they can provide recommendations as to which charities should receive how much, and we will take care of everything else.

Note: It is our recommendation that donors consult with their tax experts regarding specific situations.

AdvisorImpact

A Quarterly Newsletter for Professional Advisors



The Community Foundation of North Central Wisconsin is one of 21 community foundations in Wisconsin and one of over 150 community foundations in the United States that has achieved Confirmation of Compliance with National Standards for U.S. Community Foundations. Awarded after an extensive review of organizational and financial policies and procedures, 43 National Standards addressing six key areas of operations were evaluated. Currently, compliant U.S. community foundations administer over \$9 billion in assets. The National and State Standards seals signify integrity and excellence.

According to Boston College in their landmark study - “Millionaires and the Millennium” – the United States is in the midst of the largest intergenerational transfer of wealth in American history, with \$41 trillion passing from this generation to the next.

The Donors Forum of Wisconsin, and the 21 certified Community Foundations throughout the state, will release the “Wealth in Wisconsin: Intergenerational Wealth Transfer Study” soon.



The Community Foundation of North Central Wisconsin is a nonprofit organization that exists to enrich life for present and future generations.

If you would like to learn more about how we can work together to meet your client’s philanthropic needs, contact Jean Tehan, Executive Director of the Community Foundation.

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Bargain Sale of Real Estate Gifts

In this second installment of the Charitable Gifts of Real Estate series we will be taking a closer look at bargain sale of real estate. A bargain sale of real estate is another option for decreasing a client's tax liability on a transfer of property or property rights. A bargain sale is a sale of property where the donor knowingly sells the property for less than the appraised fair market value with the intent of making a charitable gift.

How Does it Work?

The difference between the property's fair market value and the purchase price paid by the charity is considered a gift and the donor is entitled to claim a charitable tax deduction for this gift amount. Under IRS tax regulations, the sale must be made to a 501(c)(3) charity and the property held for more than one year prior to the sale.

The intention of the charitable gift must be documented in a letter, offer of sale, or other document. The mere fact that the property is sold for less than its fair market value is not sufficient to justify a charitable deduction. Imagine a property is sold to a charity for what the owner at that time thought was a fair price. However following the sale, the charity obtains an appraisal showing that the property was worth more than they paid. The previous owner, upon learning that the property was priced too low, would have difficulty supporting their intent to make a charitable gift.

The bargain sale price can be for any amount that the owner and the charity agree upon. The donor is taxed on the gain, if any, that is attributed to the sale. To calculate the taxable gain, first allocate the donor's cost basis proportionally between the sale and gift portions. Then subtract the cost basis allocated to the sale portion.

Example:

Mr. T sells to a charity a property appraised at \$500,000 for a price of \$300,000.

The adjusted cost basis is \$250,000.

Cost Basis Allocation to sale portion is: $\$300,000 \div \$500,000 \times \$250,000 = \$150,000$

Taxable Gain is $\$300,000 - \$150,000 = \$150,000$

Charitable Deduction is $\$500,000 - \$300,000 = \$200,000$

If the sale is of a mortgaged property, the donor will be taxed on the gain attributed to the mortgage as well as on the gain attributed to the sale portion.

What are the Advantages?

- 1) A bargain sale is simple and inexpensive.
- 2) A bargain sale is tax efficient, often producing better tax results than a traditional life income gift.
- 3) A bargain sale is flexible. The terms of the agreement – interest rate, down payment, term, and frequency of payments are all negotiable and can be adjusted to fit your client's goals. For example, in an Installment Bargain Sale the charity can pay the sale price in installments over a set number of years rather than in a lump sum. It prevents the charity from having to advance a large amount from the general fund and prevents the donor from having to recognize the taxable gain all at once.

The end result is that your client is able to sell their land for substantially more than originally paid for the property, while at the same time making a significant and lasting gift to charity helping to ensure the future of the community.

Client Q&A:

Answers to questions your clients may have regarding services provided through the Community Foundation of North Central Wisconsin.

Adapted with permission from the Community Foundation for Palm Beach and Martin Counties.

Flexibility – *"We would like to do something good for charity, but we are not sure what."*

We are not a cause; we are a causeway. So the Community Foundation may provide a simple solution to your clients' problem. They can give an endowment gift and realize the tax deduction now, and decide later which charities or causes they would like to see benefit from the earnings. They may want to do something similar in their estate plan. They can name the Community Foundation in their estate planning documents, and then tell us later how they would like the money to be spent. That way they can change their minds without changing their estate documents.

Simplicity – *"We are thinking about establishing a private foundation, but we're not sure we want the expense and the hassle."*

A donor advised fund or supporting organization at the Community Foundation provides most of the advantages of a private foundation with far less cost and trouble. The tax benefits are frequently much greater, and donors can still involve their family members and future generations in the grantmaking decisions.

Anonymity – *"We want to make a contribution to a charity but we want it to be anonymous."*

A donor advised fund with the Community Foundation allows a donor to remain absolutely anonymous. Checks written to grantees are from the Community Foundation so the source of the funds does not have to be disclosed. This reduces the potential for undesired solicitations and publicity.