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“Bargain Sale to Charity”

Disposing of Real Estate Assets Through Waste to Charity.

Make some money while making a Difference! (Save On Taxes, too...)

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" REAL ESTATE , YACHTS , BOATS AND CARS: BARGAIN SALE TO A CHARITY: "

SELLING, RATHER THAN DONATING:

There are a number of ways to increase your financial return on a donation, one of which is a Bargain Sale. A Bargain Sale is a sale of property to a charity at less than its fair market value, with a result that is in part a sale of the property and in part a charitable contribution.

For Example:

If you sell your property with a fair market value of $50,000 to a charity for $1,000, and are allowed a deduction for all or part of the $49,000 gift, you have made a Bargain Sale.

In looking at a sale, you must take into consideration all of the expenses you must expect. Storage, insurance, repairs, investment interest and brokerage sale commission are a few of the expenses to be expected before you sell your property. After you have signed a sales contract and the buyer surveys the property, you probably will be met with more expenses. There are always items that need to be corrected after a purchaser's survey, and in most cases the seller ends up paying for them. You must also realize that the length of time a property is on the market before selling is generally over 6 months. With a " sale / donation" , all expenses, liabilities, and warranties cease the moment the property is transferred.

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Questions and Answers About Bargain Sales:

Bargain Sale : What is a bargain sale?

A bargain sale involves a transfer of assets from the donor to Waste to Charity at a reduced price in exchange for a lump sum or periodic payment. The difference between the bargain price and the fair market value is a charitable gift to Waste to Charity.

What are some benefits of a bargain sale?

A bargain sale is an excellent way for a donor to generate immediate liquidity, or to supplement his or her retirement income.

Bargain sales allow donors to avoid the burden of property management and also provide tax savings from the income tax charitable deduction.

A bargain sale with a fixed number of installment payments to the donor may be preferable to transferring valuable assets in exchange for gift annuity payments which terminate at the annuitants death.

What are some details and tax issues regarding bargain sales?

For tax purposes, the transaction is part sale and part gift to charity. The gift portion of a bargain sale to W2C qualifies for the income tax charitable deduction. The deduction equals the difference between the fair market value and the reduced price. The income tax charitable deduction may be taken in the year of the gift, even if the donor receives installment payments for the sale portion.

To determine if there is a taxable gain on the sale, the donor's cost basis is allocated for tax purposes between the sale portion and the gift portion of the transaction. Income taxation of the sale portion can be spread by receiving payment in installments. The IRS treats the outright transfer of debt-encumbered property to charity as a bargain sale, as if the donor had received cash for the amount of "debt relief."

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Bargain Sale Taxation Issues:

A donor must file IRS Form 8283 with his / her tax return and obtain an independent appraisal to substantiate the charitable deduction for non-cash gifts (other than publicly traded securities) in excess of $5,000 in value, or $10,000 for closely held stock. When an owner sells land for less than its full, fair market value to a developer (or any other entity that's not a charitable group), the owner is simply a poor negotiator or a desperate seller. But when she volunteers to sell land to a charity (or government agency) for less than full value, it's called a "bargain sale" and she is lauded for being both civic-minded and financially savvy. That's because she has benefited community objectives (in this case, open space and habitat protection) and generated both cash and tax savings for herself.

A bargain sale, says the Internal Revenue Service, is one made to a charity that is "partly a charitable contribution and partly a sale". The difference between the appraised fair market value and the selling price is a charitable deduction. That's one tax benefit. The other is a reduction (though not elimination) in capital gains taxes that would have accrued from a full value sale. Capital gains tax is imposed on the "profit," the difference between the property's value when one acquired it (plus improvements) and the selling price.

Good accounting and tax law advice is needed to analyze the interplay among these tax benefits and a property owner's financial situation in any particular bargain sale transaction. But the bottom line is simple: The seller who is willing to forgo maximum after-tax cash, but still wants substantial after-tax cash and intangible rewards (such as preservation of family land, habitat protection, etc.) should investigate a bargain sale. The seller's intangible or "spiritual" motivation is crucial in the equation because rarely will the cash and tax savings of a bargain sale equal the full cash sale to a developer.

The accompanying table provides a brief summary of how a bargain sale might work. In this example, the owner bought a property for $100,000 which is now appraised at $350,000. The owner can easily get that value from a developer, or she can sell it to a charitable conservation group (or a state or federal natural resources agency) for, say, 75% of the full value or $262,500.

If sold to a developer, the owner pays a 28% federal capital gains tax and 6% state

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capital gains tax on the difference between the sale price and the original purchase price (28% + 6% of the $250,000 increase in value is $85,000). And she has no tax benefit from the sale for development. Her after-tax income associated with the private sale is $265,000 ($ 350,000 less $ 85,000), and the land is ready for development.

If, on the other hand, she sells to Save the Bay for $262,500, her federal and state capital gains tax is $63,750 (based on a mathematical formula, rather than subtraction, that involves market value and original purchase price). And she has an $87,500 charitable deduction (the difference between actual selling price and market value). An important factor here is that income taxes can be reduced over a period of up to six years (resulting in a total income tax savings of 28% of $87,500, or $24,500).

	Bargain Sale	Development Sale
€ Fair Market Value	$350,000	$350,000
€ Sale Price	$262,500	$350,000
€ Basis (original value)	$100,000	$100,000
€ Charitable Deduction	$87,500	$0
€ Capital Gain	$187,500	$250,000
€ Capital Gains Tax(28% fed + 6% st)	$63,750	$85,000
€ IncomeTaxes Saved (over 6 years, 28% bracket)	$24,500	$0
€ After-Tax Sales Result	$223,250	$265,000

So what's the bottom line? By selling the land for development, the owner ends up with $265,000. The bargain sale for conservation gives her $223,250 after six years. Therefore, the $87,500 gift has only "cost" her $41,750 in after-tax income over six years (See Table 1).

In practice, the biggest drawback is not the confusing numbers so much as the unfortunate terminology. Some landowners are put off by the term "bargain" sale because in other settings it implies "fire sale" prices. Land trusts as buyers are beginning to use the term "charitable sale" instead, to emphasize the philanthropic nature of the transaction. National land trusts, such as The Nature Conservancy and the Trust for Public Land, almost always use the bargain sale technique when purchasing property for open space. It stretches their hard-won fundraising dollars. It satisfies the seller's

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need for some significant cash. And it preserves land.

When is a bargain sale not a bargain sale? First, it has to involve a qualified 501c3 charity, such as Waste to Charity, recognized by the IRS. (Any government agency also qualifies.) Second, it should be capital gain property, typically an appreciated asset held for more than a year. (Short-term, or ordinary income property, generates limits on the charitable deduction aspect.) Third, developers usually cannot fully benefit in a bargain sale since they cannot deduct appreciated value. And, finally, the sale price should be less than 80 percent of the fair market price, so the IRS can discern charitable intent.

IMPORTANT: This information is NOT to be construed as legal or accounting advice. Waste to Charity is NOT representing itself as a tax expert, and is certainly NOT YOUR TAX EXPERT.

This entire document is for educational purposes only. Tax law changes frequently- so ask your advisor!

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Bargain Sale Offering Form:
(Fax to Either 856-384-0091 or 202-318-8865)

(Circle) Car / Truck Boat Real Estate Aircraft

Make Model Year

Is the vehicle running / operating? Yes No

If Real Estate , are there liens against this property? Yes No

If Real Estate , are the buildings damaged or condemned? Yes No

Description

When Is It Available

What Is The estimated Fair Market Value?

what is irregular about this product?

why is this product being donated?

Contact Person

Street

City State Zip

Property Address (If different) :