

Gifts of Other Property

In the eyes of the IRS, everything other than cash is considered property. Although gifts of stocks, bonds, and mutual funds are considered gifts of property, they are covered in a separate document.

Other types of property include real estate, jewelry, art, collectibles, household items, clothing, etc. Each of these items is treated differently by the IRS in terms of determining their value. The tax deductible amount varies by type of item.

Real estate is the most unique of these items. Ownership of real estate is determined as short-term (less than 1 year), or long-term (more than 1 year). Short-term vs., long-term ownership determines if there is short-term or long-term capital gain in the property by the time the property is donated.

Besides ownership, the manner in which the gift is made will also determine the gift's deductibility. A donor could donate real estate as an outright gift. The donor can make a gift of just a partial interest in real estate. The donor could also donate a future interest in real estate. The easiest and most common way for a donor to donate real estate is by making an outright gift of long-term property. In this case, the donor would qualify for an income tax deduction equal to the fair market value of the property and any buildings on it as determined by a standard real estate appraisal.

The second most common way to donate real estate is to donate a future interest in real estate. This is done via a process called a Retained Life Estate.

WHAT IS A RETAINED LIFE ESTATE?

A retained life estate is a gift plan defined by federal tax law that allows a donor to donate a home or farm or vacation home to a qualified non-profit organization, like the church, while retaining the right to live in or work on the property for the rest of the donor's life. As the creator of a retained life estate, the donor irrevocably deeds real estate to the church, but retains the right to live in it or work on it, or rent it out for the rest of the donor's life, a term of years, or a combination of the two.

While the donor retains the right to live on their property, s/he continues to be responsible for all routine expenses such as maintenance fees, insurance, property taxes, repairs, etc. If the donor decides at a later date to vacate their property, they may rent all or part of the property to someone else or sell the property in cooperation with the church prior to the previously determined term of years.

When the retained life estate ends, the church will then use the property or the proceeds from the sale of the property for the purpose previously designated by the donor.

BENEFITS INCLUDE:

1. The donor will qualify for a federal income tax deduction. Note that deductions for gifts of long-term appreciated property will be limited to 30% of the donor's adjusted gross income and gifts of cash and non-appreciated property will be limited to 50% of the donor's adjusted gross income. The donor may, if necessary, take unused deductions of either kind over the next five years, subject to the same 30% or 50% limitations.

2. The donor will retain the right to live on or work on or rent their property for the rest of their life, for a term of years, or for a combination of the two.
3. The donor's estate may enjoy reduced probate costs and estate taxes because the property is irrevocably removed from the donor's estate and therefore not included in calculations for probate fees or federal estate tax liabilities. The donor will provide generous support for his / her church.

DSUMF encourages donors to seek legal, accounting or other professional advice when it comes to making any type of large gift. The information above should not be considered legal, accounting, or other professional advice. A donor's actual benefits will vary depending on the date of the gift, the value of the gift and whether the gift is considered short-term or long-term property from a capital gain perspective.

GIFTS OF TANGIBLE PERSONAL PROPERTY

DSUMF welcomes gifts of tangible personal property from members for the benefit of their church. Examples of tangible personal property include collectibles, household items, art, jewelry, etc. In almost all circumstances, the DSUMF will sell the donated property and distribute the sale proceeds to the donor's church for the donor's intended purpose.

Unless the property has been held by the donor more than one year and the property is used by the church in a function related to its purpose, the donor's income tax deduction is limited to the donor's original cost for the property. If the property has been held by the donor more than one year and the property is used by the church in a function related to its purpose, then the donor may take an itemized income tax deduction for the fair market value of the property.

There are certain special rules that can also limit the amount deductible, such as when the property is art created by the donor. It is important for members considering donations of any significant amount to consult their tax advisor for details prior to making the gift.

It is also important for churches to create gift acceptance policies. The time and effort put into creating such policies now will eliminate the probability of being forced to make gift acceptance decisions under pressure in the future. The DSUMF has established gift acceptance policies and any agency, board, or church in the Desert Southwest Annual Conference is welcome to use said policies as a template for their own policies.

For More Information

This statement is intended to provide basic information regarding gifts other than cash to the church through the DSUMF. If you have additional questions concerning DSUMF's gifts of other property, please contact the Desert Southwest United Methodist Foundation, 1550 E. Meadowbrook Ave., Phoenix, AZ 85014, foundation@dsumf.org, 602.266.6956 Ext. 202.