Donor-Advised Funds

Leave a Positive Impact for Your Family to Follow

Establishing a Donor-Advised Fund When Selling Real Estate

When the sale of real estate yields substantial gains, it will trigger a tax bill that, at times, can be substantial. There could be significant tax advantages to donating a portion of the real estate to a Donor-Advised Fund.

A philanthropically-minded family can use the fund to decrease their tax liability and create a charitable giving strategy. Their efforts will leave a positive impact for their children and grandchildren to follow.

Case Study

A married couple sells a building they owned for many years for $8 million net after selling expenses. The building has no debt and a cost basis of $650,000, giving them $7,350,000 subject to taxation. Their taxes will include:

• A 20% capital gains tax.

• A 7% state tax.

• A 3.8% net investment income tax.

• Combined, these will total 30.8% tax levied on the amount exposed to taxation.

The couple expresses to their financial advisor how they would like to be more charitably active in their retirement. Their financial advisor suggests donating $1 million of the equity from the sale of the real estate to a Donor-Advised Fund to decrease the taxes paid on the gain and establish their family gifting program through the fund.

Let us examine three possible scenarios in the sale of the building:

• They sell and make no donation.

• They sell and make the donation as cash after they sell the building.

• They transfer the $1 million of equity before they go to contract and allow the Donor-Advised Fund to sell that portion of their building to eliminate the capital gains tax on the $1 million.

	No Donation	**Donation After the Sale**	**Donation Before the Sale**
Sale Price	$8,000,0000	$8,000,000	$8,000,000
Donation Prior to Sale	$0	$0	$1,000,000
Cost Basis	$650,000	$650,000	$568,750
Taxable Amount	$7,350,000	$7,350,000	$6,431,250
Taxes	$2,263,800	$2,263,800	$1,980,825
Tax After Equity	$5,736,200	$5,736,200	$5,019,175
Donation After Sale	$0	$1,000,000	$0
Final Equity	$5,736,200	$4,736,200	$5,019,175
Gift Tax Deduction	$0	$1,000,000	$1,000,000
Income Tax Savings @ 44% TB	$0	$440,000 (1)	$440,000 (1)
Final Equity Plus Tax Savings	$5,736,200	$5,176,200	$5,459,175

As you can see, having the Donor-Advised Fund sell the portion of the building inside the fund creates the most significant tax efficiency. Not only do you receive a tax deduction on the gift, but you eliminate the capital gains on the portion the Donor-Advised Fund sold.

Said differently, the $1 million donation placed in your Donor-Advised Fund only cost you and your family $277,025 net after taxes. Yet, your family will bestow $1 million worth of generosity, plus the investment return your financial advisor can generate on the account to your charities will compound tax-free.

To learn more, call our office and we will explain what options might be ideal for you and your family's individual situation.

Find out how a Donor-Advised Fund can help you leave a positive impact for your family to follow.

(1) Please remember that there are annual income tax deduction limits for gifts made to public charities, including donor-advised funds. For contributions of non-cash assets held more than one year, like the hypothetical situation above, is 30% of adjusted gross income (AGI) for the tax year of the gift. It is 60% of AGI for contributions of cash. You may carry over donation amounts in excess of these deductions for up to five tax years.

Disclosures:

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All financial decisions and investments involve risk, including possible loss of principal.

Investors should carefully consider a fund's investment goals, risks, sales charges and expenses before investing. The prospectus contains this and other information. Please read the prospectus carefully before investing or sending money.

A donor advised fund is a separately identified account that is maintained and operated by a section 501(c)(3) organization, and is not a registered investment company.