Dear SLU Alumni and Friends:

Think about the best-performing investments in the ’90s and you automatically think stocks. Dazzling returns often made it easy to overlook other assets. But now with a fluctuating stock market, diversification has become the new watchword, and people are starting to look at investment performance in a different light.

Certainly, if investment performance were measured over the years, you would not want to overlook real estate — residential or commercial. While there have been “soft spots,” real property in many locales has appreciated greatly in value during the past few decades. Indeed, for many people, real estate remains the single largest asset in their portfolios.

Today, real estate may be even more attractive as an investment to some individuals. That’s because, for one thing, the capital gains tax liability is eliminated for most disposing of a principal residence. Even the rollover of gain to the new residence is unnecessary. At the same time, new opportunities abound for using such real estate as a second home, vacation home or investment property for charitable giving purposes — opportunities that could save you tax dollars and increase your spendable income. The trick is to unlock the earned income.

This issue of 1818 Society News puts the spotlight on some of these creative planning opportunities. More information is available in our new booklet, Gifts of Real Estate — Unlocking the Financial Benefits. You can order a complimentary copy simply by using the enclosed card. There is, of course, no obligation.

Kent G. LeVan
Director of Planned Giving
If “Yes” is your answer to one or more of these questions, and your real estate is marketable, then you may want to consider the tax and financial advantages of planning a gift of your real estate to Saint Louis University. Of course, any gift of real estate requires careful consideration by you and us. A charitable gift of real estate offers many advantages and can be structured in many different ways to meet your needs. Here are some of the more attractive strategies that have proven popular with many of our alumni and friends.

**Maximize Tax Deduction through an Outright Gift**
An outright gift of real estate entitles you to a current income tax charitable deduction for the full fair market value as determined by a qualified appraisal, subject to your deduction limits. Furthermore, you escape potential capital gains taxes that would be owed if you sold the property instead. Of course, donated property must be readily marketable so that SLU will be able to put the proceeds of your gift to work for our educational purposes.

**Get a Partial Tax Deduction and Recover Your Basis**
If you believe that you can afford to donate only a portion of the value of your property, then a bargain sale with SLU may be the best solution. We will pay you a certain percentage of the property’s appraised value, and you donate the remaining portion of the value. You will receive an income tax charitable deduction for the amount of the property’s value that you have donated. You also will escape that portion of the capital gains tax reflected by your donation.

**Retain Your Life Estate; Give a Remainder Interest**
If you wish to continue using your property, you may consider donating a remainder interest in your real estate to SLU. You retain a life estate that enables you to use the property for as long as you wish. Upon your death, we immediately receive the property, avoiding the time delay and costs associated with probate. If you donate a remainder interest, you will receive an income tax charitable deduction for the present value of our interest. Of course, we are available to assist you in planning such a gift to be certain that insurance, taxes, maintenance costs and other important issues are considered should you decide that you wish to move or that you no longer need the property.

**Convert Non-Income Producing Assets into an Income Stream**
If you would like to convert your property into an income-producing asset, you may consider donating it through a charitable remainder trust. The trustee of this trust, which may be you or another person or organization selected by you, may sell the property without triggering the payment of capital gains tax. The proceeds of the sale may be invested in stocks, bonds, etc. to provide you additional income. In addition, you will receive a current income tax charitable deduction for your gift. You, and/or others chosen by you, may receive a lifetime income. At the end of your or their lives, the remaining assets held by the trust are donated to SLU.
Example: Bill and Judy, ages 65 and 63, respectively, owned highly appreciated rental property that they purchased in 1985 for $50,000. They grew tired of the burden of managing the property, which generated annual rental income of $20,000. They recently had the property appraised, and it was valued at $250,000.

After much consideration, Bill and Judy decided to donate the property to a charitable remainder unitrust. Their donation entitled them to an income tax charitable deduction of over $84,000 that they used for the year of the gift, as well as for five subsequent years for any excess deduction. Special terms of the trust provided that no income was owed to them until the property was sold and the proceeds invested to generate income. These terms were important since the current tenants had moved out of the house and the rental income had stopped.

(From Forbes Magazine, Dec. 11, 2000)
By Brigid McMenamin

Good news: Your house is worth $1 million more than you’ve put into it. Bad news: If you sell and move to a smaller place, you’ll owe tax. If you stay put, the homestead will be hit with heavy estate taxes.

What to do? If you are inclined to give to charity and disinclined to give to Uncle Sam, consider using your first or second home to fund a charitable remainder trust or a charitable gift annuity, says Memphis lawyer Robert F. Sharpe Jr.

That’s what Theodore and Meredith Henry did with the Bel Air, Calif. hilltop home in which they’ve lived since 1955. The Henrys still loved the redwood-and-stucco four bedroom place, with a panoramic view that stretches to Catalina. But at age 80, they felt they had to make decisions. They were sitting on $1.8 million of appreciation on the $2 million property, already well fixed. He now runs Los Angeles-based Henry Radio, the company the Henrys launched to make radio-frequency amplifiers.

In the meantime the elder Henrys get a $360,000 tax deduction, which they can spread over six years, a partially tax-free annuity of $73,000 per year from the university and the right to live in the 4,500-square-foot house for the rest of their lives. Both the annuity and the right to occupy the house last until they are deceased.

Not everyone can do what the Henrys did, or even wants to. First, giving your home away means forgoing the wonderful new exclusion of up to $500,000 of gain on that home. Some states, among them New Jersey and Washington, also limit gift annuities funded by real estate; New
Once the property was sold, the trust began to pay to Bill and Judy (on a quarterly basis) 5 percent of the trust value as determined once each year. The trustee of the trust sold the property for $250,000. Since the property was donated to the trust prior to sale, Bill and Judy did not owe any capital gains tax as a result of the sale. Bypassing the $200,000 gain saved them at least $30,000 which would have been paid in federal capital gains tax had the property been sold without the use of the charitable remainder trust (not to mention state taxes and transaction costs).

The proceeds of the sale were invested in a diversified portfolio including income-producing bonds as well as some growth-oriented stocks. While the trust guarantees no set amount to be paid, Bill and Judy currently receive $12,500 annual income. This amount may grow should the value of the trust investments appreciate. Language in the trust document allows for the sale of stock to assist with the payment of the annual 5 percent income should the bonds not produce sufficient income. Of course, Bill and Judy report the income from the trust on their annual income tax return. The trust, however, is tax-exempt and pays no income tax.

The income from the trust will be paid to Bill and Judy as long as either is alive. After that time, the assets in the trust will pass to SLU to fund a named endowment fund for student scholarships. Of course, due to this gift, the entire value of the assets then held in the trust will completely escape any potential estate tax liability or probate costs. Continued on page 5

York prohibits them outright. In addition, unless your house is worth millions or you’re over 80, a charity might balk at the prospect of laying out cash for years before it actually gets the house.

There are other ways, however, to fulfill your charitable agenda and cut your tax bill.

One is to put your highly appreciated house in a charitable remainder trust. The trustee can then sell the house without incurring gains tax and invest the proceeds. In return, you get either a lifetime or a 20-year annuity equal to a certain percentage of the value of the trust as well as an upfront tax deduction, often 10 percent of the house’s value. The charity gets what’s left in the trust when you die.

Warning: A charitable remainder trust won’t work if you have a mortgage on the house, says Carolyn Osteen, a partner with Ropes & Gray in Boston. That may trigger capital gains taxes on the trust or even disqualify it.

If you don’t need extra income now, consider a variant of the charitable remainder trust known as a “flip unitrust.” In this case, after the house is sold, the proceeds are managed to provide maximum growth in principal but no income until a key date or event occurs, say, you turn 65. At that point the trust automatically converts to an income-producing trust. ("Trust Me," Forbes Magazine, Dec. 27, 1999).

UCLA has done 50 flip unitrusts in the past two years, a third of these funded by homes.

One catch with charitable remainder and flip trusts: You can’t live in the house anymore. If you don’t need income, but do need a tax deduction and don’t want to move, consider deeding your house to charity while retaining a life estate for yourself. Sure, you could leave the house to charity when you die, but then you’d miss out on the current tax deduction. With a retained life estate you can even provide that someone else, say a child, have the use of the place for the rest of his life. But note that this will yield a smaller tax deduction now since he or she is likely to live longer than you, and also a gift tax as well.

You can also give a highly appreciated house to charity outright. As with a gift of appreciated stock, you get to deduct the full market value without being taxed on the unrealized appreciation.

To learn more, check out www.pgresources.com, which has information on planned giving; www.nolo.com, which offers free primers on charitable trusts and estate planning; Plan Your Estate, by Denis Clifford & Cora Jordan (Nolo Press, $40) at www.nolo.com or 800-992-6656; and The Harvard Manual on Tax Aspects of Charitable Giving, by Carolyn M. Osteen & Martin Hall (Ropes & Gray, 2000, $195).

Reprinted by Permission of Forbes Magazine ©2003 Forbes Inc.
Let’s look at the substantial advantages of the charitable remainder trust for Bill and Judy:

- A significant gift to support SLU’s mission
- Income tax deduction of more than $84,000
- Capital gains tax savings in excess of $30,000
- Annual income for the rest of their lives equal to 5 percent of the trust value as determined each year
- Conversion of rental property into a diversified investment portfolio
- No federal estate tax at the survivor’s death.

Note: The advantages of a charitable remainder trust vary from case to case. Please consult your personal advisers and one of SLU’s planned giving representatives for the applicability of these principles to your circumstances.

A GIFT OF REAL ESTATE REQUIRES CAREFUL PLANNING
Planning a gift of real estate requires time and expertise. Your first step in considering such a gift should be to speak with your professional advisers (attorney, accountant, etc.) as well as a representative from our professional staff. We can help you and your advisers determine the potential advantages in your particular circumstance.

Although donating your real estate may be less time-consuming than selling it, a number of factors still must be considered. For example, one planning consideration

1818 Society member John Peterson funded a planned gift arrangement with Saint Louis University called a retained life estate gift annuity.

With the arrangement, he transferred ownership of his home to the University while retaining the right to live in the home throughout his lifetime. He then used the value that was transferred to the University to fund a charitable gift annuity. The gift arrangement provided an immediate income tax deduction for him and an attractive fixed annual payment for life.

“The gift annuity has been an all-around great arrangement,” he said. “In addition to the tax and financial benefits that I receive during my life, I have been able to make a substantial gift to a worthy cause in memory of my late wife. Saint Louis University has done so much for the city of St. Louis. As a long-time resident in the St. Louis area who has seen many of the exciting developments at the University, I am pleased to support an institution of higher learning that is close to my home.”

John has served as a civic leader, including eight years as mayor of Frontenac, Mo. In addition, he was a director of several business and philanthropic organizations. Recently, he has been instrumental in the formation of the advisory board for the Institute for Biosecurity. The institute is a program of Saint Louis University’s School of Public Health.

In recognition of the generosity that he has shown through his planned gift, John received the Spirit of Philanthropy Award from the Saint Louis University School of Medicine in 2003. His gift will ultimately establish an endowed fund in memory of his late wife, Carolyn Wells Peterson. The fund will support research and patient care in manic depression and mood disorders.
is the value of your property. The IRS requires that you obtain a current qualified appraisal to help substantiate the value of the deduction you may claim for your gift, regardless of the type of gift plan you may select.

In addition, the marketability of your real estate is important. You should consider whether the real estate you wish to donate could be sold within a reasonable time. Note that current law prohibits you from agreeing to a sale of the property to a third party prior to your donation to a qualified charity.

You also must review the history of the property. Will an expert review be necessary to determine any potential environmental clean-up as required by the state or federal EPA? Does the property have any liens or debts that a charity cannot afford? Is the property properly zoned to enhance its marketability?

We are delighted to work with you and your advisers to determine the suitability and potential advantages of planning a gift of your real estate to support SLU’s charitable mission.

Here’s How to Find Out More
There are many planning options available with charitable gifts of real estate. These options may provide the perfect way to deal with the potential taxes, administrative costs or headaches associated with the sale of your property while also providing a gift to support the mission of the University.

To learn more about these options and which ones might make sense for you, simply use the enclosed card or give us a no-obligation call. We will be glad to help you — as we have helped many others — plan a gift that is both charitably and financially rewarding.