Real Estate: New Gift Planning Opportunities

Consider the real estate you own: personal residence, farm, vacation home, condominium, vacant lot, inherited property, undeveloped land, investment real estate, commercial or rental property, etc. Ask yourself some important questions:

- Is the property more land and/or house than you care to own?
- Has the property appreciated in value so that the sale of the property would trigger a substantial capital gains tax if you should sell it?
- Have you considered moving to a different part of your city or to a different state?
- Are you discouraged by all of the potential hassles of selling your real estate?
- Can it be a headache to keep up or maintain your property?

If your answer is yes to one or more than one of these questions, you may want to consider the tax and financial advantages of planning a gift of real estate to Saint Louis University. A charitable gift of real estate offers many advantages — and a gift can be structured in many different ways to meet your needs. Here are some of the more attractive strategies that have proven popular with several of our alumni and friends.

1. Maximize the 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 annual 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 can put the proceeds of your gift to work to financially support our educational mission.

2. Sell to SLU and Take a Tax Deduction
Perhaps you want to make a gift of real estate, but not the entire thing. A bargain sale with SLU may be the solution. SLU will pay you an amount less than the real estate’s appraised value, and you essentially donate the difference to the University (and take a charitable tax deduction for the difference). You may decide to make a bargain sale of your home to SLU so that you can:

- use the proceeds as the down payment for a new home – maybe a house that better suits your needs or in a new location where you want to be.
- receive the deduction for property value that you have donated. Also, you avoid capital gains taxes on the portion of the gift that you make to SLU.
Dear SLU Alumni and Friends:

When asked about the best performing investment for the money, people usually answer “stocks.” The dazzling returns in the late 1990s brought this notion to mind and perhaps overshadowed other solid investment opportunities. One of these investment opportunities has appeared steady and often spectacular — real estate. Though the nationwide real estate market is very diverse, real estate has generally increased in value during the past several years. For many people, real estate remains the single largest asset in their financial portfolio.

While real estate investment has enjoyed a recent boom, a problem for many property owners lies in realizing the gains from that boom. Several tax strategies are available for avoiding the capital gains from the sale of a primary residence. These strategies, however, may not work for every homeowner or for the sale of a vacation home, rental property or second home. By coordinating your creative gift planning, you may be able to avoid or defer those capital gains. Ways even exist to turn your valuable non-income producing real estate (such as your house) into a life-income gift that provides income tax relief and puts real money in your pocket. With a carefully planned gift of real estate, you can solve the problem that a greatly appreciated asset poses and support Saint Louis University in its educational mission.

This issue puts the spotlight on these creative planning opportunities. More information is available in our booklet, Real Estate — Unlocking the Financial Benefits. You can order a complimentary copy by returning the attached reply card.

Sincerely,

Kent G. LeVan
Director of Planned Giving
Dr. and Mrs. Charles C. Drace Jr.

Following in the footsteps of his father, Dr. Charles C. Drace Jr. graduated from Saint Louis University School of Medicine in 1939. His father was a 1900 graduate of the Marion Sims-Beaumont College of Medicine, the forerunner of Saint Louis University School of Medicine.

For more than 43 years, Dr. Drace worked as a general surgeon in private practice and was a staff member of several St. Louis area hospitals. In addition to his distinguished career in medicine, Dr. Drace also pursued other civic interests and hobbies. He served on a committee that founded the city of Town and Country, Mo., in 1950. He also was an avid horseman who raised horses on his “mini-ranch” in Town and Country.

Following Dr. Drace’s death in 1998, his wife, Marilyn, funded a charitable remainder unitrust with their Town and Country home and surrounding acreage. The trust provides lifetime payments to her and will ultimately create the Dr. and Mrs. Charles C. Drace Jr. Endowment Fund for the general support of the School of Medicine.

The real estate, which initially funded the charitable remainder unitrust, was subsequently sold by the trust to the City of Town and Country. The city developed the property into Drace Park, a nine-acre public space that features walking trails, gazebo, playground and two pre-Civil War log cabins.

Mrs. Drace is a resident of St. Louis and Wellington, Fla., where she is an avid polo fan. She attended the University of Georgia and for many years worked as a broker and vice president for the Stifel Realty Co. in St. Louis County. In addition to polo, her interests include participation in the Freedoms Foundation of Valley Forge, Daughters of the American Revolution and a women’s investment group called the Investa Gates.

"In as much as it was my husband’s desire to contribute to the research efforts of the School of Medicine at Saint Louis University, I wanted to fulfill his wish as much as possible," Mrs. Drace said. “I found an opportunity to do so when our house and property became too much of a burden to maintain. I knew that the real estate was going to the University and discovered that the charitable remainder trust would accomplish all of my objectives. I was relieved of the responsibility for maintaining the home and land, and now receive lifetime payments from the trust. In addition, the residents of Town and Country can enjoy the park and the University benefits as well. It is a happy feeling.”
In short, a bargain sale is a great way to combine the profit and the charitable elements in your real estate plans.

**Example:** Roger and Jane own a vacation home on the lake and spend many weekends there. However, Roger will retire next year, and the couple plans to move across the country to a seaside community. They doubt they will have many opportunities after next year to vacation by the lake. After discussing the local market and the feasibility of selling the lake property with their advisors, Roger and Jane approach SLU with the suggestion of a bargain sale. An appraisal is done, inspections completed, title work and a purchase agreement drawn. They decide to sell the property to SLU at half its appraised value — that money will cover costs associated with the bargain sale and capital gains taxes and provide money that they plan to put in a bank account strictly for travel. Roger and Jane may take the difference between the actual selling price and the appraisal as a charitable deduction. They also reduce their capital gains liability on the sale of the house (that has considerably appreciated since they purchased the home 20 years ago). Most importantly to Roger and Jane, the vacation home becomes a substantial gift that will mean a great deal to SLU.

3. **Retain Your Life Estate, Give a Remainder Interest**

If you wish to continue using your property, consider donating a remainder interest in your real estate to SLU. You retain a life estate in the property and continue to use the property for as long as you wish. Upon your death, SLU receives the property without the delay and costs associated with probate. When you donate a remainder interest, you will receive an income tax charitable deduction for the present value of SLU’s interest in the property. A gift of a remainder interest is also a smart way to avoid potential estate taxes by reducing your taxable estate. We can assist you in planning such a gift to be sure property taxes, insurance and other important issues are covered.

4. **Turn Real Estate into an Income Stream**

If you would like to convert your property into an income-producing asset, consider donating it through a charitable remainder trust. The trustee (you or another person or entity) can sell the property without triggering the capital gains tax. The sale proceeds are invested in securities to create an 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 Susan (ages 65 and 63 respectively) own a rental property that generates annual income of $20,000. They purchased the property in 1985 for $20,000 and recently had the property appraised at $250,000. The time and attention necessary to manage the property has lost its appeal, and Bill has considered options for getting rid of the property (at the right price or in the right way). Bill and Susan decide to create a charitable remainder unitrust and donate the property to the unitrust. The donation entitled them to an income tax charitable deduction of more than $84,500.* Special terms included in the trust document provide for no payment until the property sells and the proceeds can be invested (important terms since the current tenants had moved out of the house, so the property produced no income).
When the property sold for $250,000, the proceeds were invested in stocks and bonds. The trust pays 5 percent of the unitrust value as determined once a year. Since the property entered the trust before the sale, Bill and Susan did not owe capital gains taxes as a result of the sale. In the first year, the unitrust paid them $12,500. This payout may grow if the value of the trust investment portfolio grows. The trust itself is tax-exempt, though Bill and Susan do pay individual income tax on the income paid from the trust. The income from the trust will be paid to them as long as either is alive. After that time, the assets in the trust will pass to SLU to fund an endowment in the names of Bill and Susan.

Let's look at the substantial advantages of the charitable remainder trust for Bill and Susan:

- A significant gift to SLU
- Income tax deduction of more than $84,500
- Annual income for the rest of their lives equal to 5 percent of the trust value as determined each year
- Removing a large asset from their taxable estate

*Note: Example based on an AFR of 5.0% and a quarterly payout.*

**A Gift of Real Estate Requires Careful Planning**

Planning a gift of real estate requires time and attention to detail. The first step for such a generous gift is to speak with your advisors as well as a representative of SLU’s planned giving team. Together we can explore the potential advantages in your particular circumstance.

Though donating real property may be less time-consuming than selling the property on the market, you need to consider a number of factors. For example, you will need a qualified appraisal. The IRS requires a qualified appraisal to substantiate the value of the deduction you may claim for your gift no matter how you plan to make the gift to SLU (outright, bargain sale, life income gift, etc.). In addition, the marketability of your real estate is important — how quickly the property can be sold. Also the property will require standard inspections, including environmental and zoning reviews. We are interested to work with you and your advisors to determine the suitability and potential advantages of planning a gift of your real estate to support SLU’s mission of providing an outstanding education in the Jesuit tradition.
Suntrup Gift Helps SLU to Revitalize Midtown St. Louis

Saint Louis University is committed to the revitalization of Midtown St. Louis. Two new projects that will further this revitalization are the SLU Arena and the SLU Research Building.

The arena will provide a true home court for Billiken teams and a state-of-the-art showcase for concerts and events. The research building will provide a new front door for the University’s Health Sciences Center and will facilitate research in five key areas: cancer, liver disease, heart/lung disease, aging and brain disease and biodefense/vaccine development.

Recently Mr. and Mrs. William Suntrup made a gift of commercial real estate in support of Saint Louis University and the arena.

“As fans of Billiken basketball, my wife and I were pleased to support the arena project with a gift of real estate. The transfer of the property to Saint Louis University went smoothly and provided us with important tax savings. We cannot wait to watch basketball and attend other events in this first-class facility,” said William Suntrup.

To further explore the benefits of real estate gifts, please contact SLU’s Office of Planned Giving.

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