



CALVIN

A Newsletter of Philanthropy and Gift Planning for Friends of Calvin College

Summer 2004

INSIDE

Making Your Real Estate Work for You

- Give appreciated real estate and reduce taxes
- Give your home to charity, reduce taxes, and continue to live there
- Fund a trust with real estate and receive payments for life



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Dear Friends:

We are pleased to present this summer issue of *The William Spoelhof Society* newsletter.

Our newsletters are designed to provide information about financial and estate planning, as well as thoughtful charitable gift arrangements. Each issue features a different topic and includes a reply card that you can return to request additional information. You can find past issues of the newsletter on our Web site at www.calvin.edu under the Planned Giving section. In this issue we feature the planning opportunities posed by real estate and several ways it can be used to fund a gift to Calvin College.

To assist in your planning, we would like you to have a copy of our free booklet, ***How to Realize Maximum Benefits from Your Real Estate***. To request your copy, simply return the enclosed card or call our office.

When you contact us about a planned gift, you allow us to communicate with you—not only about your vision for the gift, but about the needs of Calvin College. Whether you have a specific purpose in mind or wish to support our work as a whole, we can suggest a gift plan that will provide meaningful support to our mission.

Thank you for your special interest in Calvin College. We look forward to the opportunity to serve you.

Sincerely,

DON'T FORGET!

The Heritage Class Reunion (Class of 1953 or earlier) will be held on Friday, June 25, 2004, at the Prince Conference Center. Call 616-526-6142 to register.

grateful to our ancestors...

MAKING YOUR REAL ESTATE WORK FOR YOU

Buy land—they ain't making any more of that stuff.

—Will Rogers

Real estate has proven to be the cornerstone of the fortunes of many of the country's wealthiest people. Smaller investors, too, have used the unique benefits of real estate investments to increase their own net worth. Those benefits may include:

However, even when demand is strong, a real estate investment can require a significant commitment of time and/or resources to manage and maintain, with insurance costs, rent collection, maintenance, yard work, etc. Even in a relatively strong market, it can take some time to dispose of real estate and convert its value to cash. This has major estate-planning implications.

Instead, he decides to give the land as his gift. He does not recognize any gain, and he can claim a deduction for the land's full \$100,000 fair-market value. In his 33% federal income-tax bracket, Tom's gift saves him \$33,000. The real cost of Tom's gift is only \$53,500 (\$100,000 value - \$33,000 income-tax savings - \$13,500 capital-gain tax avoided).

In the long run, a gift of real estate also addresses issues of estate liquidity: you may preserve your cash and those assets readily converted to cash, such as stocks and bonds, to address liquidity needs that may arise during estate administration.



Dr. Bob Swierenga was the guest speaker and Mike Ruitter was the host at a Heritage Class Luncheon held in Phoenix, Arizona, on March 10, 2004.

AN EXCELLENT CHOICE TO FUND A CHARITABLE GIFT

Many a real estate investor with significant charitable objectives will find that their real estate is the best asset to give, and one of the most important benefits of using appreciated real estate to fund charitable gifts is the ability to reduce or even eliminate the capital-gain tax that will be due if the property is sold.

Example: Tom G wants to make a major gift to support Calvin College. Undeveloped ground that he bought several years ago for \$10,000 is now worth \$100,000. If he sells, because of the 15% capital-gain tax, he will owe a tax of \$13,500.

- *Leverage*, which allows investors to finance real estate investments largely with “other people’s money.”
- *Preferential treatment under federal tax laws*—for example, the allowance of depreciation on investment property or the sheltering from tax on a certain amount of gain from the sale of a personal residence.
- *Favorable rates of return* for income-producing real estate.
- The potential for a very *healthy rate of growth* of capital investment.

A HOST OF CHARITABLE OPTIONS

Real estate holdings are adaptable to a variety of charitable planning strategies:

Give a fractional interest. Real estate ownership is designated through documents recorded in the appropriate governmental office, making it a simple matter to transfer an *undivided fractional interest* in the property equal to the intended value of the gift to charity.

Example: Gloria would like to use her investment in an apartment building to fund a gift to Calvin College worth \$75,000. After appraisal and careful planning, she decides to

transfer an undivided one-fourth interest in the building to us. The appraisal shows that the value of this fractional interest is \$75,000.

It is simple to give a fractional interest in real estate.

Part gift, part sale. You may want to use real estate to make a gift, but you need to recoup some of its value. Real estate provides the flexibility to accomplish this through the use of a strategy known as a *bargain sale*.

A bargain sale is just what it sounds like: an owner transfers real estate to a charitable organization in exchange for a payment that is less than the full value of the property. Typically, the donor qualifies for a charitable deduction equal to the difference between the fair-market value of the property and the amount of the payment received. In addition, the donor has to recognize the capital gain attributable to the “sale” element (amount received).

Example: *The Taylors own a vacation lake house that they rarely use now that their children are grown. They would like to make a substantial gift to support Calvin, and they think the lake house would be an ideal asset with which to fund their gift.*

This home is now worth about \$250,000, and the Taylors would be happy to use it to make their gift if they could recover their original \$100,000 investment. After some discussion, we enter into an

agreement with them to purchase the house for \$100,000. They are entitled to a charitable income-tax deduction of \$150,000 as a result of this bargain sale.

Also, the Taylors have to recognize and report a capital gain of \$60,000, attributable to the sale element of the bargain sale. This is arrived at by multiplying the sale price by the appreciation and dividing the product by the fair-market value of the property:

$$\frac{\$100,000 \times \$150,000}{\$250,000} = \$60,000$$

Of course, the capital gain the Taylors have to report is more than offset by the charitable deduction.

Make a gift and retain possession. Perhaps you would like Calvin College to have your residence when you are gone, but you want to continue to live there for the rest of your life.

You may choose to leave your home to Calvin College in your will as one way of carrying out your plan, but that does not create any current income-tax benefit for you as a homeowner. However, with a gift of a *remainder interest with a retained life estate*, you can retain the right to both live in your home for life and receive a valuable charitable deduction by transferring it to Calvin, subject to your right to live there for life.

Example: *Alan, 78, has intended for some time for the college to have his home eventually. His will directs that the house be given to us when*

he dies. Presently, the home is worth \$400,000.

In order to realize tax savings during his lifetime, Alan decides instead to transfer the house now, subject to a life estate for his lifetime. This allows Alan to claim a charitable deduction of more than \$254,800 that, in his 35% federal income-tax bracket, saves him more than \$89,180 in taxes.

Give your home—and continue to live there.

Note: While some other types of real estate, such as commercial property and undeveloped land, are suitable for many types of gifts, they are not appropriate for this particular plan.

Receive a stream of income. Real estate is an excellent asset to fund a special planning vehicle known as a *charitable remainder trust*, which makes payments for life or for a specified number of years (up to 20) to one or more designated beneficiaries. These payments are based on the value of the trust’s assets. At the end of the trust term or at the death of the last beneficiary, the remaining assets pass to a designated charity. The value of this “charitable remainder” qualifies for a charitable deduction.

- A *charitable remainder annuity trust* makes fixed payments based on a percentage (at least 5%) of the initial value of the assets put into the trust.

• A *charitable remainder unitrust* also uses a fixed percentage to determine its annual payout, but that fixed percentage is applied to the value of the trust's assets as it changes from year to year. So, if the value of the assets goes up, the payout will go up.

Planning pointers: • A unitrust allows for special provision for the payments to be made each year only to the extent that the trust has available income, guarding against depleting the trust's principal. • It can also provide that

any shortfall will be made up in future years in which there is excess income. Given the illiquid nature of real estate, this type of trust—a *net income with make-up charitable remainder unitrust*—is most suitable for gifts of real estate.

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

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Members of **The William Spoelhof Society** attend the spring luncheon at DeVos Place in Grand Rapids.

WE ARE HERE TO HELP

A gift of real estate can be a powerful planning tool for a charitably minded person; but while many of these giving plans are not terribly complicated, they do require careful planning.

We want to be helpful any way we can. For a start, we would like to send you a complimentary copy of our booklet, ***How to Realize Maximum Benefits from Your Real Estate***. To receive your copy, simply return the enclosed card or call our office.

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