GIFTS OF REAL ESTATE

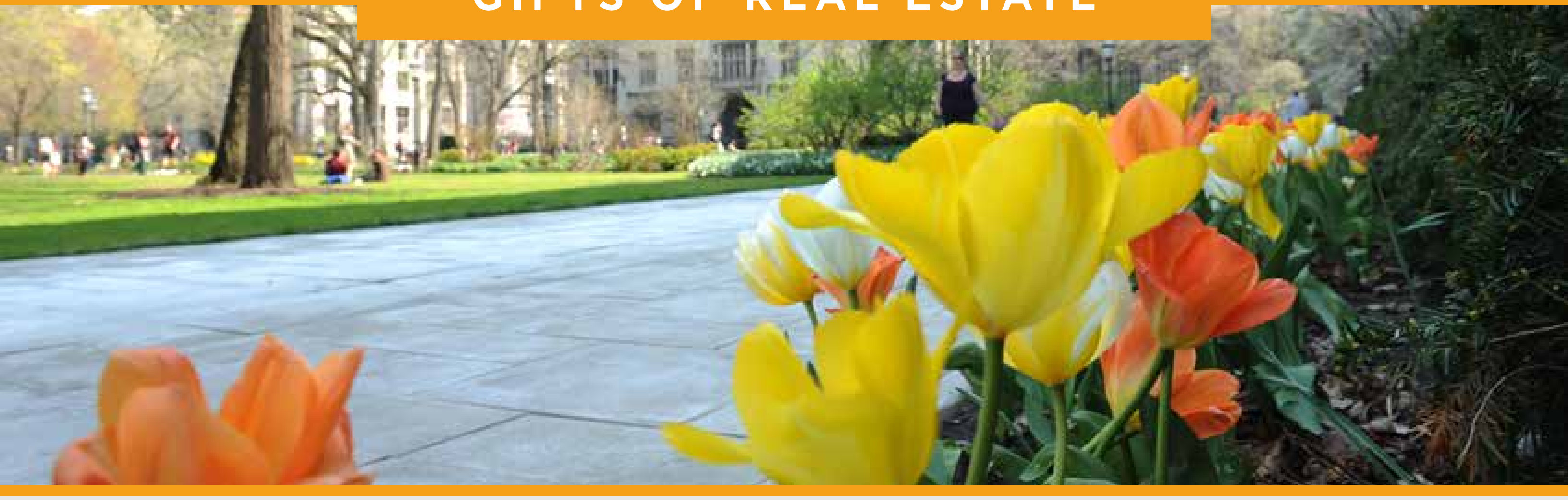

PHOTO BY DAN DRY

PHILANTHROPY AND REAL ESTATE

When you consider making a charitable gift, you have many options as to what you contribute. When making the choice, you should be aware of the special incentives federal law has in place to encourage certain forms of private philanthropy, especially gifts of real estate.

Benefits may include:

- Reduced income and estate taxes
- Avoidance of capital gains taxes
- Financial security for loved ones
- Increased lifetime income
- Continued use of the contributed property during your life

OUTRIGHT GIFTS

Generally, if you make a gift of real estate that you have held for more than one year you are entitled to an income tax deduction equal to the full value of the property contributed. In addition, you can avoid capital gains tax on the profit that would have been taxable if the property had been sold. Estate tax savings are also possible.

GIFTS BY WILL

You may prefer to leave real estate through your will. Your gift can be outright or it can be contingent upon the happening of some event. For example, Peter would like to leave a parcel of land to his only son, Matthew. However, if Matthew dies before Peter, Peter can direct that the property will pass to the University.

GIVE, BUT KEEP LIFETIME USE

If you own your home, a farm, or a vacation home, you may be able to make a gift of the property, obtain an immediate income tax deduction, and still continue to use the property for as long as you wish. This is known as a *retained life estate*.

How does this work?

Work with us to deed the property to the University, but retain the right to use it for your life. You can continue to live in your home or receive income from the property, and only after your death will the property pass to the University. By arranging this gift now, rather than in your will, you receive an immediate income tax deduction for the present value of the University's future right to receive the property.

Take the example of Sam and Cathy. Sam is 77 years old and Cathy is 75. They are retired but pay substantial income tax each year. Sam owns the home that they live in (currently worth $500,000), and he finished paying off the mortgage ten years ago. Sam and Cathy plan to live in their home for the rest of their lives. However, they also would like to make a significant gift to assist the future of the University. Sam has decided to deed the home to the University, retaining use of the home for his life and for Cathy's life. Based on their ages and other factors, Sam will receive an income tax deduction this year of more than $225,000.

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GIVE THE LAND, RECEIVE INCOME

An ideal way to use real estate to accomplish your financial objectives and make a gift as well is to set up a charitable remainder unitrust.

A unitrust is a trust in which you irrevocably place property but retain a specified income, usually for life. At the end of the trust, the trustee distributes the property to the University. Because you set up the trust now, rather than leave the property through your will, you are entitled to a substantial income tax charitable deduction.

Here's how a unitrust might work with a gift of real estate: Joseph, age 72, owns an apartment building worth $300,000, which he purchased many years ago for $100,000. He has taken straight-line depreciation on the building and now has an adjusted basis of just $20,000. Joseph plans to move to a retirement community and wants to sell the apartment building and invest for retirement income. Capital gains taxes would take $50,000 of his profit. Joseph instead transfers the apartment to a charitable remainder unitrust that will pay him 6% income for the rest of his life. The $50,000 capital gains tax disappears into the unitrust and Joseph will begin receiving trust income of about $18,000 a year. Based on his age and other factors, Joseph also receives a charitable deduction of almost $150,600.

SPECIAL PLANNING NEEDED

Gifts of real estate can be extremely satisfying, but they require careful planning. Any gift of real estate must be reviewed and approved through the University's real estate acceptance procedures, which require a donor to provide detailed and specific information about the property. We will work with you to facilitate this process.

THE PHOENIX SOCIETY—SHOWING OUR GRATITUDE

The Phoenix Society recognizes donors who support the University through an estate commitment or life-income arrangement. Members of the Phoenix Society receive a special memento and are invited to exclusive University events. We are also proud to recognize our members in an annual Honor Roll of contributors (unless anonymity is requested).

FOR MORE INFORMATION

We would be pleased to answer all of your questions about gifts of real estate. Please contact the Office of Gift Planning at 866.241.9802 or giftplan@uchicago.edu, or visit giftplanning.uchicago.edu.