WINTER 2020

TALENTS

Wheaton College Gift and Estate Planning Newsletter

INSIDE THIS ISSUE

Dear Friends,

There is something about real estate in the American psyche that evokes a sense of security and offers the potential of income and wealth. There is also something "grounding" about real estate (no pun intended). Yet, as time goes on, there may come a day to move on from the real estate we own. Maybe the property, though a successful investment, is no longer the exciting venture it once was when you started out – management has become a burden and liability an issue. Perhaps that long-held vacation home has become too costly and too big and unused now that the children have their own families and their own vacation traditions. At this time in your life, you may just want to simplify and sell the property but have concerns about selling because of potentially significant capital gains taxes. You might now be in a financial position where your real estate can be used efficiently and wisely for Kingdom purposes. This issue of Talents explores the possibilities that such real estate provides for gifts, in whole or in part, to Christian ministries.

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Wheaton College
For Christ and His Kingdom

The Resurgence of Real Estate

THE RECESSION Robert F. Sharpe, a respected planned giving expert, recently analyzed the effect of the Great Recession of 2008-09 on real estate gifts. He noted that IRS records show an 80% decrease in the value of real estate gifts from 2003 to 2011. Obviously, one big reason for this historic decline was a decrease in the value of real estate—in Sharpe's words, "the bursting of a bubble driven by loose lending practices, lax enforcement of securities regulations, and faulty ratings of mortgage-backed securities."

THE RECOVERY The good news is that since the 2011 lows in the value of real estate gifts, real estate gifts (by value) increased 800% by 2016. Certainly, this tremendous increase in the value of real estate gifts demonstrates the strong rebound of the real estate market since the Great Recession. Real Estate Investment Trusts (REITs), which invest in various types of real estate, can be a bellwether for real estate trends. REITs have been on a tear over the past decade as real estate values have recovered. However, in a recent article in *WealthManagement.com*, Barry Vinocur, editor of REIT Zone Publications, was quoted as saying, "We're in the late innings of the real estate cycle..." If that is the case, are there reasons to now be concerned with a coming decrease in real estate values? Perhaps now is a good time to dispose of real estate—by sale, gift, or a combination of both, especially if there are other non-economic reasons for doing so.

To that point, another reason for the increase in charitable gifts of real estate since the Great Recession is demographics. The oldest Baby Boomers are now 73. Circumstances change. What *was* a great real estate investment property then may now be a highly appreciated, capital gains-laden management burden, or a cherished vacation home may no longer be used. There are different tax-efficient gifting techniques which can be applied to these properties—outright gift possibilities, gifts which allow tax advantages but still allow you use of the property, or gifts providing lifetime income.

VARIOUS WAYS TO GIVE REAL ESTATE TO CHARITY

OUTRIGHT GIFT If you are in a secure financial position, real estate may represent the opportunity to make that once-in-a-lifetime gift that will have a significant impact on Kingdom work. The advantages that the gift provides are the ability to receive a charitable income tax deduction for the contribution and also to avoid all inherent capital gains taxes. You may also be able to combine an outright gift with a Wheaton donor advised fund by which you recommend that Wheaton distribute some of the after-sale proceeds to other charitable organizations.

GIVE IT BUT STILL USE IT Federal tax law allows you to give certain types of property to charity, receive a *current* partial tax deduction, but also retain the exclusive use of the real estate during your life. These types of real estate include personal residences (including vacation homes) and farmland. You keep control of the property during your life, and at your death, the charity becomes the sole owner.

LIFETIME INCOME You may want to make a significant gift of real estate during your life but need the income from the property. A contribution to a tax-exempt charitable remainder unitrust may be a perfect way to avoid initial capital gains on the sale of the real estate, obtain a partial charitable income tax deduction, reinvest your real estate tax-free into a diversified investment portfolio, and receive a stream of income for your lifetime. Also, the experienced trust services of Wheaton College Trust Company are available when it is named as trustee of the unitrust.

THE SECURE ACT

The SECURE Act was enacted on 12/20/2019, and it may affect your retirement accounts:

- If you turn age 70½ after 12/31/19, distributions from retirement accounts are not required until age 72.
- Family members (other than a spouse) who inherit your retirement accounts must take the full distribution (and be taxed) within ten years from your death.
- The age limit for contributions to traditional IRAs has been eliminated.

Tax-efficient gifts of retirement assets at your death directly to charity or to charitable remainder trusts (for the benefit of family members) are now more attractive than ever. Stay tuned for further details in our Spring Talents issue on retirement assets.

REAL ESTATE TO A DONOR ADVISED FUND

- Contribute real estate to Wheaton's donor advised fund
- Recommend distribution of after-sale proceeds to Wheaton and other charities
- Take advantage of Wheaton's expertise to sell the property for the benefit of all your charities
- Receive a current tax deduction in the year of contribution (even though you recommend distributions in future years)
- Avoid capital gains taxes
- "Endow" proceeds from the DAF's sale of the real estate by making smaller distributions each year and preserving the principal to grow and continue distributions for years to come

A Tale of Two Real Estate Gifts

John and Jill Anders invested in rental property in Silicon Valley over 25 years ago. They are in their late 60s, and real estate management is now a burden. If they sold the property, they would incur significant capital gains taxes. Instead, they transfer the property to a charitable remainder unitrust, immediately receiving a 40% charitable income tax deduction. The unitrust sells the property without any initial capital gains taxes, reinvests the sale proceeds in a diversified investment portfolio, and pays the Anders annual income of 5% of the unitrust value as revalued annually. At the Anders' deaths, the unitrust distributes its assets to Wheaton College and other charities.

Don and Linda Summers bought a lake home when their children were young. They spent many happy family summers at the lake, but their children are now grown and have families and vacation traditions of their own. Don and Linda still enjoy the lake home but realize that after their lives, their children and their families will no longer have the desire or means to own the home. They deed the property to Wheaton College but retain exclusive use during their lives. They receive a current income tax deduction and the satisfaction of knowing that at their deaths, the proceeds from the sale of their beloved home will significantly impact Wheaton's ministry.

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