# Gift and Sale

Prepared for
John Smith

**A SERVICE PROVIDED BY**
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This illustration is offered as a service.
Please feel free to call for further assistance.

# Gift/Sale of Asset

Prepared For John Smith

### Property

| | |
|---|---|
| Value | $5,000,000 |
| Costs | $750,000 |
| Gain | $4,250,000 |

### Sale Portion

$4,375,000

### Charity

$625,000

### Benefit to Donor

| | |
|---|---|
| Cash Sale | $4,375,000 |
| Tax on Gain | $699,125 |
| Taxes Saved | $231,250 |
| Net to Donor | $3,907,125 |

**Bypass Part of Gain Income Tax Deduction**

**Gain on Sale Offset by Gift**

**Cash Plus Net Taxes**

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1. Appreciated property given to charity. Tax deduction may save $231,250. Capital gain bypass on gift portion may also save $99,875.

2. Part of the asset gifted before sale. Donor and charity jointly sell property. $699,125 tax on gain offset by charitable tax savings.

3. Net to donor equals cash benefit less net income taxes paid and totals $3,907,125. Tax reduction of $331,125. Charitable gift of $625,000.

# Gift/Sale of Appreciated Asset

Many individuals hold property which has significantly increased in value. This appreciated property may no longer be generating the current increase in value or income that the owner desires. The highly appreciated low yield property should perhaps be sold so that a new more desirable investment can be acquired. But since the property is appreciated, selling the property requires the owner to pay long term capital gains tax. How can an owner sell a property without paying a large capital gains tax? Let's consider several gift and sale options.

**Sale**

The first option is to sell the property and pay the capital gains tax. If you sell an appreciated asset, you will pay capital gains tax. If you subtract your adjusted cost basis from the net sale amount, the taxable gain is determined. Based upon your selected income tax bracket, the actual tax due may be computed. You also may view your potential tax savings with a gift.

**Sale Then Gift**

A second option is to sell the property, pay the tax and then make a charitable gift. If you write a check for a selected amount to your favorite charity, you receive a charitable deduction. This deduction may save income tax, but you do not avoid capital gains tax.

**Gift Then Sale**

In option number three, an individual gifts 12.5% of the property to charity before the sale. If you transfer the appreciated asset, you benefit from both an income tax deduction and a bypass of capital gain. Because the charity may sell tax-free, you avoid that tax. By gifting an appreciated property before the sale, you may save the capital gains tax on the portion gifted to charity. It clearly saves taxes to gift a portion of the property before sale rather than to gift the cash after selling the property.

**Reduce Your Taxes**

You might want to give a much larger portion to charity and reduce your taxes with a major charitable gift deduction. The gift offsets all or nearly all of the tax due upon the sale of the balance of the property and you actually pay little or no capital gains tax on the sale. Although the gift is not a "dollar for dollar" exchange, by saving both the income taxes and capital gains taxes through gifting part of the property before the sale, you receive nearly as much as if you sell the property outright. This truly is a very advantageous method of maximizing tax savings while making charitable gifts.

# Gift/Sale of Appreciated Asset
## Explanation for Professional Advisor of John Smith

**A. Flow Chart**

Many persons own property that has increased in value over the years. The property typically is generating a very low yield and therefore, the owner desires to sell the property and invest in another investment which would produce a greater income yield. However, due to the capital gains tax on the sale, the owner chooses not to sell the property and pay the tax. One way to dispose of the property and offset some of the capital gains tax by means of a charitable deduction is to consider gifting a portion of the property to charity prior to the sale.

In this case, the donor owns property with a value of $5,000,000, cost basis of $750,000 and a gain of $4,250,000. Prior to selling the property, 12.5% or $625,000 of the property is gifted to charity. The other $4,375,000 is retained and sold by the donor. For example, if the property is real estate, the donor deeds an undivided 12.5% to the charity prior to sale. The charitable deduction of $625,000 results in income tax savings of $231,250 based on a 37.00% income tax bracket. The capital gains bypass on the gift portion may save $99,875 based on a 18.80% capital gains bracket.

As in this illustration, if a portion of the property is sold, a portion of the basis or $656,250 must be allocated to the portion sold resulting in a gain of $3,718,750. With a tax rate of 18.80%, the tax on this gain is $699,125. In this case, the tax of $699,125 on the gain is offset by the income tax savings of $231,250, leaving a net benefit to the donor of ($467,875).

Therefore, the net to the donor is the $4,375,000 cash from the sale, minus the tax on the gain of $699,125, plus $231,250 from the tax savings, for a total of $3,907,125. Compared with the sale of the entire asset, the donor reduces taxes by $331,125 and makes a gift of $625,000.

**B. Data Entry Sheet**

The data entry sheet includes three separate sections. The first section indicates the property value, cost basis, tax brackets and cash received. The percent gifted times the property value shows the gift value. The taxable gain is based on the allocated basis and the cash received.

The center section shows the cash received and allocated basis. The difference is the taxable gain on the cash received from the sale. In this case, the cash received of $4,375,000 less the allocated basis of $656,250 produces a gain of $3,718,750. Based on the amount given to charity, the net gift deduction of ($3,093,750) is also shown which is calculated by subtracting the taxable gain of $3,718,750 from the gift of $625,000.

The lower portion compares a sale of property, a gift of a portion of the property after and prior to the sale and a gift of 100% of the property to charity. With the sale, the $5,000,000 value less the allocated basis of $750,000 produced a net gain of $4,250,000. The tax at 18.80% on this gain is $799,000, leaving a net to donor of $4,201,000.

With the gift of 12.5%, the gain is reduced to $3,718,750. The tax on gain of $699,125 is offset by the taxes saved of $231,250. The net to donor is $3,907,125. In essence, the donor is able to give $625,000 to charity with a gift cost of $293,875. Alternatively, if the donor gave all of the property to charity, there would be a gift to charity of $5,000,000 at a cost to the donor of $2,351,000, since the donor would save $1,850,000 in taxes on the gift value.

# Gift/Sale of Appreciated Asset

| | | |
|---|---|---|
| Donor: | Property Value: | Cost Basis: |
| John Smith | $5,000,000 | $750,000 |
| Income Tax %: | Capital Gain %: | Percent Gifted: |
| 37.00% | 18.80% | 12.5% |
| Cash Received: | Taxable Gain: | Gift Value: |
| $4,375,000 | $3,718,750 | $625,000 |
| Extra Deduction: | | |
| ($3,093,750) (Gift Less Taxable Gain) | | |

## WORKSHEET -- GIFT/SALE

| | | | |
|---|---|---|---|
| Property Value (PV) | **$5,000,000** | **GIFT** | **$625,000** |
| Cost Basis | **$750,000** | | |
| Cash Received (CR) | **$4,375,000** | | |
| Allocated Basis | **$656,250** | ( CR / PV * BASIS ) | |
| Taxable Gain | **$3,718,750** | | |
| Net Gift Deduction | **($3,093,750)** | ( Gift Less Tax. Gain ) | |

| | No Gift | Sale/Gift 12.5% | Gift 12.5%/Sale | Gift 100% |
|---|---|---|---|---|
| Property Value | $5,000,000 | $5,000,000 | $5,000,000 | $5,000,000 |
| Cost Basis | $750,000 | $750,000 | $750,000 | $750,000 |
| Sale Portion | $5,000,000 | $5,000,000 | $4,375,000 | $0 |
| Allocated Basis | $750,000 | $750,000 | $656,250 | $0 |
| Net Gain | $4,250,000 | $4,250,000 | $3,718,750 | $0 |
| Tax on Gain | $799,000 | $799,000 | $699,125 | $0 |
| Taxes Saved | $0 | $231,250 | $231,250 | $1,850,000 |
| Net to Donor | $4,201,000 | $3,807,250 | $3,907,125 | $1,850,000 |
| Charity | $0 | $625,000 | $625,000 | $5,000,000 |
| Gift Cost | $0 | $393,750 | $293,875 | $2,351,000 |

Note: The Income Tax rate is assumed not lowered by the charitable gift.