



# Give it and Live in it

The Charitable Life Estate

# The Charitable Life Estate

*From Bible times to today, the tradition of passing the family home or farm from generation to generation has been a wonderful part of human history. Times have changed and fewer farms and homes now transfer as they once did. Why?*

*There are many reasons, including the shift from an agriculture-based economy to a technological one. Grown children may have followed careers to another state and established their own homes with the same passion for family that they experienced growing up. They may not wish or be available to manage your property when you are no longer able. This means your options for property distribution could include others who are not part of your family.*

*If you find that your home or farm is not needed by the next generation, consider the **Charitable Life Estate**. This proven tool allows you to retain use of your home or farm while you need or desire it, and then transfer the value to ministry when you no longer need use of it.*

# Advantages of the Charitable Life Estate

- You maintain the use of the property. You can live in your home, farm your land, or rent the property and receive the income.
- You can receive current income tax benefits:
  - The Charitable Life Estate agreement guarantees that the property is transferred to charity at the end of the agreement, thus you receive a charitable deduction.
  - The Charitable Life Estate agreement allows you to avoid capital gains taxes that might be payable on a sale of the property.
- You are free to make improvements or changes to the property during your lifetime.
- You need not change your lifestyle or that of your family, since you retain the right to live in the property or use the property for your benefit.
- You avoid estate taxes and probate costs at the time of death.
- Your gift supports ministry beyond your own lifetime.

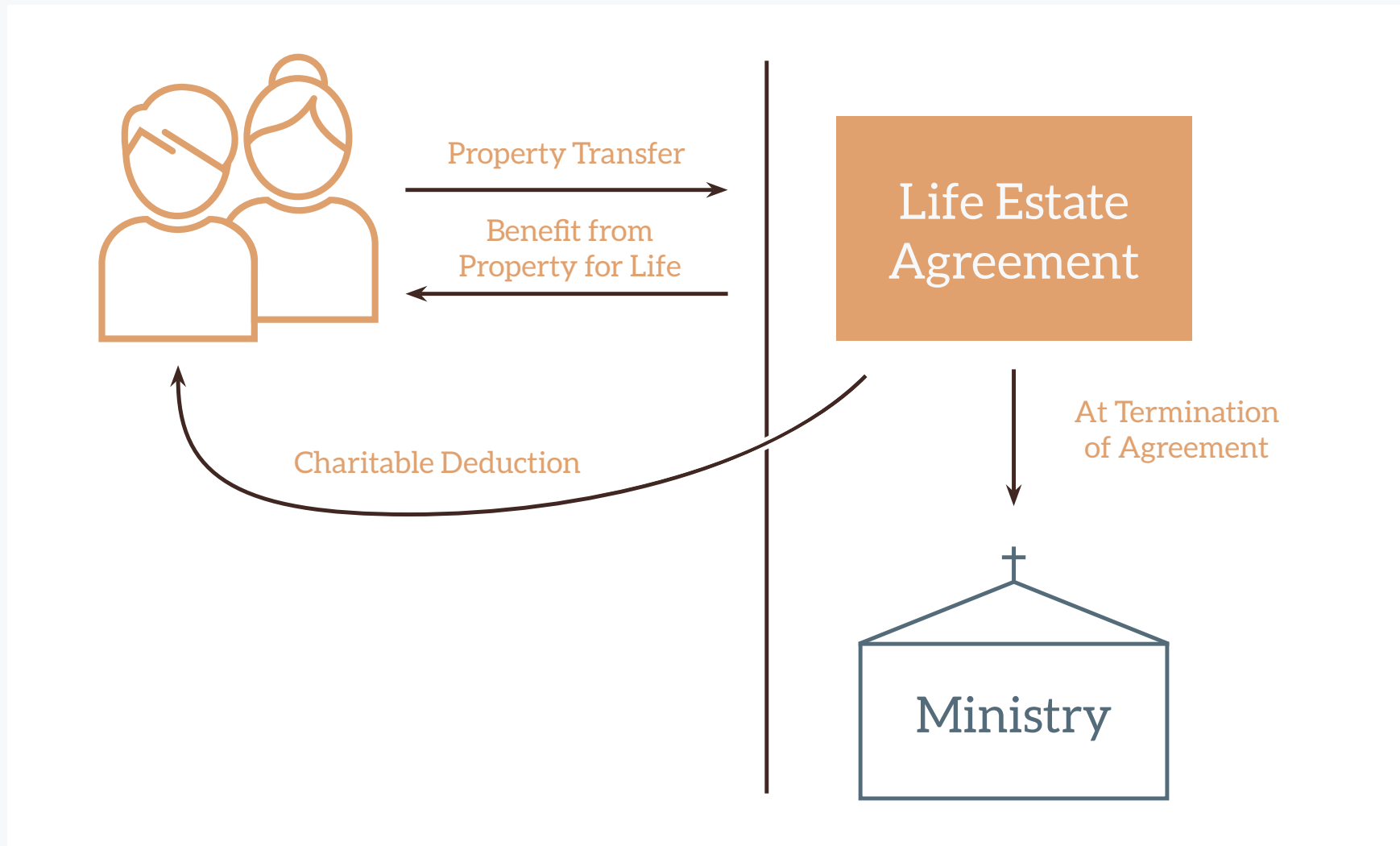
# Your Retained Interest

When you establish a Charitable Life Estate, you do not transfer the entire interest in the property. Only the interest that remains at the end of your lifetime (and the lifetime of your spouse) is transferred. You continue to have the use of the property for your lifetime.

The charity cannot sell the property and does not receive any income produced by the property during your lifetime. You retain any income earned.

Your right to use the property includes responsibility for normal maintenance and upkeep, property taxes, and insurance coverage.

# How a Charitable Life Estate Works



# Types of Agreements

The Charitable Life Estate agreement can be revocable or irrevocable.

To receive current tax benefits, the Charitable Life Estate agreement must be **irrevocable**. The remainder interest is vested with the ministry when the agreement is established. You cannot change the agreement, and you cannot sell the property without the consent of the charitable organization.

A **revocable** agreement does not provide income tax benefits. However, it does guarantee that ownership of your property will eventually pass to the ministry you have chosen, without the costs and delays of probate in your estate. If your needs change, you can revoke the agreement without cost or penalty.

In some states, the same benefit of the revocable life estate agreement can be achieved through a beneficiary or transfer-on-death deed.



# Taxation of the Life Estate Agreement

## Charitable Contribution Deduction

When you establish an **irrevocable** Charitable Life Estate agreement, you will receive a current income tax charitable deduction for the value of your future gift.

## Avoidance of Capital Gains Tax

Because you have made a charitable transfer, there will be no capital gains tax payable when a Charitable Life Estate is established.

## Federal Gift and Estate Tax

When you and your spouse are the only beneficiaries of the life estate agreement, there are no gift or estate tax implications.

However, if your agreement names an individual other than a spouse to receive a life benefit, the value of the gift may be reportable based upon the age of the beneficiary when the life estate interest begins.

# Case Study: Mrs. Thompson

Mrs. Thompson is 75 years old and has supported ministry for many years. She owns a small home, valued at approximately \$175,000, and is very comfortable living in the home since it is near her church and shopping.

Mrs. Thompson would like to know that her home will be used to continue her ministry support when she no longer has need of it. She establishes an irrevocable Charitable Life Estate to guarantee her gift.

Mrs. Thompson's benefits are as follows:

- She continues to live in her home. If she is no longer able to live there, she can rent it and the rental value will help supplement her income.
  - She receives a current income tax charitable deduction for her future gift of \$112,700.
  - In a 28% combined federal and state income tax bracket, Mrs. Thompson saves taxes of approximately \$31,550.
- There are no capital gains taxes payable when the property is transferred to the Charitable Life Estate agreement.
  - Mrs. Thompson knows that when she no longer needs her property, it will continue to fund the ministry programs she has supported for many years.



# How a Charitable Life Estate Is Created

- You request a Charitable Life Estate illustration from your chosen ministry. The illustration will outline the benefits for your consideration with your family, legal, and tax advisers.
- When you decide to enter the agreement, you have your property appraised to establish its current value.
- You sign a life estate deed, transferring the remainder interest of your property to the ministry.
- You will receive information to assist you and your tax advisers in claiming your income tax charitable deduction.

## Why is this a good idea?

If your home or farm will not be passing to family members, and if you desire to make a substantial gift to ministry, consider the value of the Charitable Life Estate. It can be a wonderful tool of generosity and support of God's kingdom work with tax benefits for you.

To receive a personal illustration of how the Charitable Life Estate might work for you, please contact:

# Frequently Asked Questions

## **Q: Are Charitable Life Estates designed for wealthy people?**

A: No. Many people establish a Charitable Life Estate when they do not need the tax deduction but wish to avoid probate and guarantee their future charitable gift.

## **Q: How do I know the charity is financially secure?**

A: It is important to understand that the financial security of the organization is immaterial to the financial security of the Charitable Life Estate agreement. During your lifetime you control the use of the property, providing your financial security.

## **Q: If I rent my property, will I receive the income payments?**

A: Yes. Any rental contract is established between you and the individuals renting the property. The ministry receives no income from the property during your lifetime.

## **Q: What happens to my agreement upon my death?**

A: If your Charitable Life Estate agreement is for your life only, the property transfers to the ministry you have chosen.

If your agreement covers the life of a surviving individual, it will continue for as long as that beneficiary lives, then transfer to the ministry you have chosen.

## **Q: When I establish a Charitable Life Estate agreement, can I later withdraw from it?**

A: If you do not choose to receive an income tax charitable deduction, you can establish a revocable agreement, which can be terminated if you desire.

To receive an income tax charitable deduction, the agreement must meet certain requirements which do not allow you to terminate the agreement.

## Frequently Asked Questions (cont.)

**Q: Can I establish a Charitable Life Estate agreement and name another individual to have use of the property after my death?**

A: Yes. You should consult your tax advisers for gift tax implications.

**Q: Will my Charitable Life Estate be part of my taxable estate?**

A: If the agreement covers your life only, the property passes directly to ministry at your death, avoiding tax and the probate process. However, if the agreement covers the life of a survivor other than a spouse, a portion of the value (depending upon the age of the survivor) may be included in your estate.

**Q: What if my charitable deduction exceeds the value I can deduct from my income tax return when I establish the agreement?**

A: If your charitable deduction exceeds the amount deductible in the year you establish the agreement,

you may carry over the excess deduction for up to five additional years.

**Q: Can I sell the property after I have placed in a Charitable Life Estate?**

A: The property may be sold, however it would require the consent of the charitable beneficiary. The proceeds of the sale would be divided between you and the ministry, based upon the value of your life estate and the value of the charity's remainder interest at the time of the sale.

**Q: Can I create a Charitable Life Estate agreement in my will?**

A: Yes, you can gift property to ministry, granting a friend or relative the use the property for his or her lifetime.

**Note:** *The information in this planning report is of a general nature and should not be interpreted as legal advice. Illustrations were calculated using a 2.8% mid-term AFR rate. The rate in effect in the month of a transfer or in either of the two months preceding the transfer will be used to calculate the charitable deduction available for a specific gift.*