Using Real Estate to Advance the Gospel

Real estate comes in many forms. It may be a personal residence, vacation home, rental property, farm, ranch, undeveloped land, or commercial property. Though the forms vary, they all share one issue in common: selling it triggers a long-term capital gains tax, assuming the property has appreciated in value and has been held for a year or longer.

Most taxpayers will pay a tax of 15% to 20% on the gain, with a possible surtax of 3.8%. An additional depreciation recapture tax of 25% may apply to any depreciation previously taken on the property.

Example: John and Mary purchased a lake house in 1975 for $50,000. In 2024, they sell their lake house for $1,000,000. Their gain is taxed at 23.8%, resulting in a long-term capital gains tax of $226,100. After taxes, the net proceeds on the sale of their lake house are $773,900.

The potential capital gains tax on the sale of real estate makes it a great resource for charitable donations. Donating real estate to a qualified charity prior to its sale bypasses the capital gains tax, and the donor also receives a charitable income tax deduction for the appraised fair market value of the property. The donor receives a double tax benefit while making a meaningful investment in a worthy ministry or charity.

The property owner can choose whether to donate the entire property or a portion. The double tax savings apply whether the donor gives away the full property or just a fraction. For example, a donor who gives charity 25% of the property prior to sale avoids 25% of the capital gains tax and is able to take an income tax deduction on 25% of the value of the property.

Let's go back to the example of John and Mary. Because they are grateful to God for this financial blessing, and because they have a passion for investing in the Lord's work, they wish to donate 25% of the lake house ($250,000) to a Donor Advised Fund for later distribution to their ministries. They receive an income tax deduction on the value of this gift, whether they donate a portion of the property before it is sold or cash after the sale. In the 37% tax bracket, they will save $92,500.

Furthermore, if they decide to donate the 25% share of the property before its sale, they will bypass $56,525 of the long-term capital gains tax. The reason? The individual or entity that owns the property at the time of sale is responsible for the capital gains tax. By donating 25% of the lake house to charity, John and Mary give away the capital gains tax liability with the gift. And, since the charity is a nonprofit, the charity does not have to pay a capital gains tax. This allows John and Mary to invest more money in those ministries they love.

Let's compare three scenarios for John and Mary.

Assumptions

- Fair Market Value: $1,000,000
- Appreciation: $950,000
- Long-Term Capital Gains Tax Rate: 23.8%
- Income Tax Rate: 37%

	SALE, NO GIFT	25% GIFT	100% GIFT
Capital Gains Tax	$226,100	$169,575	$0
Income Tax Deduction*	$0	$250,000	$1,000,000
Income Tax Savings	$0	$92,500	$370,000
Net to IRS	$226,100	$77,075	$0
Net to Ministry	$0	$250,000	$1,000,000
Net to Donor	$773,900	$672,925	$370,000

*Deductions for charitable gifts of appreciated assets are limited to 30% AGI per year. Excess deduction credits can be carried forward for up to five additional years.

Because of the double tax benefits of donating appreciated real estate, such donations can be an efficient, powerful way to fund the work of the gospel. In fact, donating real estate and other appreciated assets can be one of the cost-effective ways to give to your ministries. The next time you plan to sell real estate, consider whether it might make sense to carve out a portion for the Lord's work. Once you've crunched the numbers, you may find that it's much easier than you think.

If you would like to explore this concept further, the Planned Giving staff at Dallas Seminary Foundation would be happy to answer your questions and help you to calculate your potential tax benefits.