DSF™ DALLAS SEMINARY FOUNDATION

TWO SMART WAYS TO GIVE AND SAVE: BARGAIN SALES AND GIFT/SALES TO CHARITIES

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A bargain sale to charity is a powerful yet often underutilized strategy that allows property owners to make a meaningful charitable gift while still receiving significant financial benefits. By selling appreciated real estate to a qualified public charity for less than its fair market value (FMV), the donor creates a transaction that combines a partial gift and a partial sale—unlocking both charitable deductions and capital gains tax savings.

SCENARIO OVERVIEW

Imagine a donor who owns real estate with the following characteristics:
– Fair Market Value (FMV): $1,500,000
– Cost Basis: $900,000 (resulting in $600,000 of appreciation)
– Tax Brackets: 35% income tax rate and 20% capital gains tax rate

The donor decides to gift 30% of the property to a charity and sell the remaining 70% to the same charity at a bargain price. Here's how it breaks down:
– Gift Portion (30% of FMV): $450,000
– Sale Portion (70% of FMV): $1,050,000
– Actual Sale Price Paid by Charity: $900,000

The difference between the FMV of the sold portion and the price actually received ($1,050,000 – $900,000) is considered an additional charitable gift of $150,000.

TAX BENEFITS TO THE DONOR[1]

Item	Amount
Charitable deduction (30% gift)	$450,000
Charitable deduction (bargain sale gift element)	$150,000
Total Charitable Deduction	$600,000
Tax savings from deduction (35%)	$210,000
Capital gains tax avoided on gift portion	$36,000
Capital gains tax paid on sale portion	($84,000)
Net Tax Benefit	$246,000

BEFORE AND AFTER COMPARISON[1]

Category	Before Bargain Sale	After Bargain Sale
Net Proceeds to Donor	$1,380,000	$1,026,000
Net Proceeds to IRS	$120,000	$84,000
Net Proceeds to Charity	$0	$570,000

KEY CONSIDERATIONS AND BENEFITS

FOR THE DONOR: Realizes more than $200,000 in tax savings, converts real estate into over $1 million in cash, and supports a cause they care about.

FOR THE IRS: Collects less capital gains tax, as the gift reduces taxable appreciation.

FOR THE CHARITY: Receives a valuable property at a significant discount, allowing it to use or resell the asset to further its mission.

IMPORTANT PRACTICAL NOTE

In order for the bargain sale concept to work, the charity must be willing to purchase the property at the discounted price. This typically makes sense when the charity wants that property for its own use—for example, as an office, program site, or other direct ministry purpose.

If the charity is not interested in owning the property, they may be reluctant to purchase it, since they would then need to immediately resell it.

AN ALTERNATIVE: THE GIFT/SALE

If the charity does not wish to purchase the property outright, a Gift/Sale structure may be a better fit. In this approach, the donor first gifts a portion of the property to the charity prior to the sale.

• The donor avoids capital gains tax on the gifted portion and receives an income tax deduction based on the FMV of that portion.

• The savings from the tax deduction can help offset the capital gains tax on the portion the donor retains and sells.

• The donor and charity then work together to sell the property to a third-party buyer.

• Because the buyer is not a charity, there is no tax deduction for any discounted sale—but the donor still benefits from the partial gift and related tax savings.

FINAL THOUGHTS

If you own highly appreciated real estate and want to make a charitable impact without giving up the asset entirely, a bargain sale—or a gift/sale—can be an ideal strategy.

In the right circumstances, these approaches offer a rare combination of:
- Charitable impact
- Liquidity
- Tax efficiency

As with any complex transaction, it's essential to:
- Work with your tax advisor to determine your specific benefits.
- Obtain a qualified appraisal to substantiate the charitable deduction.
- Coordinate closely with the receiving charity to ensure the transaction is structured appropriately.

Applied correctly, these strategies can be a true win-win—creating lasting impact for a cause you care about while providing meaningful financial benefits to you.

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1. Notes on How Figures Are Calculated

Net Proceeds to Donor ($1,026,000):
– Cash from sale portion = $900,000
– Plus: Tax savings from charitable deduction = $600,000 × 35% = $210,000
– Minus: Capital gains tax = ($1,050,000 – $630,000) × 20% = $84,000
Calculation: $900,000 + $210,000 – $84,000 = $1,026,000

Net Proceeds to IRS ($84,000):
– Capital gains tax on sale portion only.
Calculation: ($1,050,000 – $630,000) × 20% = $84,000

Net Proceeds to Charity ($570,000):
– Charity receives property worth $1,500,000.
– Pays donor $900,000 → Net value gained = $600,000
– Minus: Estimated 2% selling costs = $30,000
Calculation: $600,000 – $30,000 = $570,000

