BUSINESS

Landlords looking to sell: Consider a charitable gift that pays you annually

Consider property-based charitable alternatives

Instead of selling the property, consider a charitable planned gift, allowing you to dispose of the rental, avoid selling costs, defer capital gains and state tax, and provide a significant tax deduction.(iStockphoto)

By **MICHELLE HERTING** | michelle@yourowncpa.com |
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The joys of being a landlord never seem to end, especially during the holidays. Thanksgiving leftovers and football might be interrupted with a phone call from a tenant with a backed-up kitchen sink.

Looking ahead to January, you wonder if the rent collected will be enough for the property taxes, or will the tenants spend the rent money on Christmas presents?

The benefits of investing in real estate

When you invested in rental property, you did it for good reasons. But now might be the right time to sell. Prices are up. Rental property has not been a tax-advantaged investment for some time. It's becoming more challenging to manage the property yourself. Responsible and affordable property managers are hard to find.

One of the downsides to selling is federal capital gains taxes and state income taxes. The top rates are 23.8% on the federal side (20% capital gains plus 3.8% Medicare surtax), and 13.3% California state income taxes for a total of up to 37.1% on the taxable gain.

Also, if you sell now, you would have to list the property, find a buyer, and pay fix-up costs, commissions, and escrow fees.

Instead of selling the property, consider a charitable planned gift, to allow you to dispose of the rental, avoid selling costs, defer capital gains and state tax, and provide a significant tax deduction.

In exchange for the property, you could receive income for life, probably more than your current net rent cash flows, without the hassle of managing the property. Now that's a gift worth considering.

"With a little planning, you can make a meaningful impact in the community while meeting your own retirement and legacy goals," says Tony Truong, the director of gift planning at St. Jude Medical Center in Fullerton. "You can turn your assets into income streams for yourself and your loved ones."

Charitable gift annuity

The simplest arrangement that pays income for life is the Charitable Gift Annuity. Many large nonprofits, including universities, offer this charitable planned gift.

Here's how it works: You make a gift to a charity using cash, stocks or property. In return, you receive a monthly or quarterly payout at a rate based on your age. The benefit is security. CGA rates are fixed, immune to market fluctuations. At the end of your life, the charity receives the remainder of the gift.

For example, based on the donation of property worth $800,000, a 60-year-old could receive a rate of 4.7% (paying $37,600 annually) in immediate income, while an 85-year-old will see a rate of 8.3% (paying $66,400 annually). The charity invests the funds and guarantees your life income with their assets.

The donor receives a charitable tax deduction, which can be carried forward for up to five years. A 60-year-old would receive a tax deduction of about $180,000. The deduction for the 85-year-old would be around $367,000. Typically, a significant portion of your income is tax-free. Also, capital gains are reduced and spread over a number of years, providing additional tax savings.

There is a new recommended rate table that takes effect in 2020, so your benefits may vary slightly depending on when you set up your CGA.

Charitable remainder trust

If you're looking for a little more control and flexibility, consider a Charitable Remainder Trust.

This is more complex than a charitable gift annuity, allowing you to set more terms, such as where to invest the funds and how much income will be paid.

Here are the basics: You contribute stocks or property to a CRT, and when the trust sells the property, it's exempt from capital gains tax. As a result, the asset's full value can be invested to benefit you and eventually the charities you name.

Additions to a CRT are allowed, and the trust can be paid to beneficiaries of multiple generations. "You can leave an inheritance to your heirs through an income stream rather than a lump-sum distribution," says Truong.

A CRT is not a do-it-yourself project. Consult with an experienced estate and gift attorney to set it up.

This year, instead of making several small donations that may no longer be deductible, consider leaving a legacy with a planned gift. The power of charitable gift planning is that you can relinquish assets you no longer want or need in exchange for income for life and a significant tax break. For more information, contact the gift planning office at your favorite charity.

Michelle C. Herting, CPA, AEP specializes in Trusts and Estates. She has offices in Riverside, Santa Monica and Newport Beach. She is also president of the Charitable Gift Planners of Inland Southern California.

Michelle Herting

Herting is a certified public accountant.