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Charity begins with home

By MARILYN KENNEDY MELIA
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CHARITIES have begun their annual appeal for gifts from the heart. If home is where your heart is, more charities are happy to accept that, too.

"A lot of organizations are realizing there is a significant real estate wealth transfer taking place," says Dennis Bidwell, a Northhampton, Mass., consultant to charities.

Eyeing Baby Boomers with second homes, childless homeowners and real-estate investors facing fat taxes on their gains, non-profits--especially larger ones such as universities--are alerting potential donors that a gift of property could not only support their favorite cause but also grant financial perks to the giver.

Real estate donation is becoming more mainstream, experts say.

Still, charities can be choosy. They may turn down properties encumbered with heavy debt or environmental problems. And, charities may demand that potential donors pay some of the upfront costs in evaluating property, such as an appraisal and environmental study.

"Donations have to make sense for both parties," says Elizabeth Roghair, director of gift planning for Northwestern University.

It's probably not appropriate, for instance, for an elderly owner to donate his house if that's his only major asset, Roghair says, because the owner may need to tap that wealth for his needs.

But there are a host of instances when property gifts are appropriate, experts say.

Mary Ann Smith Frable of Richmond, Va., for instance, appreciates the "excellent medical school education" she had at Northwestern University Medical School, where her husband and youngest daughter are alumni.

Frable recently decided to give the school an oceanfront duplex that is high maintenance, and her daughters, both busy physicians, had little time to visit.

The donation, which will be used for a scholarship fund at the medical school, was made through a "charitable remainder trust," one of several mechanisms for real estate gifts.

Indeed, while the first step is to consider whether donating real estate is a viable option, the second is finding the right mechanism with its unique tax and financial benefits.

In fact, owners can donate a home while continuing to live in it and receive an income from the charity. This is called a "charitable gift annuity" and usually involves large-scale organizations.

States have differing rules for charitable gift annuities, says Charlie Slamar, a senior vice president at Bank of America in Chicago. In Illinois, for instance, only charities and non-profits in existence for at least 20 years can establish them.

A financially strong and stable charity is important because with a charitable gift annuity, the donor transfers ownership of his property.

In most charitable gift annuity arrangements, the organization sells the property and uses the proceeds to fund an annuity that will pay the homeowner an annual income based his age and the amount donated. For instance, Slamar says, a 65-year-old donating a condo worth $100,000 may receive an income of 6 percent of that value, or $6,000 annually.

When property is bestowed, donors are eligible for a tax deduction, but amounts vary, Slamar says.

If, for instance, someone gives property outright, they may be able to take a deduction for the full value right away. But donations involving trusts, whereby the donor receives income over a period of years, carry reduced deductions.

Charities will often require a donor to retain counsel to oversee the terms of the donations from the giver's perspective, says Joel Schaffer, senior director of planned giving at DePaul University.

Giving real estate "is not like writing a check," says James Perlmuter, of Delphi Partners, a New York charitable consulting firm. "Real estate is flexible. There are a lot of factors at play, like if you want to remain in your home or get income."

But with more homes being inherited and second homes that families no longer want, Perlmutter predicts real estate will create "a new breed of philanthropists."