



Guide to Making Charitable Gifts of Real Estate

Leave a Lasting Legacy

November 2010

“Dedicated to providing affordable rental housing in Greater Victoria.”

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Who We Are

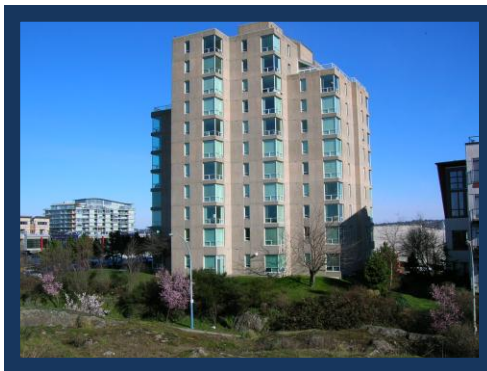
The Greater Victoria Housing Society (GVHS) is a registered charity and one of the largest non-profit social housing organizations in British Columbia. Since 1956, GVHS has been dedicated to providing good quality affordable rental housing to low-income seniors and families, and people with disabilities who are able to live independently. We are caring landlords who respond to the challenging issues presented by clients with a diverse range of needs. We select and place our tenants in units that promote their well being and support their independence. We currently have twelve properties in Greater Victoria with a total of 662 apartments and townhouses for seniors, families and adults with disabilities.

Our Mission

We are dedicated to providing affordable rental housing in the Greater Victoria area.

Our Goals

- To build more rental housing in the Greater Victoria area in partnership with the private sector in order to capitalize on skills and expertise in this sector and to build up the supply of rental housing that will be affordable in the future;
- To acquire more rental housing in the Greater Victoria area by purchasing existing buildings and protecting them as affordable housing for the future;
- To improve the homes of our existing tenants by updating resident lounges, modernizing tenant kitchens and bathrooms, and providing new playground equipment.



Sitkum Lodge

Considering Gifts of Real Estate

Many people donate regularly to charities. Giving can provide a great sense of personal satisfaction and also generate significant tax benefits through non-refundable charitable tax credits or, for businesses, tax deductions. We hope the following information will provide you with an overview of gifts of real estate as one of the many giving options available to donors.

There are many complexities and other issues to consider when giving a gift of real estate that may apply on an individual basis. Therefore, we strongly encourage you to consult with your legal and financial advisors before finalizing a significant charitable gift. This will ensure that your intended gift will fulfill your wishes in the most tax effective way, based on your individual circumstances. It is also important to remember that federal and provincial legislation could change at any time which could impact the various charitable giving options that are outlined in these materials.

Suppose you've been considering giving a charitable gift but haven't found it practical to do so. What about considering a gift of real estate? Why do this? A present or future gift offers you the opportunity for valuable income tax and estate tax savings. You can also free yourself of immediate and future management and selling issues.

With real estate values skyrocketing over the past few years, many investors are discovering that a large portion of their net worth is tied up in relatively illiquid land and property holdings. One strategy for philanthropically inclined individuals who seek to reduce tax efficiently is to donate highly appreciated property to charity.

Gifts of real estate can include a gift of a principle residence, rental commercial property, rental residential property, recreational property, vacant land for development and agricultural property.



Nigel Square

Some Reasons to Consider a Gift of Real Estate

- You would like to make a charitable gift while retaining your cash and liquid assets;
- You are discouraged from selling appreciated property because of substantial capital gains tax liability and/or making the decision of how to invest the proceeds;
- You own a rental residential or commercial property that has become a management issue;
- You are considering moving to a smaller home, a retirement complex, or to be closer to your children;
- You are no longer using vacation property as you have in the past and are considering selling;
- You recognize the illiquidity of real estate and would like to avoid problems associated with forced sales, costs of property holdings and loss of control.

Donating Real Property Can Produce Surprising Benefits

The immediate benefits to donating property can be substantial. Donors can dispose of an asset with accumulated capital gains, and, in most cases generate sufficient charitable tax credits to fully offset the capital gain tax, as well as providing for future offset of other income tax. An important additional benefit of giving real estate is the opportunity to dispose of real estate without undue pressure, expense and anxiety.

Perhaps less obvious are the long-term planning opportunities that donating real estate can generate for philanthropists, their heirs and their favourite causes. With the rapid climb in real estate valuations, property can be a powerful source of charitable capital.

If you make a gift of real estate now you can receive a substantial charitable tax credit for that gift. Or perhaps you want, or need, to use the property for some time to come or even retain its lifetime use. In either case, you can still make the necessary arrangements now and benefit from a sizeable current charitable tax credit. Gifts of real estate provide many of the same benefits as other assets: charitable tax credits, lifetime income with professional management, and the opportunity to reach your charitable goals.

The Most Common Ways to Make a Gift of Real Estate

Outright Gift

You can make the gift during your lifetime and witness the benefits the gift brings. You can simplify your estate, reduce probate taxes and be free of property maintenance, taxes etc. The gift will bring an immediate tax receipt that can be used to offset other income. An outright gift can be made of a partial or entire interest in a real estate holding, which is accomplished through the creation of a new deed reflecting the Greater Victoria Housing Society's ownership of a portion or all of the real estate.

Bequest

You can give property to the Greater Victoria Housing Society through a bequest in your will, and receive a charitable tax credit for your estate while relieving your executor of the illiquidity and tactical issues associated with real estate.

Bargain Sale

You can sell your real estate to Greater Victoria Housing Society for a price below its market value and receive both cash and a charitable tax deduction for the forgone value in the property.

Charitable Remainder Trust

If you have income producing property that you would like to benefit yourself or your heirs, you could transfer the property to a charitable trust for a period of years, after which the property reverts to the Greater Victoria Housing Society.

Immediate Gift of Future Interest in Real Estate

By arranging a gift of a future interest in real estate to the Greater Victoria Housing Society, you may increase your after-tax income now. You retain the right to live on the property for a period of years, or for the rest of your life, and continue to possess, use and enjoy the property as before. The Greater Victoria Housing Society will immediately issue a donation receipt for the value of the future interest in your property. Upon your passing, or at the end of an agreed-upon period, the Greater Victoria Housing Society automatically becomes the full owner. The property is not part of your estate, resulting in lower probate and other estate-settlement fees in the future. A significant benefit is that gift of a residual interest would not be exposed to a potential wills variation claim as

would otherwise be the case with a bequest. The same is true with outright gift, bargain sale and charitable remainder trust.

How the Greater Victoria Housing Society can be of Assistance

Recognizing the importance of real estate and its elevated business component compared to other assets, the Greater Victoria Housing Society has invested in the expertise to assist you in a professional and confidential manner. Consider adding the Society to your team when planning for your real estate.

We can help you to identify your goals and the legacy you are wishing to leave, and then determine how the donation can best achieve those desires. If you are hoping to donate property that will be kept by the Society, we will need to determine whether the property and conditions of the gift are appropriate for our portfolio. As with any complex gifting strategy, donors should work closely with their advisors in structuring gifts of real estate. You should consult with your financial planner and attorney for details regarding your specific circumstances.

Steps to Making a Gift of Real Property

Because legal restrictions may limit the ability of the Greater Victoria Housing Society to own or sell a parcel of real estate, the Society must review all relevant information before deciding whether to accept a gift of real estate. Information and documents required for review include:

1. Declaration of Intent to Donate Real Estate (which we will provide to the donor);
2. A copy of the deed to the property;
3. A copy of any condominium agreements, restrictive covenants, leases and/or management agreements;
4. A copy of a current real estate appraisal by a qualified real estate appraiser;
5. A copy of any property tax statements and insurance policies;
6. A completed Check List for Gifts of Real Estate (which we will provide to the donor);
7. The estimated or actual carrying costs for the real estate. These costs include property taxes, insurance and maintenance, and depending on the type of property, this may include utilities, grounds care, snow removal, caretaker fees and condominium fees.

In addition, the Greater Victoria Housing Society will conduct a title search at the Society's expense.

Obtain a Qualified Appraisal

The donor will need to obtain a “qualified appraisal,” as defined by the Canada Revenue Agency (CRA), and provide a copy to the Greater Victoria Housing Society for its review. The qualified appraisal is required by CRA in order for the donor to substantiate the value of the gift and receive a charitable tax receipt. Responsibility for the cost of such an appraisal will be determined by the circumstances of the gift and at the discretion of the Society’s Executive Director after the Declaration of Intent has been reviewed and preliminary approval of the gift has been granted. Appraisals must generally be dated within 60 days of the date of ownership transfer. Appraisals must be carried out by a person, independent of the donor and the Society, who is professionally qualified to evaluate the property in question and is an accredited member in good standing of the Appraisal Institute of Canada;

Give the Greater Victoria Housing Society Time to Review the Gift

Once the Society has all the necessary information, the Society’s Fund Raising Committee will conduct a due diligence review in order to decide whether to accept the gift. We will keep the donor informed about the timing and the process by phone, and follow up with a confirmation letter.

Make Arrangements to Transfer the Property

Once the proposed gift has been approved, the Society will coordinate with the donor and the donor’s legal advisors to arrange the closing and transfer of title. The donor’s legal advisors will prepare and record the deed and any related documents because of their knowledge of local law and procedures. The Society will assist by providing draft language for the documents. The date of gift is usually the date on which title to the property is transferred to the Society.

Consider Carrying Costs and Transfer Taxes

Just as the donor is responsible for carrying costs prior to the gift, carrying costs will generally continue to be the donor’s responsibility until the property is sold to the Society.

If the donor retains a life interest in the property, the donor will be responsible for ensuring the costs are paid as long as the donor lives, or until the donor releases the life interest.

Tax Benefits to Donor

If you have owned your home or other real estate for a long time, no doubt it has increased in value significantly. What happens if you sell or donate the property? If the gifted property has been the donor's principal residence throughout the period of ownership, the capital gain is generally not taxed. For other real estate (with the exception of gifts of ecologically sensitive land), 50 percent of the gain will be taxable. However, the tax credit will exceed the tax on the gain, resulting in net tax credit that can be applied up to the amount of the annual contribution limit.

Charitable donations not applied in a particular year can be carried forward five years. Gifts made in the year of death can be applied to fully eliminate taxes in the year of death and the year prior. Executors can amend the deceased's previous year's tax return to claim donations made through the will.

The yearly contribution limit for charitable donations of appreciated property is 75 percent of the donor's net income, plus 25 percent of the taxable portion of the gain.



Grafton Lodge



Forest Heights

EXAMPLES:

Donation of Real Estate (Tax on Capital Gain)

Ian and Barbara M, residents of Vancouver Island, rarely use the cottage they purchased 37 years ago for \$60,000. They had considered selling it, but decided instead to contribute it to a charity with which they have long been affiliated. An appraisal of the property determines its current fair market value to be \$300,000. Their net income from other sources is \$150,000 per year, and both their combined tax rate and their donation tax credit rate are assumed to be 43.7 percent.

Tax on Gain

Capital gain recognized	\$240,000
Taxable gain (\$240,000 x 50%)	\$120,000
Tax on gain (\$120,000 x 43.7%)	<u>\$ 52,440</u>

Tax Credit

Donation receipt	\$300,000
Tax credit realized over a two year period (\$300,000 x 43.7%)	<u>\$131,100</u>

Net Tax Savings

Tax credit	\$131,100
Tax on gain	<u>-52,440</u>
Net tax savings	<u>\$ 78,660</u>

Donation of Depreciable Assets

Individuals who own investment property, such as an apartment building, typically depreciate the building each year, and the amount of the depreciation can be taken as an income tax deduction. For example, an investor might purchase an apartment building for \$1,000,000 and over the next ten years depreciate it by \$180,000. If he were to sell the property for \$1,200,000, he would have \$200,000 of capital gain (50 percent of which is taxable) and \$180,000 of recaptured depreciation (all of which is taxable). A gift of the property would produce the same results, except that the charitable tax credit can offset most if not all of the tax on the gain and the recaptured depreciation. This result can often be achieved because the annual contribution limit is increased by 25% of any recaptured depreciation that arises from donations of depreciable capital property.

For example, suppose that the owner of the apartment building has an annual income of \$200,000 in the year that he gives the property to charity.

Taxable Gain	
(\$200,000 x 50%)	\$ 100,000
Recaptured depreciation	180,000
Other Income	<u>200,000</u>
Total Net Income	<u>\$ 480,000</u>

Annual Contribution Limit:

75% of Net Income	\$ 360,000
25% of taxable gain (\$100,000)	25,000
25% of recaptured depreciation (\$180,000)	45,000
Annual Contribution Limit	<u>\$ 430,000</u>

On this basis, the full capital gain and recapture along with \$150,000 of other income is being sheltered from tax using the donation credit in the year the property is donated. In addition \$570,000 of donation is available for carry-forward to offset taxes in any of the five following taxation years.

Note: The above capital gains and tax considerations are general in nature and subject to change. Donors should consult with their legal and financial advisors to determine the current tax implications applicable to their individual circumstances.



Esquimalt Lion's Lodge

Questions?

If you have questions about gifts of real property, or another asset you might be considering, please contact us. We have staff members who are available to discuss with you a variety of options that would best meet your individual situation. To find out more, you can contact us by phone or e-mail.

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Thank you for your interest!