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GIFTS OF RESIDUAL INTERESTS

A gift of residual interest with retained life use: it's like having your cake and eating it, too! You derive the satisfaction of making a major gift to ***(Charity)*** now and receiving an immediate tax benefit, yet you continue to use and enjoy the gift property (often your principal residence) for the rest of your life!

In making such a gift, you transfer the property *irrevocably* to ***(Full Name of Charity)*** but retain its lifetime use. When the transfer is made, you will receive a donation receipt for the present value of the "remainder interest" – the value, in today's dollars, of the property ***(Charity)*** will receive at your death. This is calculated on the basis of the property's appraised value, your age, and an appropriate discount rate.

Giving your principal residence

> Elise C., age 72, owns a home valued at $200,000. She wants to continue living in it for many years to come, but she would like ***(Charity)*** to have it at the end of her life. She decides to give the home to ***(Full Name of Charity)*** now, retaining a life interest for herself. She receives a donation receipt for $85,421 which, assuming a 46.4-percent combined tax credit, will reduce her income taxes by $39,635. (The portion of the donation receipt that she may claim in any given year is limited to 75 percent of her income, but she has the gift year and five additional years to use the full amount.)

Because Elise's house is her principal residence, she realizes no taxable gain at the time of the transfer, no matter how much its value has increased since she acquired it. During her continued occupancy, she will be responsible for maintenance and such other expenses as are specified in her gift agreement with ***(Charity)***. If it becomes necessary for her to give up the house sometime before her death, she has several options. She may rent the house and retain the rental income, give her life interest to ***(Charity)*** and receive an additional donation receipt, or, by agreement with ***(Charity)***, sell the house and receive a share of the proceeds based on the value of her life interest.

Giving other types of real estate

It's easy to see how a residual interest in a personal residence can be an appropriate gift, but in fact, other property you own and use may also be a likely candidate. In this case, you will be taxed on 50 percent of the capital gain attributable to the residual interest, but the tax savings from the donation receipt will always more than offset the tax on the gain.

> Harvey M., age 73, has a cottage on a lake a few hours from his home in a major metropolitan area. He bought the cottage many years ago for $40,000, and it is now worth $100,000. He's reluctant to sell it, both because he still uses it frequently and because the sale would result in a taxable gain of $30,000 (50 percent of $60,000). By transferring it to **(Charity)** with a retained life interest, only 50 percent of the gain attributable to the residual interest will be taxed. In Mr. M's case, the $53,608 donation receipt he receives for the overall value of the residual interest will more than offset the taxable gain of $16,082.

When you give property that has appreciated in value, the amount of the donation receipt creditable in any one year is 100 percent of the taxable gain in the gift, plus 75 percent of your other income. This assures that you will always realize net tax savings, no matter how much the property has appreciated.

Note: With real estate held solely for investment purposes, it generally makes more sense to contribute the residual interest by means of a charitable remainder trust.

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Living in your principal residence or enjoying property such as a cottage can be all the more satisfying if you know that, when you no longer need it, it will become your gift to ***(words describing those who will benefit from the gift)*** through ***(Full Name of Charity)***!

Full Name of Charity
Street
City, Province, Postal Code
Telephone
Email
Website

The purpose of this publication is to provide general information, not to render legal advice. In addition, changes in the tax structure may affect the examples presented here. You should consult your own lawyer or other professional advisor about the applicability of this information to your own situation.