

## Business as a Calling 2008 MEDA Convention Columbus, Ohio – November 7, 2008



MMA®

Stewardship Solutions

## Experience the Joy of Giving Now!

Converting Real Estate Wealth to Gifts

Presented by:

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Mennonite Foundation & MMA Trust Company**

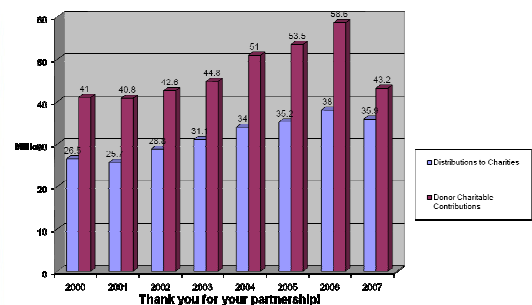


## Who we are

- MMA helps Anabaptists manage their resources in ways that honor God.



MMA Trust and Foundation Services  
Charitable Contributions & Distributions



## Quick facts about Mennonite Foundation

- The Mennonite Foundation is a donor-advised charitable foundation
- 501(c)(3) IRS status, a public charity
- Received gifts of \$43 million in 2007
- Disbursed \$35.9 million to charities in 2007
- Historically, 30% of gifts to Mennonite Foundation are real estate



## Real estate wealth: the untapped opportunity

- Total amount of U.S. privately held real estate valued at \$38 trillion (\$13 trillion debt or \$25 trillion net equity)
- By comparison, total value of publicly traded stocks valued at \$13 trillion
- Wall Street Journal article estimated that real estate only represented two percent of total charitable donations



## The most efficient charitable gift

- Lowest adjusted cost basis
- Highest capital appreciation held for the long-term

**REAL ESTATE IS TAILOR MADE  
FOR A CHARITABLE GIFT!**



## Long-term capital gains tax rate

tax bracket	2007	2008	2009	2010	2011*
10%	5%	0%	0%	0%	10%
15%	5%	0%	0%	0%	10%
25%-35%	15%	15%	15%	15%	20%

\*The capital gains rate will revert to pre-2003 levels unless Congress extends the lower rates.  
Source: USA TODAY research



**Taxes are not the only  
planning issue! Each gift  
must be the right gift in the  
right amount at the right time!**



## Estate planning: What is an estate?

- Your estate encompasses all of your assets
- Creating an estate plan means organizing all that you have during your lifetime and after your demise in a way that represents your values and intentions
- Estate planning is likely the most integrated approach toward making your financial affairs reflect your faith values



## Balance competing responsibilities

Estate planning involves balancing your needs during your lifetime with your intentions for the legacy you want to leave:

**Personal Livelihood**  
•Adequate Income  
•Healthcare  
•Housing

**Legacy**  
•Gifts to individuals  
•Gifts to charity



## Estate planning reality

- 70% have no plan\*
- 21% have the wrong plan
- 9% have a good plan

\* Journal of Practical Estate Planning, May 2000



## Six examples of gifts of real estate

- Giving the outlying 80, an outright gift
- Simplifying a life
- Zero tax sale
- Giving the farm, reserving a life estate
- Unwinding the rental property empire
- Unwinding the farm, choosing the right asset for gifting



## Case Study One – Giving the outlying 80, an outright gift

- **Richard and Wilma, both in their mid-70s, inherited an 80-acre tract of land from Wilma's parents a number of years ago. It has appreciated considerably since it was gifted to them.**
  - Cost basis in land is approx. \$120,000
  - Market value has climbed to \$350,000 over the past year
  - Although they are still farming, this land is rented out to a relative who wants (and needs) to buy it for his operation



## Case Study One – Giving the outlying 80 . . . (cont.)

- **Richard and Wilma's priorities**
  - They have no need for additional income
  - Avoid all capital gains taxes on any transaction
  - Get out of the landlord business
  - Offer the land to the current tenant first
  - Make a major gift to a specific charity for a capital project and keep the excess funds available to be distributed to various charities at a later time



## Case Study One – Giving the outlying 80 . . . (cont.)

- **Solution**
  - Outright gift to the Mennonite Foundation
- **The steps**
  - Get a current appraisal from a certified appraiser
  - Transfer to MF by deed
  - MF negotiates sale to tenant
  - Sales proceeds are placed into a donor-advised fund held at MF
  - Donor requests distributions to his charities at the appropriate time



## Case Study One – Giving the outlying 80 . . . (cont.)

- **Results**
  - Charitable deduction of \$350,000 which can be applied against adjusted gross income (up to 30% annually)
  - Unused charitable deduction can be carried forward for up to 5 years
  - The gift was made to the capital campaign!



## Case Study Two – Simplifying a life

- **Mildred, age 80, is the last survivor of her sibling group**
  - Already a small landowner herself
  - Recently inherited small farm from sister who passed away without other heirs
  - Cost basis on entire acreage was \$96,000; appraised value was \$156,000



## Case Study Two – Simplifying a life (cont.)

- **Mildred's goals**

- Get out of the landlord business
- Increase her income
- Make sure her nephew, who was presently farming the land, would have first chance to purchase the land
- Eventually give everything to charity
- Avoid capital gains taxes
- Create excess income to invest in the stock market



## Case Study Two – Simplifying a life (cont.)

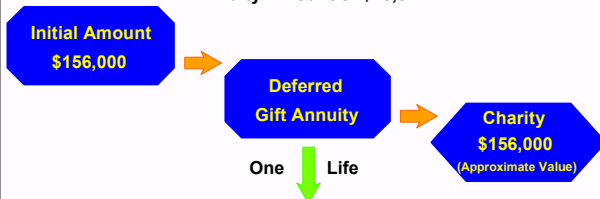
- **Solution**

- Flexible deferred payment gift annuity



## Deferred Gift Annuity

Mildred - Age 80  
First Payment on November 14, 2008  
Annuity Amount of \$13,572



1. Property to charity. Partial bypass of gain of \$60,000. Total tax deduction of \$82,852 may save income taxes of \$20,713.

2. Annuity payout of \$13,572 distributed for one life. Tax free payout \$5,063.54. Estimated one life total payouts are \$120,791.

3. After annuity payments distributed to annuitant, approximate remaining value given to charity.



## Case Study Three – Zero tax sale

- **Fred and Sara, both age 72, have a tract of farmland that has appreciated considerably**

- Cost basis in land was \$125,800
- They believed it could be sold for nearly twice that amount



## Case Study Three – Zero tax sale (cont.)

- **Fred and Sara's priorities**

- They wanted to avoid all capital gains tax
- The family member that was farming the ground was ready to retire; they did not want to be landlords with a new tenant farmer
- Being retired missionaries, they are very philanthropic and have several charities they want to support in a substantial way
- They definitely need some additional income during their lifetime



## Case Study Three – Zero tax sale (cont.)

- **A recent appraisal put the value of the land at \$197,000.**
- **Conversation with a neighbor, a retired physician who wanted more farmland, supported their belief that they could find a buyer at a value higher than the recent appraisal. In fact, the neighbor said he would be willing to pay up to \$240,000.**



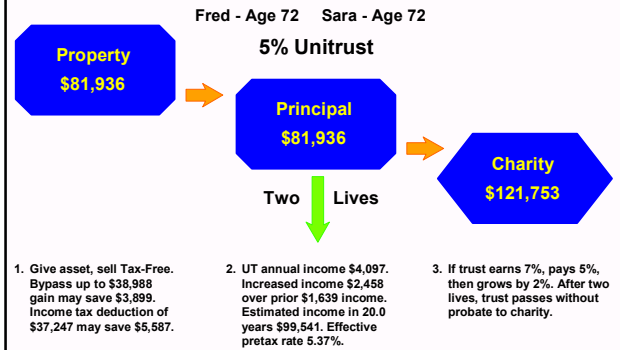
## Case Study Three – Zero tax sale (cont.)

### • Solution

- Partial gift and partial sale
  - How do we get to the right number?
  - How smart is the CPA?



## CHARITABLE UNITRUST



## Case Study Four – Giving the farm, reserving a life estate

### • Al and Kathy Franken, through unusual circumstances, were given a 320-acre farm by their previous landlord.

- They have accumulated a significant estate in financial assets satisfying their desire for an inheritance for their five grown children
- Each of their children is financially successful on their own
- Because of how they acquired the farm, they feel a unique sense of stewardship and want it to go to charity at their death



## Case Study Four – Giving the farm. . . (cont.)

- The farm is a significant source of retirement income and helps preserve their portfolio of financial assets
- Their marginal tax bracket with state income taxes is over 30%



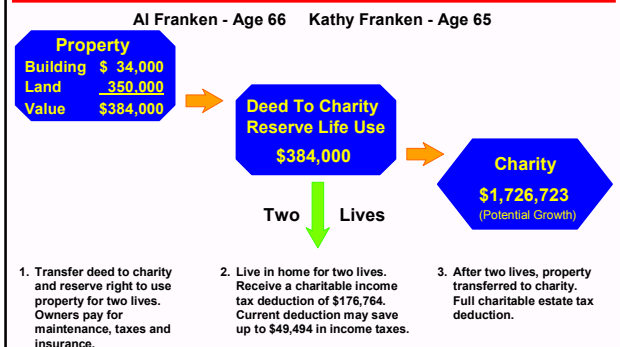
## Case Study Four – Giving the farm. . . (cont.)

### • Solution

- Give the farm to Mennonite Foundation
- Reserve a life estate
- They continue to use and maintain the property during their lifetime, including paying the property taxes



## LIFE ESTATE



## Case Study Five – Unwinding the rental property empire

- **Jack and Jill are in their early 70s and have accumulated a string of rental properties which meet a need in the bottom end of the market. Many of the tenants are people teetering on the edge, and the relationship of the handyman/owner to the tenants is critical to making the housing arrangement work. But Jack is not getting any younger, and it is time to step aside.**



## Case Study Five – Unwinding the rental property empire (cont.)

- **Facts of the situation**
  - 5 properties combined are worth about \$150,000
  - Cost basis remaining is approx. \$30,000
  - Taxable gain in the case of a sale would be taxed at about 30% (federal and state combined)
  - They would like some continued income from these assets in their retirement years

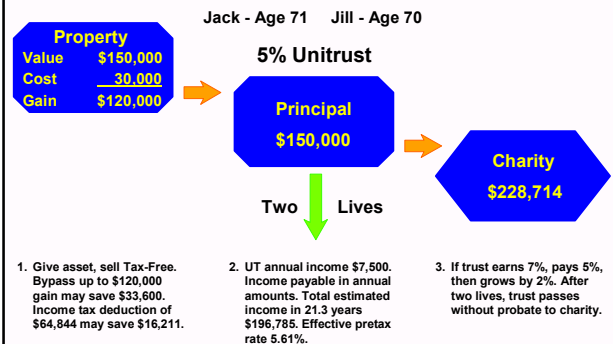


## Case Study Five – Unwinding the rental property empire (cont.)

- **Solution**
  - Create a charitable remainder unitrust
  - Transfer property to trust by deed
  - Trustee will sell the properties



## CHARITABLE UNITRUST



## Case Study Six – Unwinding the farm, choosing the right asset for gifting

- **John and June, both age 68, had been farming in western Kansas for the past 35 years**
  - Already made arrangements to move to town and sell farmstead to neighbor's son
  - The farmland is debt free
  - Potential tax liability from sale of farm machinery and unsold 29,000 bushels of corn
  - Est. value of machinery is \$400,000 to \$500,000; value of grain uncertain



## Case Study Six – Unwinding the farm . . . (cont.)

- **Fortunately, John and June's accountant, a member of their church, knew that the Mennonite Foundation had tools to reduce taxes**
- **Preference was to keep the farm land**



## Case Study Six – Unwinding the farm . . . (cont.)

- **John and June’s objectives**
  - Reduce tax liability
  - Provide supplemental retirement income
  - Provide benefits to their adult children after John and June are deceased
  - Provide charitable benefit; secondary to the tax reduction issues



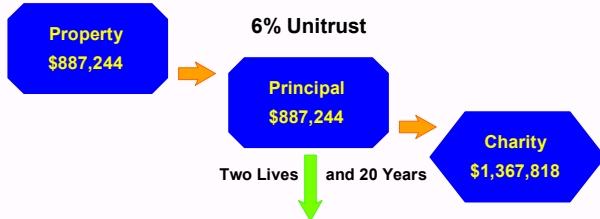
## Case Study Six – Unwinding the farm . . . (cont.)

- **Solution**
  - Transfer grain and farm machinery to charitable remainder unitrust with 20-year term for children
    - Avoid recovery of cost on sale of farm machinery
    - Avoid receiving the grain sale proceeds personally
    - Keep the land



### Unitrust Plus Term

John - Age 68    June - Age 68



1. Tangible personal property tax treatment.
2. Unitrust income of \$53,235. Increased income \$35,490 over prior \$17,745 income. Estimated income in 43.5 years \$2,883,442. Effective return rate 6.21%.
3. If trust earns 7%, pays 6%, then grows by 1%. After two lives plus term, trust passes to charity. Partial estate tax deduction.

## Guidelines for donation of real estate to Mennonite Foundation

1. Identify attorneys, accountants and financial advisors
2. Obtain the cost basis and purchase date of property
3. Arrange for an appraisal, Mennonite Foundation inspection and environmental status
4. Identify how and when the property will be sold
  - Public auction
  - Sealed bids
  - Privately
  - Real estate agent



## Guidelines for donation of real estate to MF (cont.)

5. Decide on the percentage of the property you want to gift
6. Sign a charitable trust application and gift recommendation form
7. Have documents prepared by Mennonite Foundation or your attorney to gift the percent of the property
  - Deed or installment sales agreement



## Guidelines for donation of real estate to MF (cont.)

8. Finalize/sign sales agreement only after forms are signed with Mennonite Foundation (IRS regulations)
9. Settlement date set by attorney, settlement company, Mennonite Foundation and donor
10. Review any remaining sale funds for investing purposes



## Discussion and additional case studies



Thank you!

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