

# **JAMES E. CONNELL & ASSOCIATES**

*Charitable Estate And Gift Planning Specialists*

P.O. Box 3335, Pinehurst, North Carolina 28374-3335

phone 910-295-6800 fax 910-295-6668

---

January, 2005

**To: All those who requested the Charitable Gift Annuity Worksheet**

**Enclosed you will find the real estate gift annuity evaluation worksheet I developed. The purpose of this form is to compare and contrast different financial situations.**

**Use of the worksheet assumes that the charity has performed its due diligence in examining the property to determine its suitability and examined the property for any defects and/or environmental concerns. The worksheet should be used by the charity to determine the financial effect of the gift on the gift annuity fund investments. It answers the commonly asked question, How much do I have to earn on the net cash received from the property to fully cover the annuity payments to the donor.**

**I am of the view that if the property is suitable a charitable gift annuity is an excellent gift vehicle. For the donor it provide an easy solution to the sale of property, they dictate the date of the sale, have no price risk, complete a simple transfer of the deed, have no commission costs or additional fees, and garner significant current income and capital gains tax advantages.**

**Charities must first check their state laws for any regulations that would prevent the charity from issuing an annuity in return for a gift of property. For example I know New York State does not permit this type of transaction.**

**The worksheet includes four columns allowing you to compare different assumptions. The most variable assumptions will be the price risk of the real estate. This is expressed as a percentage of the appraisal value. I encourage two appraisals one by the donor and one by the charity. If the appraisals are more than 5% off consider using the lower appraisal. Most real estate broker multiple listing books will have a section that lists recent sales and the percentage difference between the sales price and the listing price. This may be a helpful guide. I normally use 4%, 6%, 8% and 10% sale price adjustments.**

**Next determine the sales expenses expressed as a percentage. Homes normally carry a 5-7% sales commission, land and lots carry a 10% commission. Include in your sales expenses the cost of transfer fees. Some areas have a 1% fee to the seller and buyer for the transfer of title to real estate. This is often call tax stamps or document stamps. Some states exempt charitable gift transfers for the gift of the title to the charity, but when the charity sells the real estate it must pay the title transfer fee. In Pennsylvania there is a 1% fee for buyer and seller and if the charity is supporting the costs of the gift transaction the**

charity may pay up to 3% of the value of the property in title transfer fees (1% paid for the seller(donor) and buyer(charity), and then an additional 1% when the charity sells the property to the new buyer, who will pay their 1% to purchase the property. In Vermont it has been my experience there are additional real estate transaction costs when a charity not registered in the state of Vermont. In Texas it has been my experience the real estate transfer costs are very minimal.

In addition to title transfer fees and commissions you need to adjust the net cash proceeds by the carrying costs of the property until it is sold. Here estimate the taxes, assessments, management fees, insurance and routine maintenance required until the property sells. I would estimate one year of fees.

Since the charity may pay the donor income from other annuity assets prior to the sale of the property you need to estimate the number of payments required before you receive the net cash for reinvestment. I encourage charities to pay back to the fund payments advanced prior to receiving net cash benefits.

Knowing the net cash received and the agreed upon annual annuity payment you can determine the annuity rate being paid on the fair market value appraisal.

Knowing the net cash received and the annual annuity payment you can determine the rate of earnings needed to support the annual payment to the donor. Comparing this rate to the rate of return on your annuity fund: to the current rate of return available in the market place and the historical rate of return of stock and/or bond investments will help determine if the gift of real estate is a viable financial transaction for your charity.

For further information or clarifications please contact me at any time.

Sincerely,

*James E. Connell*

James E. Connell, FAHP

enclosure

**Note: The ACGA gift annuity rates effective July 1, 2003 are based upon new assumptions. Therefore a current gift annuity rate to offer to individuals would be based upon the ACGA rate for their age minus 0.50%. This will provide a level of safety for the charity while offering a competitive net after tax return to the donor.**

### Real Estate Evaluation Form for Charities Accepting Homes, Land or Other Real Estate for Charitable Gift Annuity Agreement

Donor: \_\_\_\_\_

Donor Age: \_\_\_\_\_

Donor: \_\_\_\_\_

Donor Age: \_\_\_\_\_

Normal Charitable Gift Annuity Rate: \_\_\_\_\_

Real Estate gift annuity rate = ACGA rate -0.5% \_\_\_\_\_

PLANNING TOPIC(A)	PLAN 1(B)	PLAN 2(C)	Formula(D)	EXAMPLE(E)
Appraised value for tax deduction	\$0.00	\$0.00	D2	\$150,000.00
Selling adjustment(% of value)	0.00%	0.00%	D3	10.00%
Selling adjustment value	\$0.00	\$0.00	D2*D3	\$15,000.00
Gross Sale Price	\$0.00	\$0.00	D2-D4	\$135,000.00
Selling expenses (% of sale for commission, transfer fees, other expenses)	0.00%	0.00%	D6	8.00%
Total expenses	\$0.00	\$0.00	D5*D6	\$10,800.00
Cash received by charity	\$0.00	\$0.00	\$D5-D7	\$124,200.00
Carrying expenses before sale of asset (insurance, taxes, assessments, management fees, other)	\$0.00	\$0.00	D9	\$3,000.00
Adjustment for annuity income paid to donor prior to asset sale (estimate one year payment)	\$0.00	\$0.00	D10	\$8,000.00
Total cash received by charity to fund annuity agreement	\$0.00	\$0.00	\$D8-(D9+D10)	\$113,200.00
Annual annuity payment	\$0.00	\$0.00	D12	\$8,000.00
Annuity rate on appraisal value	??	??	D12/D2	5.33%
Conversion of income on appraisal value to rate being paid on net cash received by charity for annuity account	??	??	D12/D11	7.07%

© James E. Connell & Associates, Charitable Estate and Gift Planning Specialists,  
P.O. Box 3335, Pinehurst, North Carolina 28374 Phone 910-295-6800 Fax 910-295-6866