

# PLANNING MATTERS

A PUBLICATION OF SOUTHWESTERN MEDICAL FOUNDATION AND UT SOUTHWESTERN  
FALL 2003

## Making Your Real Estate Work for You

### An Excellent Choice to Fund a Charitable Gift

Many a real estate investor with significant charitable objectives will find that his or her real estate is the best asset to give. One of the most important benefits of using appreciated real estate to fund charitable gifts is the ability to reduce or even eliminate the capital-gains tax that will be due if the property is sold.

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### Gift from Mrs. Orien Levy Woolf

To honor the distinguished career of her late husband and to aid progress in neurosurgery research, Mrs. Orien Levy Woolf established the Orien and Jack Woolf, M.D., Distinguished Chair in Neurosurgery and Neuroangiography at UT Southwestern through Southwestern Medical Foundation.

Mrs. Woolf chose to fund this gift through three properties which she owned near White Rock Lake. The properties were appraised at approximately \$500,000. The subsequent sale of the property by the Foundation provided the funding to establish the distinguished chair.



**Mrs. Orien Levy Woolf**

"I felt that this was the best way I could honor my husband's work and contribution to health care—by creating an endowment that will allow future generations of medical researchers to build upon his work and advance the research in his area," Mrs. Woolf said.

Dr. Woolf was a pioneer in neurosurgery in Dallas and was dedicated to building UT Southwestern into a prominent center for neurosurgery. The endowed chair supports the research of Dr. Phillip Purdy, vice chairman of radiology and professor of neurological surgery at UT Southwestern.

*Dr. Phillip Purdy has received national recognition for his groundbreaking research on stroke and brain aneurysms and is recognized as a pioneer in the emerging field of "endovascular neurosurgery." He is currently involved in developing a spinal cord injury model that will enhance spinal cord and brain imaging capabilities and allow for minimally invasive treatment of spinal cord and brain injuries through navigation of the spinal canal. This promising research may lead to new techniques in neurosurgery involving cranial surgery without opening the skull or moving the brain.*

In addition to tax benefits, a gift of real estate also relieves an owner of the many burdens of ownership –insurance costs, rent collection, maintenance, yard work, etc.

In the long run, a gift of real estate also addresses issues of estate liquidity: you may preserve your cash and those assets readily converted to cash, such as stocks and bonds, to address liquidity needs that may arise during estate administration.

## A Host of Charitable Options

Real estate holdings are adaptable to a variety of charitable-planning strategies, some of which, in fact, are available only with real estate.

*GIVE A FRACTIONAL INTEREST.* Real estate ownership is, by its very nature, an abstract concept. You can't pick it up and put it in a container.

Ownership is designated through documents recorded in the appropriate governmental office, making it a relatively easy matter to create a fractional interest in real estate. This may suit the charitable-giving objectives of some property owners perfectly.

It is a simple matter to transfer an *undivided fractional interest* in the property equal to the intended value of the gift to charity.

*EXAMPLE: Gloria would like to use her investment in an apartment building to fund a gift to Southwestern Medical Foundation for the benefit of UT Southwestern worth \$75,000. After appraisal and careful planning, she decides to transfer an undivided one-fourth interest in the building to us. The appraisal shows that the value of this fractional interest is \$75,000.*

## Gift from Pete and Jo Goldman

In 1982, Pete and Jo Goldman made a charitable gift to Southwestern Medical Foundation that continues to this day to impact the lives of aspiring physicians. Through a gift and subsequent sale of an interest in a real estate partnership which Mr. Goldman owned, proceeds were added to the Felix B. and Josephine Goldman Fund to provide financial assistance in the form of scholarships and loans to medical students at UT Southwestern. Over the years, dozens of medical students have received support from this fund, including 2002, when six students received financial assistance.

“When Jo and I made this gift, we wanted to help UT Southwestern attract the best and brightest students. At the same time, we wanted to provide assistance to quality young people to allow them to pursue their dreams of becoming physicians, regardless of their personal financial resources. Each year we are honored to meet some of the students who receive our scholarships and are always inspired by their achievements and promise,” said Mr. Goldman. The Goldmans are members of Southwestern Medical Foundation’s Heritage Society, and Mr. Goldman is a member of the Foundation’s Board of Trustees.



**Pete and Jo Goldman**

*Last year, Southwestern Medical Foundation provided 176 scholarships to medical students at UT Southwestern. Some of these awards were based on financial need and others on academic achievement. Both in-state students and out-of-state residents received scholarships. Financial aid allows UT Southwestern to compete for the very best students in the country, and many of these students remain in this area to teach, conduct research, and practice medicine. The Foundation currently has thirty named endowed scholarship funds with a market value of more than \$9 million.*

*PART GIFT, PART SALE.* You may want to use real estate to make a gift, but you need to recoup some of its value. Real estate provides the flexibility to accomplish this through the use of a strategy known as a *bargain sale*.

A bargain sale is just what it sounds like: an owner transfers real estate to a charitable organization in exchange for a payment that is less than the full value of the property. Typically, the donor qualifies for a charitable deduction equal to the difference between the fair-market value of the property and the amount of the payment received. In addition, the donor has to recognize the capital gain attributable to the “sale” element (amount received).

*EXAMPLE: The Taylors own a vacation lake house that they rarely use now that their children are grown. They would like to make a substantial gift to support Southwestern Medical Foundation for the benefit of UT Southwestern, and they think the lake house would be an ideal asset with which to fund their gift.*

*Based on an independent qualified appraisal, this home is now worth \$250,000; and the Taylors would be happy to use it to make their gift if they could recover their original \$100,000 investment. After some discussion, we enter into an agreement with them to purchase the house for \$100,000. They are entitled to a charitable income-tax deduction of \$150,000 as a result of this bargain sale.*

Also, the Taylors have to recognize and report a capital gain of \$60,000, attributable to the sale element of the bargain sale. This is arrived at by multiplying the sale price by the appreciation and dividing the product by the fair-market value of the property:

$$\frac{\$100,000 \times \$150,000}{\$250,000} = \$60,000$$

Of course, the capital gain the Taylors have to report is more than offset by the charitable deduction.

*MAKE A GIFT AND RETAIN POSSESSION.* Perhaps you would like Southwestern Medical Foundation to have your residence when you are gone, but you want to continue to live there for the rest of your life.

You may choose to leave your home to us in your will as one way of carrying out your plan, but that does not create any current income-tax benefit for you as a homeowner. However, with a gift of a *remainder interest with a retained life estate*, you can retain the right to both live in your home for life and receive a valuable charitable deduction by transferring it to Southwestern Medical Foundation for the benefit of UT Southwestern, subject to your right to live there for life.

*EXAMPLE: Alan, 78, intends to leave his home to Southwestern Medical Foundation for the benefit of UT Southwestern. His will directs that the house be given to us when he dies. Presently, the home is worth \$400,000.*

*In order to realize tax savings during his lifetime, Alan decides instead to transfer the house now, with a provision that he may continue to live in the house until his death. This allows Alan to claim a charitable deduction of more than \$254,800 that, in his 35% federal income-tax bracket, saves him more than \$89,180 in taxes.*

*NOTE:* While some other types of real estate, such as commercial property and undeveloped land, are suitable for many types of gifts, they are not appropriate for this particular plan.

*RECEIVE A STREAM OF INCOME.* Real estate is an excellent asset to fund a special planning vehicle known as a *charitable remainder trust*, which makes payments for life or for a specified number of years (up to 20) to one or more designated beneficiaries. These payments are based on the value of the trust’s assets. At the end of the trust term or at the death of the last beneficiary, the remaining assets pass to a designated charity. The value of this “charitable remainder” qualifies for a charitable deduction.

*(continued on back page)*

The information in *Planning Matters* should not be construed as legal advice, tax advice, or as a substitute for advice based on particular factual situations. You should consult your attorney prior to finalizing any of the planning techniques discussed.

- A *charitable remainder annuity trust* makes fixed payments based on a percentage (at least 5%) of the initial value of the assets put into the trust.

- A *charitable remainder unitrust* also uses a fixed percentage to determine its annual payout, but that fixed percentage is applied to the value of the trust's assets as it changes from year to year. So, if the value of the assets goes up, the payout will go up.

**PLANNING POINTERS:** • A unitrust allows for special provision for the payments to be made each year only to the extent that the trust has available income, guarding against depleting the trust's principal.

- It can also provide that any shortfall will be made up in future years in which there is excess income. Given the illiquid nature of real estate, this type of trust—a *net income with make-up charitable remainder unitrust* (NIMCRUT)—is most suitable for gifts of real estate.
- Yet another provision provides added flexibility by permitting the NIMCRUT to “flip” to a regular unitrust upon the occurrence of a so-called triggering event such as the sale of the real estate. This permits the trustee to hold on to the real estate until it can be properly sold. Thereafter, the unitrust will start paying a stated percentage of its annual value without regard to how much income is generated by the unitrust. Thus, the payments could be made up of **both** income and trust principal.

With wise charitable planning you can transform real estate holdings that generate no income into a source of annual payments—without selling and generating taxable capital gain.

*EXAMPLE: Years ago, Helen Daley, 72, bought some acreage far from the edge of the city for \$50,000. Gradually, development pushed the city's boundaries farther out, and now her land is worth \$500,000.*

*Helen continues to pay real estate taxes on the property and must maintain insurance and pay for mowing. Now retired, she would like to sell and reinvest the proceeds to supplement her income, but the \$67,500 tax on capital gain would leave just \$432,500 to reinvest. At 6%, that would generate \$25,950 each year.*

*Helen is delighted to learn that she can transfer this land to a 6% flip unitrust and avoid recognizing the capital gain on the “built in” appreciation. As a result, Helen will be entitled to an immediate charitable deduction of \$255,145. In her 35% bracket, this saves her nearly \$90,000 in income taxes.*

*The trustee sells the land to a developer 18 months later—the triggering event—for \$530,000. The trust, being tax-exempt, will not pay any capital-gains tax on the sale. The next year, the straight unitrust will distribute \$31,800 (6% of \$530,000) to Helen. Thereafter, the annual payment will equal 6% of the annual value of the unitrust. At her death, the remaining assets in the unitrust will be distributed to Southwestern Medical Foundation for the benefit of UT Southwestern.*

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## For More Information

A gift of real estate can be a powerful planning tool for a charitably minded person; but while many of these giving plans are not terribly complicated, they do require careful planning.

We want to be helpful any way we can. For a start, we would like to send you a complimentary copy of our booklet, ***How to Realize Maximum Benefits from Your Real Estate***. To get your copy, simply return the enclosed card or call Randy Daugherty, Planned Giving Director, Southwestern Medical Foundation.

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## HERITAGE SOCIETY

**F**OUNDED in 1995, the Heritage Society honors individuals who make long-term charitable commitments to Southwestern Medical Foundation for the benefit of UT Southwestern or one of its affiliates through planned gifts. In essence, it gives the Foundation an opportunity to show its appreciation to those who are *Endowing the Future of Medicine*.

Anonymous (9)	Thomas J. Parr, M.D., and Joannie Parr
Mr. and Mrs. James R. Alexander	Selma L. and I. Benjamin Parrill
Marilyn Augur*	Patricia M. Patterson*
Paul M. Bass*	Billy Joe Pendley
Drs. Paul R. and Rebecca B. Bergstresser	Shirley Pollock*
Michael H. Bertino, M.D.*	Doris E. Porter, P.T.
Josephine L. Biddle#	Mrs. Ashley Priddy
Jules Bohnn, M.D.*	Muriel Rabiner
Nancy L. Branch	Nancy Carol Reddick*
Carol A. Brown, M.D.*	Tom B. Rhodes*
Antonio J. Campdera*	Dr. and Mrs. Leonard Riggs, Jr.
W. Plack Carr, Jr.*	Mr. and Mrs. John Carl Rutledge
Mr. and Mrs. Robert R. Click	Stephen Raymond Salomon
Dorothy R. Cullum*	Hortense and Morton# Sanger
Edwin R. Daniels*	Dr. and Mrs. John W. Schermerhorn
Doris Russell Dealey*	Mr. and Mrs. William L. Schilling
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Mack M. Elliott	Bette Claire Schuttler
Pamela and Roy Gene Evans*	Sarah M. and Charles E. Seay*
Richard Ferguson	William D. Seybold, M.D.*
Dr. and Mrs. Norman F. Gant	Doyle L. Sharp, M.D.*
David Ginn, M.D.*	Tom and Dorothy Shockley
Mr. and Mrs. F.B. Pete Goldman*	Mr. and Mrs. George A. Shutt*
L. Ruth Guy, Ph.D.	John S. Smale
Sydney and Wallace Hall*	Ellen K. and Robert L. Solender*
Nancy B. Hamon*	Charles C. Sprague, M.D.*
John P. Harbin	Ronald G. Steinhart*
Dr. and Mrs. Thomas W. Harris*	Eleanor P. Stevens
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James M. Hoak	Sally Seay Stout*
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Mr. and Mrs. S. Roger Horchow	Irene Wadel #
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Judith K. Johnson*	Mr. and Mrs. Richard L. Walton
Christine Kumpuris*#	Dr. and Mrs. Clark Watts*
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William R. and Anne E. Montgomery	Terry M. Wilson*
Robert H. Munger	Mr. and Mrs. Ivor P. Wold
Louis Nardizzi, M.D., Ph.D.*	
Gerard Noteboom, M.D.	
Rhea T. O'Connor # *	

\* = Charter Member of the Heritage Society  
# = Deceased

## Gift from an Anonymous Donor

Residential real estate, including condominiums, can make wonderful charitable gifts. An anonymous donor recently gave to SWMF Properties, Inc., a supporting organization of Southwestern Medical Foundation, a condominium in the Turtle Creek area of Dallas. The proceeds from the sale of the condominium will be used to support research at UT Southwestern. SWMF Properties, Inc. acquires, maintains, and manages real and personal property donations for the benefit of Southwestern Medical Foundation. The mission of SWMF Properties, Inc. is to support programs to improve medical education, to extend financial support for medical research, and to promote the continuing advancements of medicine.



*UT Southwestern's \$450 million "Innovations in Medicine" campaign will enhance UT Southwestern's teaching, clinical, and research capabilities. Endowed research funds are among the highest priorities for UT Southwestern. To find out more about the specific priorities of the campaign, call Bill Bishop, Vice President for Development at UT Southwestern, at (214) 648-2344 or e-mail him at [bill.bishop@utsouthwestern.edu](mailto:bill.bishop@utsouthwestern.edu).*