

## Retained Life Estates

If you would like to make a gift to Melbourne Central Catholic, then you may be pleased to know that you can contribute a personal residence (including a vacation home) or a farm while continuing to live there. This is possible by retaining a life estate in the property when you donate it to the school.

During your lifetime you will live in your home, use your vacation home or operate your farm just as you always have. You will be treated as the owner of the property and remain responsible for maintenance, repairs, real estate taxes, insurance and other expenses associated with the property. Upon your death the school will own the property in its entirety. You will qualify for an income tax deduction when you deliver the deed to the school based on an actuarial table.

You and the school will also sign an agreement outlining your responsibilities regarding the property during your lifetime and describing what your gift will eventually support at the school.

### Frequently Asked Questions

**Can I give a remainder interest in other kinds of real estate?** You may own vacant land or commercial real estate that you would like to use for a retained life estate gift. Unfortunately, the tax code only permits a charitable deduction for a remainder interest in a personal residence (including a vacation home) or a farm. However, a charitable deduction is allowed for gifts of other types of real estate if made outright.

**What if I want to move?** If you no longer want to live in your home or operate your farm, you and the school have several options. The property

could be leased to a third party and you would be entitled to receive the rental payments. You and the school could sell the property and divide the proceeds in proportion to our respective fractional interests at the time of the sale. Finally, you could donate your remaining life estate interest to the school and qualify for another income tax charitable deduction.

**Can I give someone else a life estate or limit the interest to a term of years?** Yes, you may give a life estate to someone else. You may also limit your or the other person's life estate in a residence or farm to a term of years and give the remainder interest to the school.

**Why would I want to make a retained life estate gift rather than leaving MCC my residence or farm in my will?** Your estate would be entitled to the same estate tax charitable deduction for the value of your property upon your death regardless of whether you give the property to the school now with a retained life estate or donate it through your will. However, by making a gift with a retained life estate now you will be able to claim an income tax charitable deduction that can reduce your current income taxes.

#### Tax Consequences

**Income tax charitable deduction:** You will be entitled to a current income tax charitable deduction for the value of the remainder interest in your residence or farm. You will need to obtain a qualified appraisal from an independent appraiser to determine the full value of your property. However, the value of the school's remainder interest will be less than the total value of your property and is determined according to IRS rules and tables. You can claim the deduction in the year you make the gift. If you cannot use all if in that year, you can carry the excess deduction forward for up to five succeeding years.

**Gift tax treatment:** If you give a life estate to someone else in lieu of or in addition to retaining a life estate for yourself, you will be making a non-charitable gift to that person of the value of his or her right to live in or use the property. You may have to pay gift tax on the non-charitable gift so consult your tax advisor if you are considering this.

**Estate tax charitable deduction:** If you retain a life estate, the value of your residence or farm will be included in your taxable estate when you die, but your estate will be entitled to an offsetting estate tax charitable deduction for the entire value. If you give another person a life estate in the property that begins after your death, or if you make a gift of a life estate in a residence or farm to another person under your will, the value of that life estate may be subject to estate tax. However, your estate will be entitled to an estate tax charitable deduction for the value of the remainder interest given to the school.

### Four Steps to Making a Retained Life Estate Gift

1. You (or your advisors) contact the Development Office to discuss the residence or farm you wish to donate to MCC.
2. You obtain a qualified appraisal of the property in order to compute the value of your life estate and the remainder interest, which determines your income tax deduction.
3. Your attorney prepares the deed conveying your property to the school. You and the school sign an agreement that describes your responsibility for property maintenance, real estate taxes, insurance, etc. and instructs the school on the use of your gift.
4. The school provides follow-up information to assist you in reporting your gift to the IRS and claiming the appropriate tax deductions.