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Summary of Advantages of Transferring to Charity a Remainder Interest in Personal Residence or Farm

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A donor may receive an income tax charitable deduction by transferring a remainder interest in the donor's personal residence or farm to a charitable organization, and retaining a life estate interest. The retained life estate interest allows the donor to continue to use and possess the residence or farm during the donor's lifetime. At the time of the donor's death, title to the residence or farm will transfer to the selected charitable organization.

The definition of "personal residence" includes any property used by the donor as a residence, regardless of whether the property is used as the donor's primary residence. The definition of "farm" includes any land used by the donor for the production of crops or for raising livestock.

The amount of income tax charitable deduction to which the donor is entitled is calculated by subtracting the value of the retained life estate interest from the fair market value of the residence or farm on the date of transfer. The value of the donor's retained life estate interest depends on the age of the donor and the current Internal Revenue Code Section 7520 interest rate (i.e. 120% of the Applicable Federal Midterm Rate). The lower the Section 7520 rate, the smaller the donor's retained life estate interest, and as a result, the larger the income tax charitable deduction. Consequently,

in a low interest rate environment, a transfer of a remainder interest in a personal residence or farm is an excellent estate planning tool.

The amount of the remainder interest in a personal residence or farm that may be deducted by the donor in any given year is limited, however, to 50% of the donor's adjusted gross income (AGI). Any amount of the remainder interest exceeding 50% of AGI is not lost, but rather may be carried forward and applied against future income for up to five additional years.

The following example illustrates the tax advantages associated with transferring a remainder interest in a personal residence or farm in a low interest rate environment.

In March of 2012 the Section 7520 interest rate is 1.4%. A donor, age 65, transfers to a charitable organization a remainder interest in the donor's farm, and retains a life estate interest. The fair market value of the donor's farm at the time of the transfer is \$1,000,000.00. By applying a 1.4% interest rate, the donor's retained life estate interest is valued at \$213,030.00; consequently, the donor will be entitled to a \$786,970.00 income tax charitable deduction.

On the contrary, if the Section 7520 rate is 8.0% (in the past the Section 7520 rate has been as high as 11.6%), the donor's retained life estate interest is valued at \$681,500.00, and the donor only will be entitled to a \$318,500.00 income tax charitable deduction.