

**For Example:** Mr. T contributes real estate having a fair market value of \$600,000 and adjusted cost basis of \$280,000 and a mortgage of \$250,000

- The amount realized by the donor (the mortgage) – \$250,000
- Adjusted cost basis allocated to the mortgage is –  
 $\$250,000 \text{ (mortgage)} \div \$600,000 \text{ (FMV)} \times \$280,000 \text{ (cost basis)} = \$116,667$
- Gain Recognized (mortgage less the adjusted cost basis) \$133,333
- Charitable Deduction ( $\$600,000 - \$250,000$ ) \$350,000

Even if the charity does not assume the debt, the mortgage balance is treated as an amount realized, and the above allocation of cost basis applies. If the donor remains personally liable for the debt, the bargain sale rules apparently are not avoided.

When a charity acquires a mortgaged property by a gift, the mortgage balance will not be treated as acquisition indebtedness for ten years following the gift, provided: 1) the mortgage was placed on the property for more than five years before the date of the gift, and 2) the property was held by the donor for more than five years before the date of the gift.

Should a charity always refuse a gift of mortgaged property if it could cause unrelated debt-financed income? Not necessarily. The tax paid by the charity may be justifiable in relation to the total economic benefit received from the gift. As a general rule, most charities accept a mortgaged property if the donor has owned it for more than five years and placed the debt on it more than five years ago.

Copyright 2005, Council on Foundations, used with permission.

# AdvisorImpact

A Quarterly Newsletter for Professional Advisors



The Community Foundation of North Central Wisconsin is one of 21 community foundations in Wisconsin and one of over 150 community foundations in the United States that has achieved Confirmation of Compliance with National Standards for U.S. Community Foundations. The National and State Standards seals signify integrity and excellence.

## Know the Differences: Why All Charitable Contributions are Not Equal

Many tax and estate planning professionals are aware of the basic tax rules governing deductions for charitable contributions; however, sometimes it is difficult to adequately notice the differences between the income, gift, and estate tax charitable contribution deductions, and how these deductions apply to individuals, trusts, and estates. This article, from the May 2006 issue of *Trusts & Estates*, reviews the key differences between these deductions so advisors can help clients maximize tax savings, and help preserve and use their wealth more effectively. For more information visit <http://www.pgdc.com/wis/item?itemID=357804>.



The Community Foundation of North Central Wisconsin is a nonprofit organization that exists to enrich life for present and future generations.

**If you would like to learn more about how we can work together to meet your client's philanthropic needs, contact Jean Tehan, executive director of the Community Foundation.**

Phone: 715.845.9555  
Toll free: 1.888.845.9223  
E-Mail: [jean@cfoncw.org](mailto:jean@cfoncw.org)  
Website: [www.cfoncw.org](http://www.cfoncw.org)

Nonprofit  
U.S. POSTAGE  
PAID  
Wausau, WI  
Permit No. 219

500 Third Street • Suite 310 • Wausau, WI 54403

OF NORTH CENTRAL WISCONSIN



## Study Examines Wealth Transfer in Wisconsin

### *\$687 Billion to Change Hands in Wisconsin by 2050*

A new report finds Wisconsinites have accumulated wealth totaling \$687 billion. The report, released in early September, projects those funds will change hands between the World War II Generation, Baby Boomers, Gen Xers and Gen Ys by 2050, with \$105 billion changing hands before 2010.

Commissioned by the Community Foundation of North Central Wisconsin and Wisconsin's 20 other Certified Community Foundations through the Donors Forum of Wisconsin – Wisconsin Community Foundations Division, and conducted by the Nebraska Center for Rural Entrepreneurship, the report is based on the work of Boston College researchers, who project \$41 trillion will change hands in the United States before 2050.

#### **Building Stronger Communities**

Based on these findings, Wisconsin's Certified Community Foundations are asking residents to count their communities among their heirs.

"When we talk about funds changing hands like this, people automatically think of children and grandchildren," said Todd Nicklaus, president of the Community Foundation of North Central Wisconsin. "We're asking people to think about their communities as well. This is another opportunity for them to do something to make their communities stronger."

For example, statewide, if 5% of the wealth transfer in the first ten years were set aside for permanent charitable investments, the resulting \$5.3 billion in endowed funds would provide \$263 million every year for charitable purposes.

"Just think of the impact that could have on our quality of life. This is an unprecedented opportunity to ensure our communities can remain strong and continue to attract talented young people who will help shape our future," said Jean Tehan, Community Foundation executive director. "The worst thing that could happen would be to see a disproportionately high share of those funds be diminished through high estate taxes, or leave the state completely."

With our flexible family of funds, your clients can help a cause or charity that is closest to their heart. For information on establishing a fund, or making a gift to an existing fund, contact Jean Tehan, executive director at 715.845.9555.

For complete results of the study or to learn more, visit our website at [www.cfoncw.org](http://www.cfoncw.org) or the Donors Forum of Wisconsin website at [www.WisconsinGives.org](http://www.WisconsinGives.org).

	ESTIMATED WEALTH TRANSFER		
	Projected Transfer by 2010	Potential 5% of Donated Assets by 2010	*Amount Available Annually for the Community
Marathon	\$2.24 Billion	\$112 Million	\$5.60 Million/yr
Lincoln	.55 Billion	27.5 Million	1.38 Million/yr
Oneida	.96 Billion	48 Million	2.40 Million/yr
Wisconsin	105 Billion	5.3 Billion	263 Million/yr

*\* Estimate based on a conservative 5% payout annually of the potential 5% of donated assets transferred by 2010.*

## Gifts of Mortgaged Property

*Third article in a series of six*

Donors occasionally want to donate encumbered real estate to charity. Perhaps it is the only available asset to donate, or the charity wants that particular property for use in its charitable function.

Often the proposed donation plan is nipped in the bud after an initial phone call to the tax advisor because of two significant hurdles, the "bargain sale" rules and "debt-financed income" rules. Additionally, if a private foundation is involved, their own "self dealing" rules will be another hurdle.

In general, the person who contributes a mortgaged property to charity is entitled to a charitable deduction. The deduction they receive is based on the equity of the property fair market value less the mortgage balance.

A gift of a mortgaged property is treated like a bargain sale, which we discussed in the last issue of this newsletter. The mortgage balance is considered as an amount realized by the donor. The recognition of gain is the same as when:

- A donor with donative intent sells to a charity unencumbered property valued at \$500,000 for a price of \$300,000 (bargain sale), or
- A donor gives to a charity a property valued at \$500,000 subject to a \$300,000 debt, and the donor receives no cash compensation.

To determine the amount of gain recognized, it is necessary to allocate the donor's basis between the gift and sale portions. (In the case of an outright gift of mortgaged property, the debt is considered the "sale" portion.)

## Professional Advisors Seminar - "Best Tools"

Featuring **Tim Voorhees, JD, MB, Partner, Brown & Streza LLP** and **Dean Dietrich, Partner, Ruder Ware, LLSC**

November 9, 2006, 8 a.m. – 3 p.m. (Registration begins at 7:30 a.m.)  
Jefferson Street Inn, Wausau

\$200 Full Day / Earn 6 CFP CE credits, accounting and/or insurance CE credits  
\$130 Half Day / Earn 3 CFP CE credits, accounting and/or insurance CE credits  
(1) Ethics credit being applied for

Advanced registration is required.  
Continental breakfast and buffet lunch included with registration fee.

For more information, contact the Community Foundation office.  
Phone: 715.845.9555 / FAX: 715.845.5423 / E-Mail: [jamie@cfoncw.org](mailto:jamie@cfoncw.org)



Tim Voorhees



Dean Dietrich

*(Continued on back page)*