



“A Bargain Sale of Land to a Land Trust” How You Can Make Some Money While Making a Difference (and Save On Taxes, too...)!



By: Robert A. Ross, Esq.

In this article, Attorney Robert A. Ross shares his expertise in the use of the Charitable Bargain Sale as a means of helping donors accomplish their personal and philanthropic goals while benefiting land preservation in Door County.

The title says it all!

A bargain sale is a unique opportunity for individuals to make significant outright gifts and support land preservation. This charitable planning technique is often overlooked and definitely underused.

What is a Bargain Sale?

A bargain sale is “part gift and part sale.” A bargain sale is a simple agreement in which a landowner sells real estate to a Charity for less than its fair market value. The difference between the fair market value and the purchase price is considered a charitable gift for which the donor will receive an income tax deduction. With a bargain sale, the seller also avoids capital gains tax on the donated portion of the property. A bargain sale can be an effective way to dispose of property that has increased greatly in value and on which the owner would otherwise owe a significant amount of capital gains tax.

A bargain sale is the only donation plan that can give the donor a lump sum of cash and a charitable income tax deduction at the same time. Lump sum payments may be used to purchase a new home,

pay off a mortgage, finance a relative’s education, provide the entry fee to a retirement facility, or do other charitable giving. An estate planner can help determine how the proceeds from a bargain sale might be used to procure additional tax benefits down the road.

How Does a Bargain Sale Work?

An interested landowner contacts a charity say the Door County Land Trust to discuss the possibility of a land purchase. The two parties agree on a purchase price below the property’s fair market value as determined by a qualified independent appraiser. The Door County Land Trust pays the purchase amount upfront. The seller deeds the property to the Land Trust and files an income tax return reporting the sale and claiming the deductions. (See IRS Form 8283) The tax deduction may be used to offset up to 30% of the seller’s income during the year of the donation and over an additional five years.

Sam and Nicole acquired land years ago for \$200,000 as an investment. Let’s say the property is worth \$1,000,000, and the Door County Land Trust agrees to pay them \$600,000.

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What are the benefits?

Fair market value	\$1,000,000
Cost basis	\$200,000
Capital gain	\$800,000
Selling price	\$600,000
Charitable deduction	\$400,000
Donation portion of transaction (\$400,000 / \$1,000,000)	(40%)
Capital gain related to donation* \$400,000 less (200,000 x 40%)	\$320,000
Purchase portion of transaction (\$600,000 / \$1,000,000)	(60%)
Capital gain related to sale** \$600,000 less (200,000 x 60%)	\$480,000

* The \$320,000 gain related to the donation is tax free.

**The \$480,000 gain related to the sale is subject to capital gains tax.

The following chart compares three different “after tax” scenarios—1. a fair market sale 2. a bargain sale and 3. an outright donation.

	Fair Market Sale	Bargain sale (40% discount)	Full donation
Sale Price	\$1,000,000	\$600,000	\$0
Federal capital gains taxes paid (15% tax paid on any sale value over the \$200,000 basis. However, the basis of the Bargain Sale Price is proportionately decreased to \$120,000.)	-\$120,000	-\$72,000	-\$0
Wisconsin capital gains tax paid (rate matches your Wisconsin income tax rate, in this case 6.5%, paid on 40% of sale value over basis)	-\$20,800	-\$12,480	-\$0
Federal income tax savings on Charitable donation (30% tax savings for the donated value)	+\$0	+\$120,000	+\$250,000
Wisconsin income tax savings (an additional 6.5% deduction for the donated value)	+\$0	+\$26,000	+\$65,000
After-tax proceeds	\$859,200	\$661,520	\$315,000

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In practice, the biggest drawback to a bargain sale is not the confusing numbers; it is the unfortunate terminology. Some landowners are put off by the term “bargain” sale because, in other settings, it implies “fire sale” prices. Land Trusts are beginning to use the more fitting term “charitable sale” instead to emphasize the philanthropic nature of the transaction.

The Bottom Line

Few conservation donors are motivated solely by tax savings. Most landowners explore conservation options because they want to protect land they know and cherish. The tax savings simply make it easier to do the right thing.

Important: The information in this article is for general information purposes only and is not, nor is it intended to be, legal advice, including legal advice for Internal Revenue Code purposes as described in IRS Circular 230. Tax law changes frequently, so please consult your financial advisor.

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