

Commercial Real Estate Case

A married couple had been very successful in their real estate investments. Over the past 30 years, they have acquired four commercial properties worth over \$9 million. These assets represent most of their net worth.

They were nearing retirement, and their financial advisor had made a good case for diversifying their investments. A tenant at one of their properties was interested in buying it for a price amenable to the property owners.

The only reluctance the owners had was paying the capital gains tax associated with selling some of these highly-appreciated, heavily-depreciated properties.

Their financial advisor knew they were charitably minded. He knew they were devoted to their church and another local charity. But he also knew they were very private, and would not want their friends and neighbors to know how wealthy they really are.

He proposed that they set up a donor advised fund (DAF), and fund it with a partial interest in one of their properties. This accomplished the following:

- When the DAF sells its partial interest, that portion will not be subject to capital gain tax.
- The charitable income tax deduction from the partial interest gift will offset the capital gains tax associated with the remaining portion the property owner sold.
- The value of the partial interest contribution is removed from the property owners estate.
- After the sale, the DAF will have liquid assets, from which the property owners can support their favorite charities
- Grants from the DAF can be handled anonymously per the donors wishes.

The property owners implemented this plan, and contributed a partial interest in their specific property to the DAF. At a later date, the tenant bought both interests from the property owner and their DAF.

Here is a diagram of the transaction:

