Charitable Bargain Sale

Charitable bargain sales allow donors to give appreciated stock or a partial interest in appreciate real estate to your organization while the donor receives some value as well. The donor could sell the appreciated stock or real estate and share some of the cash proceeds with your organization. But that method would trigger a capital gains tax on the entire value of the asset. Why? Because the donor had control of the entire asset when the sale took place. Instead, the donor sells the appreciated stock or real estate to your organization for under its market value and takes a tax deduction for the difference between its fair market value and the bargain price your organization paid. Only the cash that the donor receives from the sale is subject to capital gains tax, not the entire value of the asset. The donor then uses the deduction from the gift portion—again, the difference between the value of the asset and its below market sale price—to offset the tax on the gain. Your organization receive a gift, the donor makes a tax-efficient gift. Problems arise if the asset used in a bargain sale is hard to value. With publicly traded stock, odds are a charitable bargain sale will have a happy ending. But with hard-to-value property such as real estate, your organization must make sure the donor's notion of the fair market value of the gift is realistic and that your organization can sell the property it bought for a "bargain" price within a reasonable time and well above the price it paid for it. Otherwise the charity can wind up with something less than a bargain. Here's a happy example:

> **Paul has pledged $100,000 to a capital campaign to his alma mater. He has $200,000 of stock that he purchased for $50,000 that he wants to sell. To make good his $100,000 pledge, he sells the $200,000 of stock to his school for $100,000. The $100,000 he receives from the sale brings with it a capital gain of $75,000. He uses his $100,000 charitable deduction to offset the gain. But why didn't he just sell the stock outright and make a simple cash gift of $100,000 to his school? Well, if he did, he would have triggered a $150,000 gain (200,000 – 50,000 = 150,000.) His charitable deduction, still only $100,000, does not fully offset the $150,000 gain. The bargain sale makes better tax sense.**