Bargain Sale

A “Bargain Sale” is the technical term for a charitable arrangement that is part gift and part sale. This is most commonly used for valuable assets such as highly appreciated real estate.

A *bargain sale* may be right for you if:

- You own a valuable asset that you are willing to sell for less than it is worth.
- You want additional cash now.
- You itemize your income tax deductions and want to save taxes.
- You want to save capital gains tax on the sale of your property.

How It Works

You offer to sell real estate to Bentley for an agreed-upon price that is significantly less than the property’s market value. Assuming your offer is accepted, after appropriate due diligence on Bentley’s part, you receive immediate cash equal to your sale price, and an income tax deduction for the difference between its fair market value and your sale price. Your property becomes ours to use or sell.

A bargain sale is a charitable arrangement in which you sell property, such as real estate, to Bentley for less than the property is worth.

Eligible property

Bentley is happy to explore a wide range of real estate for consideration as a bargain sale. Personal residences, vacation or secondary homes, investment or commercial property, or undeveloped land may be acceptable, subject to Bentley’s due diligence and review. Please contact us about the property you are considering so that we can discuss whether we would be interested in acquiring the property for a bargain price.

Tax benefits

Income tax deduction - You would receive an income tax charitable deduction in the year of your gift. The amount of your deduction would be equal to the difference between the fair market value of the property you donate and your sale price. Your income tax savings would depend on whether you itemize your deductions.

Capital gains tax savings - You would also avoid capital gains tax on a portion of your capital gain in the gift property. For example, if you sell your property to us for one-third of its fair market value, you will pay capital gains tax on just one-third of your capital gain in the property. If the asset you sell to us is subject to debt, this debt will be assigned to your portion of the sale as Bentley cannot accept debt-financed property.

Estate tax reduction - By removing your property from your estate, you may also reduce estate taxes and probate costs when your estate is settled. This will depend on the applicable estate tax laws in place at that time.

Special considerations

Each real estate gift presents a variety of issues to be considered before a decision whether to accept is made. As a starting point, Bentley first conducts a Preliminary Assessment to determine if the proposed property is something we wish to further review. If so, consideration of accepting the property moves to the due diligence process. Key steps in the due diligence process include, but are not limited to: inspecting the site and reviewing all pertinent documents; requesting a market appraisal to establish that the property can be sold within a reasonable time and for a price expected by the donor and Bentley; and learning about property taxes and carrying costs.

Should Bentley be willing to accept a donation of real estate, the donor must cover the costs of their own qualified appraisal (this is different from the market appraisal referred to above) for tax purposes as well as bear the expense of carrying costs until the property is sold. Bentley is generally interested in properties that will have a free and clear net value to the University of at least $100,000.

Once Bentley has agreed to accept the property, the donor or a Bentley representative will arrange for the deed and title work, ensuring that it is performed by those most familiar with the local laws and real estate customs. Bentley will assist by providing draft language for the agreements between the university and the donor.

The donor is responsible for substantiating the charitable deduction for the IRS. An outright gift would convey a full, fair market value deduction. If the gift is funding a life-income (deferred) gift, the donor’s charitable deduction will be a portion of the fair market value of the property.

Example

George, a devoted supporter of Bentley, owns vacant land in an area under rapid development that he purchased years ago for $15,000. The land is in an area under rapid development, and it was recently appraised at $250,000. George would like to make a significant gift to Bentley – perhaps an endowed scholarship fund. At the same time, he is planning improvements to his home, and he needs about $50,000 to finance his project.

George is thrilled to learn that a bargain sale arrangement will allow him to achieve his financial and philanthropic goals. He sells his land to Bentley for $50,000, and gets the cash he needs to complete his home improvement project. He’s also pleased with his $200,000 income tax charitable deduction, which will create tax savings in the year of his gift that more than offsets the capital gains tax he'll need to pay. Bentley then sells the land for a fair price, recoups its $50,000 outlay, and uses the rest of the sale proceeds to establish an endowed scholarship fund in George's name.

On the next page is a breakdown of the numbers, assuming that George is in the 37% tax bracket and itemizes his income tax charitable deduction.

Facts	
Value of land	$250,000
Cost of land	$15,000
Capital gain	$235,000
Sale price	$50,000

Benefits	
Income tax deduction	$250,000
Capital gain to report	$15,000
Capital gain avoided	$235,000

Income tax saved at 37% rate*	$74,000
Capital gain tax at 20% rate	- $9,400
Net tax savings	$64,600

NEXT STEPS:

To receive further information about bargain sales, or to learn more about how your gift can help Bentley, please contact Liz Siladi, Director of Gift Planning and Senior Philanthropic Advisor.

- call **Liz at 781-891-2475**
- email **Liz at esiladi@bentley.edu**

* We are pleased to provide this information to you; however, it should not be considered professional advice. We encourage you to contact your own legal and/or tax advisor(s) for applicability to your personal circumstances.

BENTLEY UNIVERSITY

By supporting Bentley, you are helping to prepare today's students to become tomorrow's globally focused, ethical business leaders.