

## GIFTS OF RESIDUAL INTERESTS

It's like having your cake and eating it, too! You have the satisfaction of making a major gift to (*Charity*) now and receiving an immediate tax benefit, yet you continue to use and enjoy the gift property for the rest of your life!

It's known as a gift of residual interest with retained life use, and it usually involves your principal residence or other personal use real estate, such as a cottage. In making such a gift, you transfer the property irrevocably to (*Full Name of Charity*) but retain its lifetime use. If you wish, the arrangement can include use of property for your spouse's life.

When the transfer is made, you will receive a donation receipt for the present value of the "residual interest"--the value, in today's dollars, of the property (*Charity*) will receive at your death. This is calculated on the basis of the present appraised value of the property, your age, and an appropriate discount rate.

### *Giving your principal residence*

Elise, 55, owns a home valued at \$200,000. She wants to continue living in it for many years but she would like (*Charity*) to have it at the end of her life. She decides to give the home to (*Full Name of Charity*) now, retaining a life interest for herself. She receives a donation receipt for \$85,421 which, assuming a 48-percent combined tax credit, will reduce her income taxes by \$41,002 over the next five years. (The portion of the donation receipt that she may claim in any given year is limited to 75 percent of her income, but she has the gift year and five additional years to use the full amount.)

Because Elise's house is her principal residence, she realizes no taxable gain at the time of the transfer, no matter how much its value has increased since she acquired it. During her continued occupancy, she will be responsible for maintenance and such other expenses as are specified in her gift agreement with (*Charity*). If it becomes necessary for her to give up the house sometime before her death, she has several options. She may rent the house and retain the rental income, give her life interest to (*Charity*) and receive an additional donation receipt, or, by agreement with (*Charity*), sell the house and receive a share of the proceeds based on the value of her life interest.

### *Giving other types of real estate*

It's easy to see how a residual interest in a personal residence can be an appropriate gift, but in fact, other property you own and use may also be a likely candidate. In this

case, you will be taxed on 50 percent<sup>1</sup> of the capital gain attributable to the residual interest, but the tax savings from the donation receipt will always more than offset the tax on the gain.

Harvey M., age 73, has a cottage on a lake a few hours from his home in a metropolitan area. He bought the cottage many years ago for \$40,000, and it is now worth \$100,000. He's reluctant to sell it, both because he still uses it frequently and because the sale would result in a taxable gain of \$30,000 (50 percent of \$60,000). By transferring it to **(Charity)** with a retained life interest, only 50 percent of the gain attributable to the residual interest will be taxed. In Mr. M's case, the \$53,608 donation receipt he receives for the overall value of the residual interest will more than offset the taxable gain of \$16,082.

When you give property that has appreciated in value, the amount of donation receipt creditable in any one year is 100 percent of the taxable gain in gifts, up to 30 percent of your other income. This assures that you will always maximize the tax savings, no matter how much the property has appreciated.

Note: With real estate, if you have a will, you generally make more sense to contribute the residue of your estate to a charity remainder trust.

**CHARITY REMAINDER TRUSTS**

Living in your principal residence or enjoying property such as a cottage can be all the more satisfying if you know that, when you no longer need it, it will become your gift to **(Charity describing those who will benefit from the gift)** through **(Full Name of Charity)**!

*Full Name of Charity*  
*Street Address*  
*City, Province, Postal Code*  
*Telephone: (000) 000-0000*

*The information in this brochure does not constitute legal or financial advice and should not be relied upon as a substitute for professional advice. (Charity) encourages you to seek professional legal, estate planning, and financial advice before deciding on a course of action. The examples in this leaflet are based on a representative discount rate.*

<sup>1</sup> As introduced in the October 2000 Federal "mini-budget".