Property Donations: How to Eliminate Liability & Gain a Steady Income

Be sure your board and donors are aware of this little-known opportunity.

By Steve West

A long-standing donor tells you she's going to donate her beloved father's strip mall on 15 acres. You thank her but ask yourself, "What in the world am I going to do with that?"

Donations of land and buildings are often an unwelcome gift – or should be. A donor with the best of intentions may be transferring not only the property but the headache of assessing its value, maintaining it, operating any business on the property, protecting it from vandalism, listing and preparing it for sale, finding a buyer, and aligning the sale and legal documents so that the proceeds aren't taxed as UBIT. Because most nonprofits aren't in the real estate business, gifts of property can become a liability, may linger on the books, or be sold below market value.

What if you could avoid that hassle and all the risk management problems and instead offer an alternative to your highly-motivated donor that gives her more flexibility and options, defers all capital gains taxes, obtains the charitable gift deduction, and creates a steady stream of income for your organization? You can do all that with a marvelous tool called the DST/1031 Exchange.

The DST/1031 Exchange is governed by the Delaware Statutory Trust Act and Section 1031 of the IRS Code. A DST/1031 Exchange lets an owner of real estate sell her property and defer all capital gains taxes if the proceeds are used to purchase a qualifying DST interest within the legal time frame. Depending on the property, the DST typically generates monthly or quarterly income in the annual 5% to 7% range. All taxes on the sale of the property are deferred until the owner sells the Trust. Meanwhile, the Trust generates a steady stream of income to the owner for as long as she holds it. And that income can be made fully tax-free, as well, by donating it to a tax-exempt charity.

In other words, instead of donors giving property that can burden your organization with operational and risk-management duties, they can place the value of their property into a DST and donate some or all of the income stream to your organization. You'll gain a steady stream of income without the management problems and expense of maintaining or selling real estate.

While the DST/1031 is still largely a best-kept secret, more organizations are beginning to realize the enormous opportunities it offers. It makes sense for you to educate your board and largest stakeholders on the benefits of the DST/1031 Exchange. Then they can spread the word so that potential donors know about this win-win way to defer taxes and give your organization a steady, reliable, hassle-free source of income.

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