

What are Fee Simple Donations?

A Fee Simple Donation of real estate refers to the transfer of ownership of a property with the full bundle of property rights to a recipient or organization without the exchange of monetary consideration. In a Fee Simple Donation, the donor voluntarily gives up their ownership rights to the property and transfers them to the recipient.

How They Work

- Under 170(a) of the Code, a taxpayer may donate real property to a qualified organization.
- If the taxpayers elect to utilize an applicable charitable contribution of capital gain property, taxpayers may claim up to 30% of their contribution base for that same taxable year.
- The excess aggregate of the contribution base will be treated as a charitable contribution for up to five (5) succeeding taxable years.
- In the context of a Fee Simple Donation involving undeveloped land, investors can benefit from IRS incentives for contributing land that might have appreciated in value through development. In certain circumstances, investors may be eligible for charitable deductions that could potentially exceed their initial investment amount. Actual deduction amounts depend on appraisal values, IRS regulations, and individual tax circumstances.

AN EXAMPLE OF FEE SIMPLE DONATIONS:

- An investor invests \$100,000 in the fund, and a majority of stakeholders in the land vote to complete a charitable Fee Simple Donation of the undeveloped land.
- The \$100,000 is multiplied by 5 to \$500,000 to reward the investor for donating land that could have had upside in the future if development occurred.
- The investor is now able to reduce their AGI by \$500,000, up to 30% of their AGI.
- Someone with an AGI of \$2,000,000 would be reducing their taxable income by \$500,000 down to \$1,500,000.

Fee Simple Donation Reducing AGI

AGI Pre-Investment	\$2,000,000
Investment Amount	\$100,000
5X Multiplier Value	\$500,000
AGI Post-Donation	\$1,500,000

Key Takeaways

Fee Simple Donations allow investors to donate real property and claim charitable deductions of up to 30% of their contribution base annually, with excess carried forward for up to five years.

By contributing undeveloped land before it appreciates, in certain circumstances, investors may be eligible for charitable deductions that could potentially exceed their initial investment amount.

This strategy enables investors to combine meaningful charitable giving with substantial tax benefits, potentially reducing taxable income, with actual amounts varying based on investment size, appraisal values, and individual tax circumstances.

Hypothetical Disclosure: The information herein is a hypothetical illustration of mathematical principals only. It is not, nor can there be, any guarantee that any investment will achieve its stated objectives.

Disclosures

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REAL ESTATE INVESTMENT RISK DISCLOSURE

- There is no guarantee that any strategy will be successful or achieve investment objectives including, among other things, profits, distributions, tax benefits, exit strategy, etc.;
- Potential for property value loss: All real estate investments have the potential to lose value during the life of the investments;
- Change of tax status: The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;
- Potential for foreclosure: All financed real estate investments have potential for foreclosure;
- Illiquidity: These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments;
- Reduction or Elimination of Monthly Cash Flow Distributions: Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions;
- Impact of fees/expenses: Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits;
- Stated tax benefits: Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.

OIL & GAS INVESTMENT RISK DISCLOSURE

- Political Risk: Federal or local governments could enact regulations/legislation that could adversely affect the oil and gas industry, thereby negatively affecting your investment.
- Geological Risk: Oil and gas production can be negatively affected by the difficulty of extraction and the possibility that the accessible reserves in any deposit will be smaller than estimated. There is no guarantee that any drilling operation will be successful.
- Supply, Demand, and Price Risk: A reduction in oil and gas prices, a decrease in demand, or a surplus of available supply can reduce or even eliminate investment returns.
- Cost Risk: Unexpected or increased operating expenses can reduce or even eliminate investment returns.
- Dividend Cuts: Any dividend payments can be reduced or eliminated if the company is unable to earn enough revenue to fund the payments to investors.
- Oil Spill Risk: In addition to the cost of repairs, clean up, potential fines, and potential litigation, oil spills can negatively affect the reputation of the company, all of which can reduce or eliminate investment returns.