Good News

Continued from page 1

before deciding whether to make a gift. Therefore, in addition to having an accurately prepared tax return, non-profits should utilize *every part* of Form 990 to include information relevant to its audience.

That audience may include charity regulators, the press, foundations, researchers, watchdog groups, boards of directors, audit committees, Congress, and constituents. Consider the audience(s) that may be viewing and analyzing your organization's Form 990 and devise a plan to communicate a compelling message.

2. Maximize every possible space.

Treat the first two pages of the Form 990 like a brochure highlighting the organization. In addition to the basic info, include the mission statement, important financial data, and a strong narrative statement about the programs and services.

The Statement of Program Service Accomplishments on Page 2 is *hot spot that should be used to tout the organization's mission and its unique story*. Include specific information, such as number of clients served and events held. Another way to use this section is to explain financial measurements that, standing alone, do not fully describe the success of the programs.

3. File an accurate tax return.

The IRS publicly stated: "it is painfully obvious that people who prepare the Form 990 do not refer to the instructions." With this in mind, it's essential to have a competent professional who understands the complexities of the Form 990. Furthermore, the IRS is using Form 990 as its chief compliance tool to enforce tax laws and to select organizations for audits. How an organization completes the form may draw undue attention to the organization from the IRS.

Potential donors deserve the full picture of an organization's financial and programmatic health. Everyone is best served when organizations provide a complete and accurate return. ●

Andrew Gray, CPA, leads the not-for-profit industry tax practice for Daszkal Bolton LLP, a regional accounting and advisory firm. He is a member of the AICPA and the Florida Institute of Certified Public Accountants and is a CPA certified in Ohio.

technical corner

A Prearranged Real Estate Sale Dilemma — and the Solution

Chase V. Magnuson, CCIM, George Washington University, Office of Planned Giving
Dannis Haber, Haber Consulting Group

THE OFFER

A donor approached a fundraising staff member at The George Washington University with an offer to donate her rental condominium. She was very excited because the unit was under contract to sell for $550,000 with a closing scheduled 10 days later. A university policy requires fundraisers, when dealing with potential real estate donations, to work with a member of the planned giving department.

THE PROBLEM

Under the circumstances, the donor would be subject to a huge capital gains tax (the basis in the property was $50,000)—not a happy message to carry to the donor. She didn't understand why the university would not accept the gift and give her full gift credit. The initial gift of the condo was to be the first of two gifts toward an ultimate gift of a $1,000,000 endowed scholarship. She wanted to add the equity in the second condo to the pool for the endowed fund. Any difference between the equities in the real estate gifts and the $1,000,000 would be made up for by a provision in her will. Losing credit for the first transaction was not an option if the university wanted to save this wonderful donation.

THE SOLUTION

The team of accountants and attorneys involved in the original purchase agreement came up with a solution. The donor and purchaser agreed to amend the purchase agreement to allow the seller to add a provision for an IRS Section 1031 exchange.

The purchase of the condo was completed as planned. The net proceeds from the closing were placed into an escrow account controlled by a facilitating agent. The university has on staff a nationally known specialist in exchanges. With his expertise, a replacement property was located and purchased within his guidance of the Starker* provisions as dictated by the IRS.

Once the replacement property closed, the donor leased the property for a short period of time and decided to move forward with a "Donation Agreement" that had a "Bargain Sale" component. The Bargain Sale first went to reimburse the donor for costs related to the first property transfer into the exchange pool.

The university advanced funds for repairs to the replacement property. The "Bargain Sale" agreement provides for these costs to be reimbursed to the University, the donor to get her money, and the gift to be booked at very nearly the face value of the original property value when it was first offered as a gift.

A buyer was located for the replacement property and closing took place. Funds were distributed to each party as the donation agreement spelled out.

THE OUTCOME

1. Happy donor
2. Happy university
3. Happy purchasers for both properties

NOTES FOR NEXT TIME

To use this technique, the property offered as the donation must meet the IRS criteria as "like-kind" property. The Starker provision (*Starker v. United States*) requires that a donor and his/her agent must comply with this or use the simultaneous closing technique.