

Negotiate a 'bargain sale' to qualified charity

Are you planning to sell or donate a boat or car to charity? Don't be too hasty.

Strategy: Arrange a “bargain sale” to a qualified charitable organization. By combining a sale and donation, you get cash back from the charity, plus a write-off based on the property's fair market value.

Many charities buy and receive vehicles, while others specialize in bargain sales and donations of boats (see *box below*).

Here's the whole story: In a bargain sale, you treat part of the transaction as a sale and the other part as a charitable donation. The donation part is the difference between the asset's fair market value and the bargain price. The other part may result in a taxable gain if your basis is low.

To determine the amount of the taxable gain, adjust your basis to take into account both parts of the transaction. The formula for determining adjusted basis for the taxable sale is (1) the adjusted basis of the entire asset multiplied by (2) the amount realized divided by the fair market value of the entire property.

With planning, you can use the tax deduction for the charitable part of the sale to offset the taxable gain on the sale.

Example 1: Bargain sale of appreciated property

You bought a boat several years ago for \$30,000 that's now worth \$40,000. If you sell the boat to charity for the original \$30,000 cost, your adjusted basis for the taxable portion of the bargain sale is \$22,500 ($75\% \times \$30,000$). So you realize a taxable gain of \$7,500. Because the gain qualifies as long-term capital gain taxed at the current 15% maximum rate, you owe \$1,125 in tax (15% of \$7,500).

But you're also entitled to a charitable deduction for the extra \$10,000 attributable to the value of the boat, assuming the charity uses it to further its tax-exempt purpose. In your 33% tax bracket, the deduction is worth \$3,300, almost three times the tax on the gain. And you walk away with \$30,000 in cash. The bargain sale strategy can also work for property that has declined in value.

Example 2: Bargain sale of depreciated property

You bought a car for \$30,000 that's now worth \$20,000. You agree to sell the car to a charity for \$15,000. In this case, you'll receive \$15,000 in cash and claim a \$5,000 charitable tax deduction on your return. You pay zero tax on the sale because the car is worth less now than when you bought it.

Since a bargain sale involves a valuation of a boat or car, you must observe the strict substantiation requirements imposed by the IRS. But there's less at stake than with a straight donation. *Reason:* The key to the deal is the bargain price arranged with the charity.

Tip: If you sell a car or boat to charity, you must obtain a written acknowledgment from the charity within 30 days of the sale.

Trolling online for boat donations

Here are a few online charitable sources for boats.

- American Institute of Marine Studies: www.a-i-m-s.org
- Marine-Network.com: www.projectboatco.com
- BoatAngel: www.boatangel.com/donate-boat.htm