

# Life Estate Agreement

## Deduction Calculation for One Life

Prepared for: Phil Anthropist

### A. Input Assumptions

Date of transfer	June 1, 2014
Fair market value of residence	\$1,000,000
Amount of debt on residence	\$100,000
Cost basis of residence	\$250,000
Current value of depreciable property (improvements)	\$500,000
Expected salvage value of depreciable property	\$200,000
Estimated useful life of depreciable property in years	45
The discount rate (effective 6/2014) is	2.2%
The mortality table is based on the census taken in	2000

Beneficiary Name	Age	Term of Life Estate
Phil	65	For life from the start of the trust

### B. Calculation of Income Tax Deduction

1. Current fair market value of life estate property	\$1,000,000
2. Amount of debt on residence	\$100,000
3. Fair market value of residence net of debt	\$900,000
4. Net current value of depreciable portion of life estate property	\$450,000
5. Salvage value of depreciable life estate property	\$180,000
6. Portion of property considered to be depreciable (Line 4 - Line 5)	\$270,000
7. Net value of property not subject to depreciation (Line 3 - Line 6)	\$630,000
8. Remainder interest factor based on tenant ages from Table S	0.69186
9. Remainder interest factor for real property which depreciates	0.4444
10. Value of remainder interest in real property:	
(a) Value not subject to depreciation (Line 7 * Line 8)	\$435,872
(b) Value subject to depreciation (Line 6 * Line 9)	\$119,988
(c) Total value of remainder interest (Line 10(a) + Line 10(b)) (the tax deduction)	\$555,860

### C. Calculation of Realized Capital Gain

1. Fair market value of residence	\$1,000,000
2. Amount of debt on residence	\$100,000
3. Cost basis of residence	\$250,000
4. Capital gain	\$750,000
5. Percent of residence in debt (Line 2 / Line 1)	10%
6. Capital gain allocated to debt and taxable to the donor in the year of transfer (Line 5 * Line 4)	\$75,000