An Example:
The Martin Family Story

The Martins own a ranch in North Dakota, and have an agreement with an oil company resulting in a land lease with the company and their receipt of a royalty interest in the future profits.

They have been passionate supporters of Young Life for many years. They give much of their income to Young Life and other charities, but they typically receive the income, pay taxes on all the income they gift away and then try to offset those taxes via charitable tax deductions.

After seeing that the government was going to take over 46 percent of the income received from their lease deal through income taxes, they decided they would rather see a portion of this financial opportunity go directly to Young Life and others tax-free to reach kids for Christ. After talking with the Young Life Foundation and their professional advisors, they decided to do the following:

- They gave a 25 percent fractional share of both their real estate and their royalty interests to the Young Life Foundation. Based on the appraised value of these gifts, they received a $500,000 charitable deduction that would save over $230,000 in income taxes that they would've otherwise owed.
- Annually, Young Life will receive its 25 percent share of the rental/royalty income directly and owe no tax. However, if the Martins had received that portion of the income, they would've had to report it as taxable income that would be subject to a variety of deduction limitations and alternative minimum tax issues.
- Lastly, if they ever sell their land or royalties, the portion they have given to Young Life will incur no capital gains taxes on the future sale. That's giving smart!

	Tax Savings* on $500,000 Gift Deduction	Tax Savings* on $50,000 Annual Income	Tax Savings** on Future Sale
25 percent — Family Owned	$0	$0	$0
25 percent — Charity Owned	$230,000	$23,000	$135,000

* Assumes combined state and federal ordinary income rate of 46 percent.
** Assumes $0 basis and combined state and federal tax rate of 27 percent.

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Give **Smart**

Prepared by your friends at the Young Life Foundation.

Oil, Gas and Mineral Rights Gifts

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Oil, Gas and Mineral Rights **Gifts**

If you own oil, gas or mineral rights, then gifting a percentage of that ownership interest can be a tax smart way to join Young Life in reaching kids for Christ. However, there are a few fundamental concepts to understand before you get started.

Understanding the Types of Asset Interests

There are three primary types of asset interests individuals can own within the oil, gas and mineral rights industry, and these types have different charitable gift tax implications.

Land Interest — This is the real estate from which the oil, gas or minerals are being extracted. Typically, the land owner creates a lease with a production company for an extended period of years.

Working Interest — This is the ownership of a business entity extracting and producing the oil, gas or minerals from the land. The working interest bears the risk and cost of the operation and receives the net, active income from the operation.

Royalty Interest — This is the ownership of a passive royalty interest that receives a net profit royalty payment while not bearing any liability or responsibility for the production operation.

The In's and Out's of Giving Oil, Gas and Mineral Assets

PARTIAL INTEREST RULE — In order to enjoy a charitable deduction for your gift, you must give all (or a fractional portion) of your entire interest in the asset being given. You cannot give stock and keep the voting rights or give a property and keep the right to use it. Whatever rights you own with respect to a particular asset must all be given in an equal portion together.

This same rule applies to gifts of oil, gas and mineral rights. If you own more than one type of interest in an asset (land, working or royalty interests), you will have to give an equal portion of each interest. For example, if you own both the land and a royalty interest from the oil company, you would need to give a pro-rata portion of both interests and may not give just one or the other.

GIVER'S DEDUCTION TREATMENT — The value of the giver's charitable deduction will depend upon the type of asset interest being gifted:

Land Interest — The charitable deduction for a gift of land will be equal to the fair market value of the land interest being given as determined by a qualified appraisal. The giver should note that if the land has any debt liabilities attached to it, then they may want to consider moving the debt to another asset or the charitable deduction will be reduced and the giver may have to pay tax on the "forgiveness of debt" associated with the gifted portion of the land.

Working Interest — A gift of a working interest in the operating company will be deductible at the appraised value of the percentage of business ownership being given. This value will likely be reduced by the amount of debt, depreciation recapture and "hot assets" inside the company.

Royalty Interest — A gift of a royalty interest will be equal to the appraised value of the interest being given.

When To Consider Gifting Oil, Gas and Mineral Rights

Generally, gifting of these types of assets happens in **two instances:**

ONE

The first happens when there is a potential sale of the assets that will generate a significant tax burden.

SELLING SMART — Before selling your oil, gas or mineral interests, be sure you've considered the benefits of using the "Three Buckets" strategy to help you (i) keep what you want to spend, (ii) invest for lifetime income, and (iii) enjoy giving to charity both now and after death — all while enjoying significantly lower taxes upon the sale.

For more information on how you can sell smart, scan here with your smart phone.

TWO

Secondly, some givers desire to make charity a partial owner of a revenue-producing asset so that the income stream would flow directly to the charity and thereby lower taxes for the giver, both now and in the event of a future sale.