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A bargain sale of property is treated as part gift and part sale. The charitable deduction for the gift portion equals the total value of the property, less the total amount of consideration paid by the charity, including any debt to which the property is subject.(1) If you specify that the bargain sale is subject to the reduction rules for ordinary income and short term capital gain property, the charitable deduction is calculated by reference to the cost basis allocated to the gift portion of the bargain sale.(2)

In addition, a bargain sale ratio equal to the total consideration divided by the total value of the property is calculated.(3) This ratio multiplied by the total gain (total fair market value minus cost basis) is the capital gain that must be reported on the sale portion of the bargain sale.

Footnotes:

(1) Treas. Reg. Sec. 1.170A-4(c)(2).

(2) Treas. Reg. Secs. 1.1011-2(a)(1); 1.1011-2(c), Examples 4, 5, and 6. But the program follows the method contained in the tax court decision in Estate of Pauline E. Bullard, 87 TC 261 (1986), which refused to follow these regulations and make an allocation only when a charitable deduction is allowable.

(3) Treas. Reg. Sec. 1.1011-2(a)(1).

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