

## Charitable Installment Bargain Sale Procedure

In the Charitable Installment Bargain Sale ("ChIBS") program, TCN purchases assets of the Owner using an installment purchase agreement. The ChIBS program is unique in that it has the following characteristics:

- provides the participating Owner an immediate charitable deduction
- provides an income stream for a period of years predetermined by the Owner
- partially eliminates capital gains
- ratably allocates the balance of the capital gains over the balance of the payments (although the Owner may have the option to recognize all of the gain now—except in the case of publicly traded securities, in which the gain allocated to the "sale" component of the transaction must be recognized in the year of the transaction.)
- provides partially non-taxable and partially ordinary income
- works best with highly appreciated assets
- can be used to fund wealth replacement insurance
- available for periods from 10 to 30 years

It is important to note that the subject assets are not effectively removed from the estate, because they are replaced by an obligation to make payments. To remedy this limitation, TCN makes available a related Irrevocable Contribution Assignment form, which allows the Owner to transfer to TCN the balance of the payments remaining at the Owner's death. TCN agrees, as part of the assignment, to place 90% of the unpaid balance of the installment payments into the Owner's ChIBS Family Foundation account. This account allows the Owner to leave a charitable legacy in connection with the transaction. Thus, the ChIBS program provides a number of valuable benefits that are similar to the benefits of other tax deductible programs.

The following procedures apply to ChIBS transactions. Forms applicable to ChIBS transactions are available by contacting the TCN Office directly.

1. Having found an prospective Contract Owner ("Owner"), Development Officer requests a ChIBS proposal by submitting to TCN a completed ChIBS Proposal Worksheet form (and in the case of real estate, a completed Real Estate Worksheet form, and a copy of any recent appraisals that the Owner may have secured relative to the property.) The ChIBS Proposal Worksheet form provides to TCN basic information regarding the proposed transaction, including the name, address and age of the Owner (and the second Owner, if applicable), the Owner's tax bracket, the approximate value of the property to be transferred, the Owner's basis in the property, the desired start date of installment payments, and the desired frequency of installment payments. (The Real Estate Worksheet form provides to TCN basic information regarding the subject real estate, including the form of ownership of the property, value of mortgages and other encumbrances, etc.)
2. TCN transmits to Development Officer a preliminary ChIBS Illustration, based on the information provided (using software which demonstrates the amount, number and nature of installment

payments, capital gain treatment, and the applicable tax deduction.), along with a ChIBS Application and Agreement form, an Irrevocable Charitable Assignment form, if applicable, the ChIBS Family Foundation form, if applicable, the Electronic Funds Transfer form, the Electronic Transfer of Assets and Securities form, and the Assets Transfer Fax form (and in the case of real estate a ChIBS Option Agreement form (the "Option Agreement")).

In the case of a transaction involving Real Estate, the estimated value of the property should be the fair market value of the real estate less the amount of any mortgages that are expected to exist on the property at the time of the transaction. Because the proposed transaction is in the early stages, the illustration should be regarded as preliminary.

The Option Agreement basically grants to TCN the right to market the property for a period of 180 days. If a buyer willing to pay an acceptable price is found, TCN has the right to exercise the option to receive the property in connection with the ChIBS transaction. Upon exercise of its option, TCN commits to making installment payments therefore to the Owner. The amount and number of installment payments is stated in the Option Agreement; the amount of each payment (or if the Owner prefers, the number of payments) is subject to change if the net amount realized by TCN in its sale of the property is less than the expected amount. If the rate, as changed, would fall below a pre-determined level stated in the Option Agreement, TCN will decline to exercise the option or will renegotiate a new Option Agreement with the Owner.

3. Development Officer presents all documentation to the Owner, assisting the Owner in completing and signing the following forms: (a) the ChIBS Application and Agreement form (witnessed by Development Officer), (b) the Irrevocable Charitable Assignment form, if applicable, (c) the ChIBS Family Foundation form, if applicable, (d) the Electronic Funds Transfer Procedures form, (e) the Option Agreement, if applicable (must be notarized), (f) the preliminary ChIBS Illustration (need only be initialed), (g) the Electronic Transfer of Assets and Securities form, and (h) the Assets Transfer Fax form.
4. Development Officer transmits to TCN the completed and signed forms, as indicated above.
5. TCN signs the ChIBS Application and Agreement form and the Option Agreement, if applicable, and transmits a copy of the documents to Development Officer (for delivery to the Owner).
6. In the case transactions involving
  - a. Assets other than real estate
    1. The Owner transfers the assets to TCN.
    2. Upon its receipt of assets and fully executed documentation, TCN issues to the Owner a letter acknowledging receipt of the assets along with a final ChIBS Illustration consistent with the actual value of the Net Contribution as received by TCN.
  - b. Real estate
    1. TCN enters into listing agreement with a real estate agent to locate a qualified buyer. It is TCN's policy to sell any real estate without providing representations and warranties regarding the condition of the property. Nevertheless TCN or the contracted buyer or the buyer's agents may conduct inspections and/or tests to assess the property if it becomes

aware of any conditions which may impair the value of the property. In addition, the Owner is able to make any representations and warranties regarding the property as one who was "in possession" of the property.

2. Less than 60 days before the Owner's completed contribution of the property to TCN (which is generally at or near the date on which the charity will exercise the option and then convey the property), the Owner should secure a professional appraiser's signature on the IRS Form 8283.

IRS Form 8283 is the officially accepted record of the transaction and fair market value of the property. The form is executed by the appraiser and the charity and returned to the Owner for execution and filing with his or her tax return. IRS instructions for the form indicate that the form must be completed in order for the Owner to meet the IRS reporting requirements regarding the contribution. If the Owner has secured an appraisal outside of the 60 day period, the Owner should simply ask the appraiser to reaffirm the appraisal within the 60 day period.

3. Upon TCN contracting with the qualified buyer and approximately 10 days before the projected closing date, TCN will notify the Owner that TCN wishes to exercise its option to receive the real estate. (If a qualified buyer is not found, TCN's option expires unless otherwise extended by the Owner.)
4. An escrow agent (usually a title company) will be selected to close the transactions. As part of the execution of the closing documents, TCN exercises the option, accepts the contribution of the property, and (for tax purposes) issues to the Owner a letter acknowledging receipt of the property along with a final ChIBS Illustration consistent with the actual value of the Net Contribution as received by TCN.
7. TCN transfers to the Development Officer's account the applicable marketing fee.
8. TCN issues installment payments to the Owner in accordance with the terms of the ChIBS Illustration and the ChIBS Application and Agreement.
9. At the appropriate time on an annual basis, TCN issues to the Owner a 1099-INT or 1098 form, as applicable.