

Tax Insights

Art Donation Deductions



Crucial considerations for donating art or other collectibles

ART AND MANY COLLECTIBLES have been increasing in value. Donating a painting or other valuable item can yield a substantial tax deduction. When considering such a donation, the following questions need to be addressed.

Does the Recipient Organization Qualify as a Charitable Tax-Exempt Organization?

DONATIONS ONLY QUALIFY for tax deductions when made to eligible charitable tax-exempt organizations using the gift for the public good. Such organizations include governmental entities or other charities organized in the United States, and operated for religious, charitable, scientific, literary, educational purposes or to promote amateur sports.

Has the Donation's Value been Reasonably Assessed?

MOST PROPERTY DONATIONS will not have a recognized published value. Therefore the Internal Revenue Service (IRS) requires that property deductions more than \$5,000 in value be determined by a qualified independent and certified appraiser. This is critical since most large art donations will be reviewed by an IRS Art Advisory Panel. Special rules apply for donation of cars, boats and aircraft. There are other restrictions for business and certain investment property, too.

Does the Donation Relate to the Organization's Mission?

APPRECIATED PERSONAL PROPERTY can only be deducted at fair market value if the donated item directly relates to the organization's mission. The organization should provide such written confirmation and documentation of the gift. A painting donated to an art museum qualifies for such a tax deduction. However, if that same painting were donated for display in a hospital atrium, a tax deduction could only be claimed for the amount the donor paid for the painting. Furthermore, if a donated item is sold within three years of the gift by the recipient organization, the organization must provide the donor a certification in order to avoid a recapture of a portion of the tax deduction.

What about Legacy Desires?

A DONATED ITEM, on display, provides future enrichment to others. A nationally-renowned art museum, though, may already possess a considerable inventory of high-value paintings. In such instances, a donated painting may be relegated to storage or infrequent showings. Museums may also differ in policies regarding naming credit for the gift and publicity, and whether or not a donated item must remain part of a permanent collection, or can be traded or sold.

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Such concerns should be considered and discussed with potential recipient organizations. A donor agreement should be considered to insure the donor's wishes are met. However, the taxpayer must not maintain control over the property.

Overall, is a Donation the Best Option?

THE TAX SAVINGS FOR DONATED ART or other collectibles hinges on numerous factors. Charitable deductions can be limited based on the donor's income. On the other hand, would selling a painting or other valuable item provide more funds to make cash donations without the complications? Be aware selling may result in paying appraisal fees and commissions to an art gallery, auction house or some other entity. Also, taxes may be owed if sold at a profit.

Circumstances vary from one scenario to another, based on an item's value, cost basis, applicable income tax rates, financial health, philanthropic interests and other concerns. A financial analysis can provide a potential donor valuable insight in making the best choice.

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