

Tax Deductions for Donating Art

If you collect art, donating a painting, sculpture, or other object of fine art to a museum or a favorite charity can be a great way to share your passion with a wider audience, support your institution of choice, and get a break on your Federal income taxes. But before donating artwork, it is important to consider the nature of the organization receiving the gift, as well as how the institution will handle the gift, as these factors can make a big difference in how much you are permitted to deduct from your taxes.

You can expect to receive a higher income tax deduction for your gift if you are donating an art object that has appreciated in value over the time you have owned it. Generally, you can deduct the full fair market value (FMV) of the donation as of the date of the contribution, if you have held the object for at least one year, and if the item's FMV sale on the date of the contribution would have resulted in a long-term capital gain.

In order to claim a deduction for the FMV, it is, however, imperative that you know what the organization or charity intends to do with your gift. The tax code provides incentives for taxpayers to donate works of art to tax-exempt organizations, such as qualified museums, universities, and other public charities, that display and use works for art to further their tax-exempt purposes. For an appreciated work of art to receive a full current value deduction, the donation must be "of related use," or it will be used in the ordinary course of the organization's tax-exempt activities, i.e., exhibits or displays of artwork.

If, however, the organization's purpose does not involve displaying artwork, or if the charity sells the object to raise money, your deduction will be limited to your cost basis, or the FMV, if it is less than the price you originally paid. This also applies if you have owned the object for less than a year, or if you are the artist who created the object.

If, for example, you paid \$1,500 for a painting 10 years ago that is now valued at \$5,000, you are allowed to take a \$5,000 deduction if the work goes to a museum or to your alma mater's art department. If, however, you donate the painting to a local television station's auction and the item is sold, you are only permitted to take a \$1,500 deduction. Similarly, if you donate the painting to a public charity, such as a hospital, which has an exempt purpose that is unrelated to the donated painting, you will only be able to claim a deduction of \$1,500.

Before making a donation, be sure that the institution wants the artwork for its collection. After discussing the prospective donation with representatives of the organization, you should ask them to provide you with a written acceptance indicating that the organization is a qualified public charity, and that it satisfies the related use rule regarding the particular donation.

The IRS requires any deducted item over \$5,000 to be appraised by a qualified appraiser no earlier than 60 days before the gift is transacted. The appraiser should be encouraged to be conservative in

estimating the value of the artwork, as larger donations may be audited, and the value could be adjusted downward. Additional documentation is generally required for objects appraised at \$20,000 or more.

In order to qualify for a tax deduction, you must donate the artwork as an outright gift, not as a permanent loan. But instead of making the entire donation at one time, you also have the option of transferring a percentage, or “fractional interest,” in the artwork each year. This method is useful if the total deduction exceeds 30% of your adjusted gross income (AGI), the maximum for charitable deductions. However, all of your fractions must be donated within 10 years, and the receiving institution must take substantial physical possession or make use of the object during its allotted time period each year, or penalties may apply. Other planned giving strategies for donating artwork while maximizing tax deductions include the use of charitable remainder trusts, charitable gift annuities, and donor-advised funds.

If a qualified charitable organization is interested in purchasing your artwork, you may also want to consider a bargain sale, which will provide you with both a lump sum of cash and a charitable tax deduction. A bargain sale, which involves the sale or exchange of the item for less than its FMV, is partly a charitable contribution, and partly a sale or exchange. In addition to collecting cash for the sale, you can take a charitable income tax deduction for the difference between the amount you received for the sale, and what you could have received if you had sold the object for its full FMV.

TXDA0UU-X