

Consider Donating Artwork or Collectibles to Charity and save

Do you own valuable artwork or collectibles that you know your heirs will neither want nor value? Consider donating the items to your favorite charity. When donating this type of property, you won't have to use current income to get a charitable donation, and the deduction could be more substantial than one you could get by donating cash.

Who should be the recipient?

This donation should be made to a charity whose function is related to the items being donated (a doll collection to a doll museum or a painting to an art museum) because if the item is unrelated to and cannot be used as part of the organization's charitable function, your income tax deduction for the donation will be severely limited.

When should you consider this type of donation?

If you give the artwork or collection away during your lifetime, not only do you get a tax deduction from the donation, you will also have the satisfaction of knowing it will be appreciated in the future by other similarly interested people.

How does it work?

The designated charity must be willing to accept the gift. For example, most art museums have someone who reviews donations before they are accepted.

The charity's plans make a big difference in the amount of your deduction. Find out ahead of time if the charity plans to keep the donation to use as part of its tax-exempt work or if it plans to sell the item. Your deduction is much better if the charity plans to keep and use the gift.

You must give away your entire interest in the artwork/collectibles to get a deduction. You cannot give the charity only the right to display your collection.

How will it affect your taxes?

If the charity plans to keep and use the donation, you will get a charitable deduction for the fair market value of the artwork/collectibles.

If the charity plans to sell or otherwise dispose of the artwork/collectibles, then you will only get a deduction equal to your income tax basis of the items.

Thus, you will be required to gather additional information if the charity plans to sell or dispose of your collection. You will need this information to decide if the donation will be advantageous from a tax standpoint.

Note: The income tax basis of the items to you depends on whether the artwork/collectibles were purchased by you, inherited or received as a gift from someone else. The income tax basis of purchased items is what you paid for them. The income tax basis of inherited items is generally the market value of the items on the date of the death of the person who left them to you. The income tax basis of items you received as a gift is generally the same as the person's who gave them to you.

What are the requirements if the value of the donation is over \$5,000?

A qualified appraiser must be hired to determine the value.

Both the appraiser and the charity must sign an IRS Form 8283, non-cash contributions, which must be attached to your tax return. (The IRS has denied otherwise valid deductions just because Form 8283 was not attached to the tax return.)

What are the requirements if the value of the donation is under \$5,000?

Written acknowledgment of the donation from the charity must be received by the time you file your tax return. Keep the written acknowledgment with your records but do *not* attach it to your tax return.

"Reliable written records" must be received by the time you file the tax return. As above, keep these with your records but do *not* attach them to your tax return. Reliable written records must include the following: (1) name and address of the donee organization; (2) date and location of the contribution; (3) description of the property; and (4) property's fair market value (or cost, if that is the amount being deducted).

What else do you need to consider?

Here are just a few of the questions you should ask before you finalize any donation. The answers will affect the amount of your deduction and how much of the donation you can claim as a deduction on your tax returns.

What is the type of charity receiving the donation? Is it a traditional charity, such as a church or hospital, or a private foundation?

How long have you held the property you are donating? More or less than one year?

Is the property to be donated investment property or was it used in your business?
Deductions for property used in a business are very limited and rarely advisable from a deduction standpoint.

As with anything else regarding taxes, you should consult Anne Tahim, CPA concerning your particular situation before finalizing any significant charitable contributions.

The information mentioned here in above is of general nature and cannot be regarded as legal or tax advice. For more information, please contact Anne Tahim at 714-772-4744