

Gifts of Artwork: Worth a Look, but be Careful

If you've noticed a surprising uptick in recent years among your younger clients investing in artwork, it is not your imagination! A [survey](#) of 1,007 U.S. high net worth individuals (each with at least \$3 million in investable assets) found that 83% of respondents aged 43 and under said they currently own or would like to own art—compared with only 34% of those older than 43.

As you work with this subset of clients who are also charitably minded, you'll want to be generally aware of the rules surrounding gifts of artwork to charity. When handled appropriately, artwork donations can provide notable benefits for both your client and favorite causes. The process for these gifts, however, comes with unique complexities, ranging from a client's [emotional](#) attachment to the IRS's [watchful eye](#) on donations involving historically misvalued or fraudulent art gifts.

Here are three ways to approach helping a client leverage an investment in artwork for charitable purposes:

The client donates the artwork directly to a charity for “related use”

If your client donates art held for more than one year directly to a museum or institution that uses it as part of its mission (for example, displaying the art in public collections or exhibitions), the charitable tax deduction can be based on the fair market value at the time of the gift, which could deliver a significant upside for your client. “[Related use](#)” rules are strict. The artwork must enhance or be central to the organization's mission. Donated pieces valued over \$500 require your client to file an IRS Form 8283, and gifts valued over \$5,000 also require a qualified [appraisal](#). Note also that if the charity sells the piece within three years of making the gift, the deduction could be retroactively reduced.

The client gives the artwork to a charity for it to sell

If your client gives artwork to a charity that will sell the artwork rather than use it in programming, the deductible amount is limited to the lesser of the fair market value or the client's original cost basis. While the tax deduction might not be as high as the client would like, the advantage of this route is that it offers flexibility, both related to the recipient organization (such as a donor-advised fund at the Community Foundation) as well as the use of the proceeds from the artwork's sale. Your client still must follow the IRS reporting and appraisal rules.

The client sells the artwork and then gives the proceeds to charity

This is often an unattractive option from a tax perspective, but it is certainly an option, especially if maximizing a deduction is less critical than avoiding the complexities of gifting artwork. Although the cash gift will be eligible for a charitable tax deduction, the client will incur capital gains tax on the appreciated value of the art, reducing the net financial benefit of the gift.

As with any gift of hard-to-value assets, the best approach for donating artwork is highly dependent on the individual client's art collection, tax situation, and charitable goals. The Chester County Community Foundation team is always happy to serve as a sounding board for charitable gifts of all kinds. Reach out any time. We are always here for you!



For more information, contact the Chester County Community Foundation:

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The team at the Chester County Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.