
Gifts or Donations of Collections

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This is the time of year when we think about gifts to our families or gifts to charities. How about making a gift of that valuable collection of marbles, art, lunch boxes, or stamps instead of cash. What are the tax consequences of doing so?

Gifts to Family Members

There are a number of considerations when making a gift of any asset to your family member. The most basic issue is whether the gift will be subject to gift taxes. Under current law (possibly to be changed by the new administration), gifts of \$14,000 or less can be made to an individual without being subject to gift tax. Once a gift is made for more than \$14,000, a gift tax return must be filed reporting the gift. The amount above the annual exclusion of \$14,000 will reduce the lifetime estate tax/gift tax exemption of \$5,450,000 for 2016 (increasing to \$5,490,000 for 2017). In addition, the basis of the asset being gifted carries over to the donee, regardless of the value of the asset. Thus, any later sale of the asset by the donee may subject the donee to income taxes on the gain.

Example: John gifts a painting to Ruby that is worth \$100,000. John's cost of the painting was \$25,000. John's basis in the artwork carries over to Ruby, so if she sold the painting a year later for \$110,000, she would have a taxable gain of \$85,000.

In donating a collection to your family, hopefully you will get satisfaction from knowing that your family is continuing to enjoy the collection that you have been gathering for years.

Gifts to Charities

Many charities will gladly accept gifts of a collection. Generally, the income tax deduction for a gift is based on the fair market value for the property. If the gift is made to a public charity, the gift amount can be deducted up to 30% of your adjusted gross income. A gift to a private charity can be deducted up to 20% of

adjusted gross income. Any amount of the gift in excess of these limitations can be carried forward and deducted for up to five years, subject to the same annual adjusted gross income limitation for that year.

There is one large exception to the above deduction rules. If the donation is of tangible personal property, such as artwork, the deduction is based on fair market value only if the use of the property is related to the charity's exempt purpose. If put to an unrelated use, the deduction is limited to the cost basis of the property.

Example: Geoff contributes a valuable painting to the American Red Cross. Since the painting is unrelated to the exempt purpose of the Red Cross, Geoff's deduction is limited to his cost of the painting. If he had donated the painting to the Detroit Institute of Arts, he would be entitled to a deduction for the fair market value, assuming the DIA intended to use the painting as part of the museum's collection.

Valuation of Collection

The Internal Revenue Code requires appraisals of certain assets in connection with gifts to charities and for gift or estate tax valuation purposes. There are very detailed requirements for qualified appraisals and qualified appraisers. See IRS Publication 561, "Determining the Value of Donated Property" for information regarding qualified appraisals.

Qualified appraisals are required unless the charitable deduction is \$5,000 or less. Art valued at \$20,000 or more requires a complete copy of the signed qualified appraisal to be attached to the income tax return. A qualified appraisal for other types of property is only required to be attached to the income tax return if the deduction is \$500,000 or more. In addition, a Form 8283 needs to be filed with the tax return reporting the charitable contribution.

Conclusion

Making a gift of a collection can be worthwhile, but make sure that you understand and follow the rules relating to such gifts. For further information, please contact one of the attorneys in the [Maddin Hauser Estate Planning Group](#).

