

Art and Other Collectibles - Tax Consequences

July 20, 2017



Question: Why do you purchase and collect artwork and other collectibles?

At first glance, such a question may not seem to have any connection to filing your annual tax return. However, the answers you give will go a long way in determining how any income you receive and expenses you incur as well as any gains or losses upon sale or disposition relating to your collectibles are reported on your tax return. Consider which of the following responses apply to you. Then continue reading to see the tax consequences of your answers.

1. *You get pleasure from*
2. *They are a good investment.*

3. *You have a business of buying and selling them.*
4. *All or some of the above.*

The Tax Consequences of Your Answer:

If you answered “(a) I get pleasure from the object”

Gain on a sale would result in a more beneficial long term capital gain tax rate provided that you held the collectible for more than one year. However, you will get less favorable treatment in deducting your expenses. If you sold your collectible at a loss, the losses would not be deductible.

If you answered “(b) I think it is a good investment”

Everything applies from “(a) the pleasure scenario,” but in this case you would also be able to deduct a loss on the sale, and have the ability to swap your collectible with a similar collectible and defer the payment of taxes to some point in the future.

If you answered “(c) I have a business of buying and selling the objects”

You will pay tax on the sale at a higher ordinary rate than more beneficial long term capital gain if you answered (a) or (b), yet you will probably get more of a tax benefit on the expenses you incur. Similar to the treatment of answer “(b) the investment scenario,” you would be able to deduct losses when the objects are sold and have the ability to swap your collectible with a similar collectible and defer the payment of taxes to some point in the future.

answered “(d) all or some of the above”

When we buy art and collectibles, the reason isn’t always as clear cut as it tends to be when buying stocks and bonds, going to the theater, or opening a retail store. Having multiple reasons for purchasing and collecting is fairly common. If this is the case, it is best to work closely with your advisors to ensure that the proper reporting of your transactions is reflected on your tax return.

Takeaway

If you are thinking about buying or selling collectibles, please contact your Anchin

relationship partner or Jeffrey Schwartz, a director in Anchin Private Client, at info@anchin.com or 212.840-3456.