

**Abstract:** They say one person's trash is another person's treasure. This may hold true when it comes to collectibles — those various *objets d'art* for which many people will pay good money. This article touches on some of the important points regarding how the sale or donation of collectibles could affect one's 2017 tax return.

## **Do you know the tax impact of your collectibles?**

They say one person's trash is another person's treasure. This may hold true when it comes to collectibles — those various *objets d'art* for which many people will pay good money. But if you're considering selling or donating some of your precious items, be sure to consider the tax impact on your 2017 return.

### **Sales**

The IRS views most collectibles, other than those held for sale by dealers, as capital assets. As a result, any gain on the sale of a collectible that you've had for more than one year generally is treated as a long-term capital gain.

But while long-term capital gains on many types of assets are taxed at either 15% or 20% for the 2017 tax year, capital gains on collectibles are taxed at 28%. (As with other short-term capital gains, the tax rate when you sell a collectible that you've had for one year or less typically will be your ordinary-income tax rate.)

Determining the gain on a sale requires first determining your "basis" — generally, your cost to acquire the collectible. If you purchased it, your basis is the amount you paid for the item, including any brokers' fees.

If you inherited the collectible, your basis is its fair market value at the time you inherited it. The fair market value can be determined in several ways, such as by an appraisal or through an analysis of the prices obtained in sales of similar items at about the same time.

### **Donations**

If you want to donate a collectible, your tax deduction will likely depend both on its value and on the way in which the item will be used by the qualified charitable organization receiving it.

For you to deduct the fair market value of the collectible, the donation must meet what's known as the "related use" test. That is, the charity's use of the donated item must be related to its mission. This probably would be the case if, for instance, you donated a collection of political memorabilia to a history museum that then puts it on display.

Conversely, if you donated the collection to a hospital, and it sold the collection, the donation likely wouldn't meet the related-use test. Instead, your deduction typically would be limited to your basis.

### **Proper handling**

There are a number of other rules that may come into play when selling or donating collectibles. Our firm can help you handle the transaction properly on your 2017 return.

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