

# Professional Guidelines

## **FUNDRAISING AUCTIONS: Issues and Impact for Galleries**

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### **I. INTRODUCTION TO FUNDRAISING AUCTIONS**

This Professional Guidelines topic is intended to discuss the impact of fundraising auctions on galleries both financially and in their role within the arts community. It includes questions to be asked prior to donating to fundraising auctions and suggestions to implement after donating work. There is also a list of recommendations for how galleries can maximize any benefits generated by their participation in an auction. Ultimately, we believe, the behavior of galleries and artists can influence the way fundraising auctions are conceived and conducted.

This is one of four Professional Guideline documents about Fundraising Auctions, each addressing the topic from a different perspective.

Fundraising Auctions: Issues and Checklist for Artists

Fundraising Auctions: Issues and Impact for Galleries

Fundraising Auctions: Issues and Recommendations for Collectors

Fundraising Auctions: Issues and Alternatives for Art Organizations

These documents have been written to assist all members of the arts community. You are encouraged to read all four to see a thorough discussion from all perspectives.

Fundraising auctions can be a successful way for arts organizations to raise needed funds. However, auctions can have a significantly negative impact on the art community — the very constituency they wish to support. The survival of galleries within the arts community can be seriously compromised because fundraising auctions have gained a reputation for selling artwork at considerably less than retail value. Fundraising auctions may ultimately harm galleries, collectors and individual artists by siphoning off gallery sales, competing with art exhibitions, infringing on exclusive representations, and reducing the ability of galleries to sustain a viable business.

The Professional Guidelines recommend that galleries should involve artists in the decision to donate work. Issues arise about who is donating the work to the auction, the gallery, the artist or both. Compensation to the artist, if any, for the donated work should be discussed in advance of

the donation commitment. Exclusive representation by the gallery of the artist's work may also be impacted by fundraising auctions. Many of these issues are discussed in detail later in this document.

On the positive side, donations to fundraising auctions by galleries can create goodwill in the community and increase awareness with potential customers. A donation can function as both advertising and promotion. In addition, the wholesale value of the donation is a tax-deductible contribution for the gallery.

Organizations sponsoring or benefiting from fundraising auctions, especially those involved with the arts community, should act responsibly when planning fundraising efforts. Artwork needs to be handled and displayed with care and respect. Every effort should be made to obtain the highest price for donated work and reserve prices should be established to maintain consistent market values for art and craft.

## **II. MYTHS ABOUT FUNDRAISING AUCTIONS**

Many members of the art community are known to be generous and supportive of their favorite art organizations. An art organization may justify a request for donations from a gallery as an opportunity to showcase the work of artists represented by the gallery and invite patrons to an auction as a show of support for the local arts community. However, some rationalizations are overextended.

**Myth #1: Fundraising Auctions do not impact galleries significantly.**

**Fact: Fundraising Auctions can unfairly compete with galleries' retail market.**

Work sold in an auction generally circumvents the role of galleries within the arts community. Galleries offer consistent visibility for an artist's work, creating demand with exhibitions, through advertising and by providing regular exposure in the gallery space. Auctions "piggyback" on the demand for an artist's work developed by the gallery without making any long-term investment.

Patrons buy work at auctions without benefiting from a gallery's professional guidance, or making a selection from an entire body of work shown at the gallery. Collectors may even delay the purchase of an artist's work, anticipating the possibility that an artist's work may be available at the annual auction at a reduced price. Or in another scenario, if collectors have purchased a piece by an artist at an auction, they won't be interested in buying another piece through the gallery. Given both these examples, frequent auctions impinge or may even exhaust patrons' available time for art and the amount of money budgeted for art purchases. The fact that purchases are deferred may compromise the ability of a gallery to survive as a viable business.

Fundraising auctions may be unfair sales competition in that bidders see their purchase as an act of philanthropy, a motivating perception that galleries cannot hope to compete with as for-profit businesses.

**Myth #2: Auctions do not affect the value of artwork.**

**Fact: Winning bids that are far below normal retail prices may affect the values of all work for both the artists and the galleries.** When auctions are seen as alternative sources of art at abnormally low prices, the retail pricing at galleries is undermined. In addition, auction prices become part of the provenance of an artist's entire body of work. Values of all artwork by that artist may be devalued.

**Myth #3: Auctions do not impact the relationships between galleries, artists and collectors.**

**Fact: If a gallery has exclusive representation of an artist's work, then auctions circumvent that exclusive representation and the services provided by galleries to both the artists and collectors.** Galleries invest in exhibition space, marketing, and staff resources for an extended period of time to show and promote an artist's work. Galleries provide expertise, advice and perspective to clients and to the public. These services – for both collectors and artists – are circumvented by auctions.

### **III. FINANCIAL IMPACT OF FUNDRAISING AUCTIONS ON GALLERIES**

Despite any altruistic intentions, fundraising auctions are dedicated to the selling of artwork and craft, – and in doing so, compete directly with galleries. Galleries operate year-round and must recoup the expenses of renting or buying exhibition space, advertising, inventory, staff, etc. – before they see any profit. Auctions do not operate year-round but benefit from the on-going public awareness generated by galleries. Auctions that sell art or craft at prices far below retail compromise the economic viability of galleries.

**A. Revenue deferred or lost.** The same people who visit and buy art and craft at galleries are also invited to auctions. Patrons may defer a gallery purchase in anticipation of finding a particular artist's work at an auction. Or in another scenario, if collectors have purchased a piece by an artist at an auction they may not be interested in buying another piece through the gallery. Given both these examples, frequent auctions impinge or may even exhaust the resources patrons budget for the viewing and purchase of art and craft.

**B. Artwork Devalued.** Auctions rarely sell artwork for full retail prices. All selling prices of artwork impact the market for art and become part of the provenance of artwork. Abnormally low prices generated by auctions may become the de facto market prices. Retail sales at galleries may be directly impacted – and ultimately the value of artwork in collections and artists' livelihoods may be affected.

**C. Tax Deductions.** Galleries may take a tax deduction for the wholesale value of the artwork donated to a fundraising auction. This is usually the amount paid to the artist as an out of pocket expense for the wholesale price of the work. (See **Section V. Gallery Considerations, Paragraph G.** for a complete discussion about the donation of an artist's work to fundraising auctions.)

**D. Infringement on representation.** A gallery invests time, space and limited resources to represent an artist and in return may expect to be the sole venue for the artist's work within an exclusive territory. Fundraising auctions in the same area as the gallery may compromise the gallery's exclusive representation. Under these circumstances, and with agreement between the artist and the gallery, the gallery's name should be included on exhibition labels at the fundraising auction.

Suggested labels may be:

- Represented by \_\_\_\_\_  
*This label is suggested if the artist makes the donation.*
- Courtesy of \_\_\_\_\_  
*This label may be appropriate if the gallery makes the donation.*

### **E. Auctions as advertising for the gallery.**

In an ideal scenario, an auction attracts a diverse audience with keen interest in art and craft. If handled properly, work donated by a gallery may stimulate goodwill and targeted awareness for the gallery. The goodwill generated towards the gallery by its donation and any heightened market awareness is an intangible benefit that a gallery may realize in choosing to participate in an auction.

## **IV. RECOMMENDATIONS FROM THE PROFESSIONAL GUIDELINES COMMITTEE**

**A. Set a Reserve Price.** The Professional Guidelines Committee recommends that the auction sponsor sets a “reserve price” for work offered in an auction. The “reserve price” is the price below which the artwork will not be sold. If the donation is not sold, the artwork would be returned to the donor. This reserve price should be **80%** of the retail price.

When a donation to an auction is from a gallery, there are several additional issues to resolve. Read below for **Gallery Considerations**.

## **V. GALLERY CONSIDERATIONS**

### **A. WHAT ARE YOUR MOTIVES?**

**1. What do you hope to gain by your participation? Are you looking for:**

- a. Increased exposure?
- b. New markets?
- c. Establishing your gallery as a philanthropic entity in the eyes of collectors or potential clients?
- d. Enhancing the profile and fortunes of the greater arts community?

**2. Do you see your participation as philanthropic support for a particular organization? If so, then how?**

- a. By donating work?
- b. By making a financial contribution?
- c. By donating your time?

**3. Are your objectives realistic?**

**4. Have you considered making a different contribution instead.** There may be some other contribution that would benefit the auction sponsor more.

- a. Donate your time on the Board of Directors.
- b. Teach, lecture at the museum, lead docent tours, arrange a studio tour, etc.
- c. Give money. Your generosity will be remembered.
- d. Host a pre-auction viewing at your gallery.
- e. Donate a percentage of sales for a given time period.
- f. Donate a percentage of the sale of a specific piece.

**B. Have you considered saying “no”, politely, that you cannot donate.** If you are already making a donation to another worthy effort or community cause, mention this fact.

**C. Read and consider the Recommendations from the Professional Guidelines Committee** (See section IV above.)

**D. Investigate other information about fundraising auctions.** Tom Starland, editor of the Carolina Arts newsletter, suggests an alternative to fundraising auctions which includes alternatives for the gallery. His fundraising model exhibits specific work at the gallery with the expectation that a percentage of retail sales be donated to local art organizations. For more information, see Carolina Arts newsletter at: <http://www.carolinaarts.com/pastcomments-sept03.html> and <http://www.artfaces.com/artvoices/article.php?s=featured&a=feb013>.

**E. Establish a gallery policy.** Set your own rules for gallery donations.

**1. Limit yourself to a specific number of donations per year.**

**2. Donate work only to organizations that you want to support.** Limit yourself to certain types of non-profit organizations, museums or specific causes of personal interest.

**3. Participate only in auctions that meet these criteria** or others that you establish, such as:

**a.** Auctions with 80% reserve pricing.

**b.** Auctions that feature a public preview or catalogue or Internet auction site.

**c.** Auctions that might attract new collectors appropriate for your gallery.

**d.** Other criteria of your personal choosing.

**4. Is this the right audience for the donated work?** Will attendees to a particular auction be familiar and knowledgeable about the donated work? Will they understand the techniques and materials involved or recognize an artist's reputation?

**F. Who's making the donation?** This question raises an important issue. Clear, open and accurate communication between the artist and the gallery cannot be overstated. This level of co-ordination also avoids multiple donations of one artist's work that could affect their market or gallery representation. The Professional Guidelines also recommends reading *Section VI Questions to ask the artist before donating their work to an auction*, (pdf link) and *Section VII Questions to ask the Auction Sponsor*.

**1. If the gallery is planning to donate work to a fundraising auction, and the work is on consignment in the gallery,** artists should be consulted before any decisions or commitments are made regarding this work.

**a.** Work on consignment is the property of the artist. Any decision about having an artist's work in a fundraising auction is still the artist's decision.

• **If the answer is "no"**, galleries should work out other arrangements.

• **If the answer is "yes"**, the gallery is responsible for paying the artist the normal wholesale price. The gallery may not be receiving any revenue from this sale, but is able to take a tax deduction for the wholesale value of the work. Essentially the gallery gets the tax deduction for the expense incurred (the amount paid for the piece).

**b.** The artist may have a policy or opinion, positive or negative, regarding specific auctions or auctions in general.

**c.** A label with "Courtesy Of... .... Gallery" is an appropriate designation along with the artist's name if the gallery is making the donation, (i.e. requesting the artist's permission to do so and then paying the artist the full wholesale price that the artist would have received for a regular purchase).

**2. If the gallery is planning to donate work to a fundraising auction, and the work is owned by the gallery,** the artist should still be consulted, in advance of auction commitments, especially if the work is by a well known local artist.

**a.** Work sold at auction may affect the perceived value of an artist's work both positive and negative. This level of communication is a courtesy that fosters goodwill.

- b. The artist may have a policy or an opinion, positive or negative, regarding specific auctions or auctions in general.
- c. A label with "Courtesy of ... Gallery" is an appropriate designation along with the artist's name at the fundraising auction.

**3. If the artist is planning to donate work to an auction within the gallery's exclusive territory** as defined by the Consignment Contract between the artist and the gallery, and the gallery did not plan to participate in the auction donation, the artist should speak with the gallery in advance of the auction donation.

- a. The gallery may feel that this donation infringes on the exclusive representation of the artist.
- b. As a representative of the artist, the gallery may have a policy or an opinion, positive or negative, regarding specific auctions or auctions in general.
- c. Possible compensation to the artist or the gallery from the auction sponsor is a factor that is best discussed openly in advance of auction donation commitments.

**4. If the artist and gallery agree to make the donation together**, the artist is somewhat at a tax disadvantage. The artist is allowed a tax-deductible donation for only the cost of the materials under federal law (state laws vary). However, the gallery can take a tax deduction for the full wholesale value. The gallery may also benefit from the auction as a marketing and advertising opportunity. When the artist and gallery donate together, it might be fairer if the gallery offered to pay the artist a significant percentage of the normal wholesale price. Thus, the financial impact of a donation is more evenly distributed between the artist and the gallery.

- **A suggestion.** Assuming the fundraising organization adopts a reserve price of 80% of the retail price and the gallery pays the artist 40% of retail. The gallery can still take a tax deduction for the full wholesale value. The collector has the possibility of receiving a 20% discount. The auction sponsor receives 40% of the retail price plus additional funds from any work sold above 80% reserve price as a result of generous bidding.

**G. Be cautious donating to auctions held on T.V.** Television is usually not a good forum for selling craftwork or artwork. For example, it is unlikely that a local television newscaster acting as auctioneer will be knowledgeable about your work. An unfamiliar person selling your work to what may be an equally unfamiliar T.V. audience is a recipe for disappointment.

**H. Be cautious when donating to auctions on the Internet.** Internet sales of art and craft are still in their infancy. The computer screen is inadequate to convey the richness of actually viewing an object or painting in person. Unless people are very familiar with your work from other venues, they are not likely to be motivated into placing significant bids. The best use of the Internet is to increase exposure for an auction, extend the bidding to a wider audience that is already familiar with the work, or to extend bidding hours. Galleries should ask for a hyperlink to their website.

**I. Is the artwork one-of-a-kind or a multiple/limited production?** Conceivably, production work or limited editions have multiple opportunities to reestablish value for an item with recurring sales of identical items. This is not true for one-of-a-kind work. Such work sold below retail price may establish a value that can affect future price expectations and sales for the gallery or artist.

## **VI. QUESTIONS TO ASK THE ARTIST BEFORE DONATING THEIR WORK TO AN AUCTION**

- A. Is the artist comfortable with the basic idea of having their work appear in such an auction?**
- B. Would the artist feel comfortable having work in the auction if the full wholesale value is paid to the artist by the gallery?**
- C. Does the artist have any conditions for allowing work to be in an auction such as a minimum price or reserve price? Anything else?**
- D. Would the artist like to share (with the gallery) in the donation to the fundraising auction?**
- E. A clear understanding regarding any future commissions generated by work offered at auction should be established between the gallery and the artist prior to any donation.** NOTE: Before approaching the artist, it might be helpful to find out the answers to the Auction Sponsor questions listed below in Section *VII Questions to ask the auction sponsor* before donating work to Fundraising Auctions.

## **VII. QUESTIONS TO ASK THE AUCTION SPONSOR**

- A. Who is sponsoring the auction?**
- B. Has this organization held auctions before? If yes, for how many years?**
- C. Where will the auction be held?**
- D. What type of auction will this be? There is a difference between live and silent auctions. Some of these differences include:**
  - 1. Inclusion in a live auction may sometimes be considered more prestigious.**
  - 2. The level of bidding may vary between live and silent auctions in that higher bids may be expected (and realized) in live auctions.**
  - 3. The spectacle of a live auction may increase the quantity and quality of bids.**
  - 4. Work included in a live auction may be displayed in a different manner.** For instance, if the work complements the body in some way, then a professional model wearing the work during the auction may affect the way a piece is perceived.
- E. There are certain questions that should be asked for each type of auction.**
  - 1. Live auctions:**
    - a. If there is a live auctioneer:**
      - Is this a professional auctioneer or entertainer accustomed to public speaking?
      - Who will be informing the auctioneer about the work prior to the live auction? The gallery should send a written description for the auctioneer along with the donation.
    - b. How many items will be included in the “live” auction? Many “live” fundraising auctions are too long. Often, there are so many items being auctioned that there isn’t enough time to describe the work in an interesting and informative manner. If**

your donation doesn't come up until near the end of the auction, this can pose a problem. Many people leave, get up and wander, or start conversations. Some auctioneers get tired toward the end and do a lackluster job of promoting the work.

**2. Silent auctions:**

- a. How and where will the work be displayed?
- b. Will attendees be able to physically examine and interact with the work, if appropriate?

**F. How long will the work be on display?**

1. Will there be a catalog? How will the gallery be listed?
2. Will there be a web site? How will the gallery be listed?

**G. How many items will be auctioned?**

**H. Does the auction sponsor/organizer know if there is a particularly successful price range where auctioned work sells best?**

1. What percentage of items donated sell for more than the reserve price?
2. What percentage of items reach full retail price?

**I. How will the bidding be handled? Issues may include:**

1. What are the bidding increments?
2. Will there be a minimum bid?
3. Will there be a reserve price?

**J. How many attendees are expected? Who will be invited to attend the auction events?**

1. Members only?
2. General public?

**K. What does it cost for guests to attend the auction event?**

**L. Will the gallery receive two complimentary tickets for the auction (for their donation)?**

**M. Is the work insured during the auction? If not, will the auction sponsor take responsibility for damage or theft?**

**N. Will the auction sponsor give the gallery and/or the artist the name and complete address of the person who has purchased your donation? The auction should furnish to the gallery and the artist for their records, the name, complete address, (not just the city) and telephone number of the client / collector who purchases the Artwork.**

**O. If an artist's work does not sell, will it be returned to the gallery?**

This is very important to find out ahead of time. Generally, it is not acceptable to sell donated work for an auction fundraiser in the gift shop (if there is one) or another venue unless the artist agrees to this arrangement.

**P. Who will pay for shipping (including insurance) to the auction or return shipping (including insurance) for work that has not met the minimum bid/ reserve price?**

**Q. Ask the auction organizers if they have a contract for donating work for the fundraising auction and READ IT!**

## VIII. DONATING WORK TO FUNDRAISING AUCTIONS: *Improve Your Auction Participation*

If you donate work to an auction, think about how to make your donation into a marketing opportunity. This may seem like a contradiction of previous comments, but after you have decided to donate to an auction, then you should try to give your donation more visibility and make your donation a positive experience. Below are a few suggestions:

- A. Donate work only if the style of work is consistent with the audience of the auction's sponsor.** For example, if the work represented by your gallery is bold, contemporary, and/or conceptually challenging, then giving work to an auction for a folk art museum is not consistent with the target audience. For the most positive outcome, donate work from your gallery that fits the auction audience.
- B. Consider donating a smaller item.** Often times a smaller, perhaps less challenging artwork will attract more bidding, sell more quickly and in the end generate the same funds as a larger more important and sophisticated piece. In this scenario, your piece generates the same dollars while not devaluing more important work.
- C. Give work that might be thematic to the time of year.** Think about how to make your donation a *hit so that everyone covets the work*. If your donation is the perfect fit for the next upcoming holiday, or if it is eye-catching, it may be chosen as a featured item of the live auction finale. A live auction item provides great visibility for your gallery and for the artist you represent, as compared to the possibility that your donation may be sitting forlorn on a table. For example, if the auction is in the beginning of February, anything with a heart or in red will sell better than other items.
- D. Consider donating work once every couple of years and give a better piece.** It might be a better representation of your gallery to give one piece worth \$4,000 once every four years rather than four pieces worth \$1,000 every year that do not fairly represent the gallery. Auctions sponsors may actually put a cap on the value of work donated to an auction because they know their audience will generally not pay more than a certain amount at fundraising auctions. Usually the cap is between \$2,500 and \$5,000. Galleries would be wise to ask in advance if this is a consideration to assure that the auction can support the price range.
- E. Consider how the work will be displayed.** Auctions are rarely professionally hung or displayed. Temporary tables with cloths over them are typical. If you can think of a way to display your donation to the auction more effectively, requiring no work from the auction staff, it can help improve the visibility of your auction donation. Consider loaning a pedestal or display from your gallery.
- F. Attend the auction.** It's good for gallery owners to be visible in their community. You get to meet the "movers and shakers" along with potential clients. Also if the work you've donated sells, and several other people were bidding on it, you could suggest to the those that did not win to stop by the gallery to see additional works by that artist or similar teapots, sculptures or paintings – maybe more sales will transpire from this one auction donation!

## IX. WHAT TO SEND WITH YOUR DONATION

**A. Prepare an accurate description of your donation.** Include the artist's name, title of donated work, date of work, and an *interesting* description of materials or techniques.. Also include the gallery name, address and phone number, and web site. State the *retail value* for the donated work. Also include information about the artist including, but not limited to, prominent museums or private collections that own the artist's work, exhibition record, articles or reviews, list of recent books with the artist's work and a one paragraph bio. This information would be extremely helpful for a live auctioneer. Do all of this even if the auction sponsor did not ask for it.

**B. Photographic images.** Send digital images of the artist's work that you are donating, send these 2 to 3 months (or more) in advance of the auction, if possible. (*This is the most helpful item that a gallery or an artist can provide – after artwork.*) Maybe they will use the images of the galleries donation for publicity, newsletter or auction announcements. Also include information about the image including the title, artist and gallery affiliation. Digital images should be sent on a CD to assure top quality reproduction rather than over the Internet, if possible. Send both print size 300 dpi at least 4" x 6", and web size 72 dpi, 1000 x 1000px.

**C. Send a short artist statement about the donated work.** Inclusion of an artist's statement always lends more gravitas to the work and may encourage future sales. Submit a statement or explanation about the work. If you mount a one-paragraph statement about the work on matt board in a manner appropriate for display, the auction sponsors may use it during the auction exhibition. Do this even if the auction sponsor did not ask for it.

**D. Send a one-paragraph description about the gallery** describing the focus of your gallery and the artists that you represent. Do this even if the auction sponsor did not ask for it.

## X. AFTER THE AUCTION IS OVER

**A. Keep accurate records of the donation for tax purposes.** Be sure to get a receipt for your donation to the fundraising auction.

**B. Retrieve and record the information pertaining to the person who bought your donation.** Is it possible to find out about the other bidders? Add this to your mailing list?

**C. Do not feel insulted if your donation does not sell for the minimum bid, the reserve price or at its regular retail price.** Work at auctions rarely sells at the full retail price. Maybe the auction did not attract just that person who could understand the work or afford the price.

**D. Make sure you've made arrangements for getting unsold work back in a timely fashion.** In fact, having a contract or an agreement with the auction sponsor in writing that spells out all the details, particularly the financial ones, is highly recommended as misunderstandings can and often do occur.

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## APPENDIX

A **minimum bid** is the starting point in the bidding of a “live” or “silent” auction. The Professional Guidelines recommends that the minimum bid start at the wholesale value.

The “**reserve price**” is the price below which the artwork will not be sold. The Professional Guidelines recommends that the reserve price be set at 80% of the retail value. The reserve price is usually published, but not always.

THE FOLOWING TAX INFORMATION IS TAKEN DIRECTLY FROM THE I.R.S. WEB SITE for the reader’s convenience. NO INTERPRETATION OF THE TEXT HAS BEEN MADE BY THE PROFESSIONAL GUIDELINES.

### **For a contribution of Less Than \$250**

For each cash contribution that is less than \$250, you must keep **one** of the following.

- 1) A cancelled check, or a legible and readable account statement that shows:
  - a) If payment was by check – the check number, amount, date posted, and to whom paid.
  - b) If payment was by electronic funds, transfer – the amount, date posted, and to whom paid,  
or
  - c) If payment was charge to a credit card – the amount, transaction date, and to whom paid.
- 2) A receipt (or a letter or other written communication) from the charitable organization showing the name of the organization, the date of the contribution , and the amount of the contribution.
- 3) Other reliable written records that include the information described in (2). Records may be considered reliable if they were made at or near the time of the contribution, were regularly kept by you, or if, in the case of small donation, you have buttons, emblems, or other tokens, that are regularly given to person s making small cash contributions. I.R.S. Publication 526, Charitable Contributions.

**For a contribution of \$250 or more**, you can claim a deduction only if you obtain a written acknowledgment from the qualified organization. You generally can deduct your cash contributions as well as the fair market value of any property you donate to qualified organizations.

## **Noncash Contributions**

### **Deductions of Less Than \$250**

If you claim a deduction of less than \$250 for a noncash charitable contribution, you must get and keep a receipt of your contribution from the charitable organization showing:

1. The name of the charitable organization,
2. The date and location of the charitable contribution, and
3. A reasonably detailed description of the property.

A letter or other written communication from the charitable organization acknowledging receipt of the contribution and containing the information in (1), (2), and (3) will serve as a receipt.

### **Deductions of At Least \$250 But Not More Than \$500**

If you claim a deduction of at least \$250 but not more than \$500 for a noncash charitable contribution, you must get and keep an acknowledgement of your contribution from the qualified organization. If you made more than one contribution of \$250 or more, you must have either a separate acknowledgement for each or one acknowledgement that shows your total contributions.

The acknowledgement must contain the information in items (1) through (3) listed under *Deductions of Less Than \$250* (see section above).

The acknowledgement must also meet these tests.

1. It must be written.
2. It must include:
  - a. A description (but not necessarily the value) of any property you contributed,
  - b. Whether the qualified organization gave you any goods or services as a result of your contribution (other than certain token items and membership benefits), and
  - c. A description and good faith estimate of the value of any goods or services described in (b). If the only benefit you received was an intangible religious benefit (such as admission to a religious ceremony) that generally is not sold in a commercial transaction outside the donative context, the acknowledgement must say so and does not need to describe or estimate the value of the benefit.
3. You must get it on or before the earlier of:
  - a. The date you file your return for the year you make the contribution, or
  - b. The due date, including extensions, for filing the return.

### **Deductions Over \$500 But Not Over \$5,000**

If you claim a deduction over \$500 but not over \$5,000 for a noncash charitable contribution, you must have the acknowledgement and written records described under *Deductions of At Least \$250 But Not More Than \$500* (see section above). Your records must also include:

1. How you got the property, for example, by purchase, gift, bequest, inheritance, or exchange.

2. The approximate date you got the property or, if created, produced, or manufactured by or for you, the approximate date the property was substantially completed.
3. The cost or other basis, and any adjustments to the basis, of property held less than 12 months and, if available, the cost or other basis of property held 12 months or more. This requirement, however, does not apply to publicly traded securities.

If you are not able to provide information on either the date you got the property or the cost basis of the property and you have a reasonable cause for not being able to provide this information, attach a statement of explanation to your return.

## **Deductions Over \$5,000**

If you claim a deduction of over \$5,000 for a charitable contribution of one property item or a group of similar property items, you must have the acknowledgement and the written records described under *Deductions Over \$500 But Not Over \$5,000*. In figuring whether your deduction is over \$5,000, combine your claimed deductions for all similar items donated to any charitable organization during the year.

Generally, you must also obtain a qualified written appraisal of the donated property from a qualified appraiser. See *Deductions of More Than \$5,000* in Publication 561 for more information. *Deductions of More Than \$5,000*

Generally, if the claimed deduction for an item or group of similar items of donated property is more than \$5,000, other than currency and publicly traded securities, you must get a qualified appraisal made by a qualified appraiser, and you must attach an appraisal summary (Section B of Form 8283) to your tax return. You should keep the appraiser's report with your written records. Records are discussed in Publication 526. The phrase similar items means property of the same generic category or type (whether or not donated to the same donee).

**Cost of appraisals.** You may not take a charitable contribution deduction for fees you pay for appraisals of your donated property. However, these fees may qualify as a miscellaneous deduction, subject to the 2% limit, on Schedule A (Form 1040) if paid to determine the amount allowable as a charitable contribution.

**Prohibited appraisal fee.** Generally, no part of the fee arrangement for a qualified appraisal can be based on a percentage of the appraised value of the property. If a fee arrangement is based on what is allowed as a deduction, after Internal Revenue Service examination or otherwise, it is treated as a fee based on a percentage of appraised value.

## **A qualified appraisal is an appraisal document that:**

1. Relates to an appraisal made not earlier than 60 days prior to the date of contribution of the appraised property,
2. Does not involve a prohibited appraisal fee,
3. Includes certain information (covered later), and
4. Is prepared, signed, and dated by a qualified appraiser (defined later).

You must receive the qualified appraisal before the due date, including extensions, of the return on which a charitable contribution deduction is first claimed for the donated property. If the

deduction is first claimed on an amended return, the qualified appraisal must be received before the date on which the amended return is filed.

An appraisal summary (discussed later) must be attached to your tax return. Generally, you do not need to attach the qualified appraisal itself, but you should keep a copy as long as it may be relevant under the tax law. If you donated art valued at \$20,000 or more, however, you must attach a complete copy of the signed appraisal.

**Prohibited appraisal fee.** Generally, no part of the fee arrangement for a qualified appraisal can be based on a percentage of the appraised value of the property. If a fee arrangement is based on what is allowed as a deduction, after Internal Revenue Service examination or otherwise, it is treated as a fee based on a percentage of appraised value. However, appraisals are not disqualified when an otherwise prohibited fee is paid to a generally recognized association that regulates appraisers if:

- The association is not organized for profit and no part of its net earnings benefits any private shareholder or individual,
- The appraiser does not receive any compensation from the association or any other persons for making the appraisal, and
- The fee arrangement is not based in whole or in part on the amount of the appraised value that is allowed as a deduction after an Internal Revenue Service examination or otherwise.

**Information included in qualified appraisal.** A qualified appraisal must include the following information:

1. A description of the property in sufficient detail for a person who is not generally familiar with the type of property to determine that the property appraised is the property that was (or will be) contributed,
2. The physical condition of any tangible property,
3. The date (or expected date) of contribution,
4. The terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of the donor that relates to the use, sale, or other disposition of the donated property,
5. The name, address, and taxpayer identification number of the qualified appraiser and, if the appraiser is a partner, an employee, or an independent contractor engaged by a person other than the donor, the name, address, and taxpayer identification number of the partnership or the person who employs or engages the appraiser,
6. The qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education, and any membership in professional appraisal associations,
7. A statement that the appraisal was prepared for income tax purposes,
8. The date (or dates) on which the property was valued,
9. The appraised FMV on the date (or expected date) of contribution,
10. The method of valuation used to determine FMV, such as the income approach, the comparable sales or market data approach, or the replacement cost less depreciation approach, and
11. The specific basis for the valuation, such as any specific comparable sales transaction.

**Art objects.** The following are examples of information that should be included in a description of donated property. These examples are for art objects. A similar detailed

breakdown should be given for other property. Appraisals of art objects—paintings in particular—should include:

1. A complete description of the object, indicating the:
  - a. Size,
  - b. Subject matter,
  - c. Medium,
  - d. Name of the artist (or culture), and
  - e. Approximate date created.
2. The cost, date, and manner of acquisition.
3. A history of the item, including proof of authenticity.
4. A photograph of a size and quality fully showing the object, preferably a 10 × 12 inch print.
5. The facts on which the appraisal was based, such as:
  - a. Sales or analyses of similar works by the artist, particularly on or around the valuation date.
  - b. Quoted prices in dealer's catalogs of the artist's works or works of other artists of comparable stature.
  - c. A record of any exhibitions at which the specific art object had been displayed.
  - d. The economic state of the art market at the time of valuation, particularly with respect to the specific property.
  - e. The standing of the artist in his profession and in the particular school or time period.

**Number of qualified appraisals.** A separate qualified appraisal is required for each item of property that is not included in a group of similar items of property. You need only one qualified appraisal for a group of similar items of property contributed in the same tax year, but you may get separate appraisals for each item. A qualified appraisal for a group of similar items must provide all of the required information for each item of similar property. The appraiser, however, may provide a group description for selected items, the total value of which is not more than \$100.

**Qualified appraiser.** A qualified appraiser is an individual who declares on the appraisal summary that he or she:

- Holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis,
- Is qualified to make appraisals of the type of property being valued because of his or her qualifications described in the appraisal,
- Is not an excluded individual, and
- Understands that an intentionally false overstatement of the value of property may subject him or her to the penalty for aiding and abetting an understatement of tax liability.

An appraiser must complete Part III of Section B (Form 8283) to be considered a qualified appraiser. More than one appraiser may appraise the property, provided that each complies with the requirements, including signing the qualified appraisal and appraisal summary.

**Excluded individuals.** The following persons cannot be qualified appraisers with respect to particular property:

1. The donor of the property, or the taxpayer who claims the deduction.

2. The donee of the property.
3. A party to the transaction in which the donor acquired the property being appraised, unless the property is donated within 2 months of the date of acquisition and its appraised value does not exceed its acquisition price. This applies to the person who sold, exchanged, or gave the property to the donor, or any person who acted as an agent for the transferor or donor in the transaction.
4. Any person employed by, married to, or related under section 267(b) of the Internal Revenue Code, to any of the above persons. For example, if the donor acquired a painting from an art dealer, neither the dealer nor persons employed by the dealer can be qualified appraisers for that painting.
5. An appraiser who appraises regularly for a person in (1), (2), or (3), and who does not perform a majority of his or her appraisals made during his or her tax year for other persons.

In addition, a person is not a qualified appraiser for a particular donation if the donor had knowledge of facts that would cause a reasonable person to expect the appraiser to falsely overstate the value of the donated property. For example, if the donor and the appraiser make an agreement concerning the amount at which the property will be valued, and the donor knows that such amount exceeds the FMV of the property, the appraiser is not a qualified appraiser for the donation.

For more information go to the IRS web site at: <http://www.irs.gov/faqs/faq-kw49.html>

For more information on these requirements, refer to [Publication 526](#), *Charitable Contributions*, [Publication 561](#), *Determining the Value of Donated Property*; Form 8283, *Noncash Charitable Contributions*; and its instructions, and [Tax Topic 506](#), *Contributions*.

#### **References:**

- [Publication 526](#), *Charitable Contributions*
- [Form 8283](#) (PDF), *Noncash Charitable Contributions*
- [Tax Topic 506](#), *Contributions*
- [Form 1040, Schedule A](#) (PDF) , *Itemized Deductions*

#### **Donations of your services:**

Although you cannot deduct the value of your time or services, you can deduct the expenses you incur while donating your services to a qualified organization. If the expenses are for travel, which may include transportation and meals and lodging while away from home, they may be deducted only if there is no significant element of personal pleasure, recreation, or vacation in the travel. Actual costs of gas and oil can be deducted, or you can choose to take 14 cents per mile for using your own car.

Deductions for contributions in excess of 20% of your adjusted gross income may be limited depending on the type of property or the type of organization the donation is contributed to.

For more information, refer to [Publication 526](#), *Charitable Contributions*, and for information on determining value, refer to [Publication 561](#), *Determining the Value of Donated Property*.

## **How To Get Tax Help**

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at **1-877-777-4778**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.
- Visit the web site at **[www.irs.gov/advocate](http://www.irs.gov/advocate)**