

# TAX COURT HIGHLIGHTS RISKS IN CHARITABLE ART DONATIONS: APPRAISAL RULES, VALUATION PITFALLS, AND PENALTIES



In a [recent U.S. Tax Court case](#), *WT Art Partnership LP, Lonicera LLC, Tax Matters Partner v. Commissioner of Internal Revenue*, the court provided important guidance on what constitutes a “qualified appraisal” for charitable art donations and the potential penalties for failing to meet these requirements.

## Case Overview

Between 2005 and 2012, WT Art Partnership donated various pieces of art to the Metropolitan Museum of Art in New York City and claimed charitable deductions for these donations. To support the claimed values, WT Art engaged a China-based appraisal company, reasoning that most of the donated works were by Chinese artists. The IRS examined WT Art's 2005 return and questioned the valuations. After negotiations, the charitable deduction was reduced by only 10%.

Despite this initial outcome, WT Art continued to use the same appraisal company for subsequent donations. In later IRS examinations, however, it was determined that the China-based company did not meet the IRS's qualified

appraisal standards because it did not regularly perform appraisals and lacked appraisal designations or certifications. As a result, the IRS reduced the reported charitable deductions by approximately 50% and imposed a 40% penalty on the related underpayment.

## Key Takeaways

- For noncash charitable contributions exceeding \$5,000, the [IRS requires a qualified appraisal](#) prepared by a qualified appraiser. Generally, the qualified appraisal must be attached to your income tax return if it is a deduction of \$20,000 or more for artwork or a deduction of more than \$500,000 for an item (or group of similar items). Charitable contributions of publicly traded securities do not require a qualified appraisal.
- A qualified appraiser must have earned an appraisal designation from a recognized professional organization or meet minimum education and experience requirements. They also must regularly perform compensated appraisals.
- Prior acceptance of an appraiser's work by the IRS does not guarantee future compliance with qualified appraiser standards.
- The IRS may impose a 40% penalty if the claimed deduction exceeds the IRS-determined value by more than 200%. If the difference is less than 150% and the taxpayer acted in good faith to secure a qualified appraisal, penalties may be avoided.

## Best Practices for Charitable Art Donations

- Ensure that any noncash charitable contribution over \$5,000 is supported by a qualified appraisal from a credentialed appraiser who meets all statutory and regulatory requirements, including verifiable education, experience, and compliance with recognized appraisal standards.
- Maintain thorough documentation, including a written acknowledgment from the recipient organization and accurate completion of [IRS Form 8283](#).
- Carefully adhere to all substantiation and valuation requirements to secure intended tax benefits and minimize the risk of IRS penalties.

This case underscores the importance of working with experienced, credentialed appraisers and maintaining proper documentation when making significant noncash charitable donations. If you have questions about substantiating charitable contributions or need assistance with appraisals, [contact your BMF advisor](#) for guidance.