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# **PLANNING FOR ART INVESTMENTS**

**Taxation, Valuation, Estate Planning, and  
Charitable Giving**

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**Richard M. Horwood, J.D., LL.M., M.B.A.**

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# Table of Contents

<i>Introduction</i> . . . . .	vii
<i>About the Author</i> . . . . .	ix
<i>Acknowledgments</i> . . . . .	xi

## **Chapter 1: Ownership, Authenticity, and Provenance**

Introduction . . . . .	1-1
Complexities of Ownership . . . . .	1-2
Provenance . . . . .	1-2
Legal Title . . . . .	1-2
Buyer Good Faith . . . . .	1-3
Applicability of the UCC . . . . .	1-3
Authenticity . . . . .	1-3
Court Guidance . . . . .	1-4
Provenance Issues . . . . .	1-5
Applicable Laws and Guidelines . . . . .	1-5
Problems for Donors . . . . .	1-6
Issues in the News . . . . .	1-7
Faulty Provenance . . . . .	1-7
Latin American Art . . . . .	1-7
Hopi Indian Masks . . . . .	1-7
Knoedler Litigation . . . . .	1-8
Robert Indiana Lawsuit . . . . .	1-8
IRS Estate Tax Disputes . . . . .	1-9
Conclusion . . . . .	1-9

## **Chapter 2: Working With Dealers and Auction Houses**

Introduction . . . . .	2-1
Issues in Selling Collections . . . . .	2-2
Provenance . . . . .	2-2
Authenticity . . . . .	2-2
Deciding Where and When to Sell . . . . .	2-3
Selling Through a Dealer . . . . .	2-3
Immediate Sale . . . . .	2-4
Consignment Sale . . . . .	2-4
Reasons to Use a Dealer . . . . .	2-4
Auction Houses as Dealers: The Private Sale Approach . . . . .	2-5
Selling by Auction . . . . .	2-5
Reserve-Price and Bought-In Scenarios . . . . .	2-6

Seller's Commission and Buyer's Premium . . . . .	2-7
Guarantees . . . . .	2-7
Conclusion . . . . .	2-8

### **Chapter 3: Planning Options With Museums**

Introduction . . . . .	3-1
Establishing a Relationship with a Museum . . . . .	3-2
Issues to Consider When Lending or Donating Objects to Museums . . . . .	3-2
Benefits to the Collector . . . . .	3-2
Benefits to the Museum . . . . .	3-2
Types of Loans . . . . .	3-3
Exhibition Loans . . . . .	3-3
Other Loans to Museums . . . . .	3-3
Key Terms of a Loan Agreement . . . . .	3-3
Promised Gifts . . . . .	3-4
The Possibility of Deaccessioning . . . . .	3-4
Private Operating Foundations . . . . .	3-5
Creating a Traveling Collection . . . . .	3-7
Creating a Private Museum . . . . .	3-7
Conclusion . . . . .	3-8

### **Chapter 4: Income, Gift, and Estate Tax Planning**

Introduction . . . . .	4-1
Income Tax Planning . . . . .	4-2
Classification for Income Tax Purposes . . . . .	4-2
Classification as a Dealer . . . . .	4-2
Classification as an Investor . . . . .	4-2
Classification as a Collector . . . . .	4-3
Like-Kind Exchanges of Collectibles . . . . .	4-4
Charitable Gifts During Lifetime . . . . .	4-5
Related Use Rule . . . . .	4-5
Annual Limit on Deductions . . . . .	4-5
Art Conservation and Restoration—The Effect on Basis . . . . .	4-6
Sales and Use Taxes . . . . .	4-6
Estate and Gift Tax Planning . . . . .	4-7
Lifetime Gifts to Family Members . . . . .	4-8
Getting the Most Out of the Annual Exclusion . . . . .	4-8
Using the Lifetime Gift Exemption . . . . .	4-9
The Elkins Approach . . . . .	4-9
Installment Sale of Art . . . . .	4-10
Lifetime Gifts to Charities . . . . .	4-11

The Petter Transaction . . . . .	4-11
The Hendrix Transaction . . . . .	4-12
Transfers to Charity Upon Death . . . . .	4-13
Gift Acceptance Agreements . . . . .	4-14
Conclusion . . . . .	4-14

## **Chapter 5: Planned Giving Strategies**

Introduction . . . . .	5-1
Opportunities for Combining Family Foundations With Other Tax Planning . . . . .	5-2
Benefits of a DAF in Family Foundation Planning . . . . .	5-2
Combining Family Gifting with Charitable Gifting . . . . .	5-3
Recent Cases . . . . .	5-3
Gifts of Life Insurance . . . . .	5-4
Disclaimers . . . . .	5-4
Charitable Lead Trusts . . . . .	5-5
Gift Acceptance Agreements . . . . .	5-5
Donating a Fractional Interest in Art Objects . . . . .	5-6
Putting Planning Concepts to Work . . . . .	5-7
Gifts of Fractional Interest . . . . .	5-7
Creation of a Dedicated Museum . . . . .	5-8
The Enjoy-Now, Pay-Later Option . . . . .	5-8
Combining Art With a Cause . . . . .	5-9
Expanding Horizons . . . . .	5-10
Conclusion . . . . .	5-10

## **Chapter 6: Gift Acceptance Agreements**

Introduction . . . . .	6-1
Lifetime Gifts . . . . .	6-1
Ambiguous Gifts . . . . .	6-2
Examples of Ambiguous Gifts . . . . .	6-2
Heading Off Trouble With a Properly Drafted Gift Acceptance Agreement . . . . .	6-3
Restrictive Gifts . . . . .	6-3
Naming-Rights Gifts . . . . .	6-4
Example of Potential Problems . . . . .	6-4
Proactive Solution: “Un-naming Rights” in Gift Acceptance Agreement . . . . .	6-4
Overfunded Gifts . . . . .	6-5
Matching Gifts . . . . .	6-5
Testamentary Gifts . . . . .	6-6

Conclusion .....	6-7
<i>Appendix A: Sample Loan Agreement</i> .....	A-1
<i>Appendix B: Sample Gift Acceptance Agreement</i> .....	B-1
<i>Appendix C: Sample Consignment Agreement</i> .....	C-1
<i>Appendix D: Auction House Conditions of Sale</i> .....	D-1
<i>Appendix E1: AAMD Guidelines on the Acquisition of Archaeological Material and Ancient Art</i> .....	E-1
<i>Appendix E2: AAMD Policy on Deaccessioning (June 9, 2010, as amended by Board on October 4, 2010)</i> .....	E-8
<i>Appendix F: IRS Form 8283 and Instructions</i> .....	F-1
<i>Appendix G: IRS Publication 561: Determining the Value of Donated Property</i> .....	G-1
<i>Appendix H: IRS Art Advisory Panel</i> .....	H-1
<i>Appendix I: State Department Cultural Property Advisory Committee</i> .....	I-1
<i>Index</i> .....	Ind.-1

# Introduction

Individuals collect for many reasons. They may start out with a toy collection or other items that provide them with pleasure and entertainment. Others are influenced by their parents, family members, or friends while they are still young. For some, an interest isn't fostered until later, developed and influenced by teachers and mentors, perhaps by a class in college, the workplace, or friendships. In addition, travel, visits to a museum, and literature can also spark an interest.

Whatever the reason, many individuals collect, and some become passionate about their pursuit. This handbook is addressed to those individuals whose interest at some point has become serious and led to a meaningful collection. In addition, I hope to guide those who inherit collections and those who advise them. I have been fortunate to have an interest in the visual arts and have shared this pursuit with many clients and friends. Much of the handbook is based upon that experience.

Most often, once the interest is sparked, a collector begins to build a knowledge base by visiting museums, reading, and taking classes and by visiting other collections, galleries, and art fairs. Of course, today, no one can underestimate the importance of the internet. Surfing the internet is a way many individuals gain knowledge at any time or location.

Sometimes, a collector begins building his or her knowledge base by making purchases based on trial and error. The collection starts to grow. At that point it becomes important to begin treating it as an investment. The process begins with assembling detailed records of the purchase price, condition, and a description and photograph of each object. Also, forming a team of collaborators and advisors becomes essential. A collector may learn from experienced collectors, dealers, curators, and teachers or by following the auction process and meeting specialists. Collecting often involves trial and error, and collectors often refine or redirect their pursuits as time goes on.

At some stage a collector may begin selling, trading, or donating works from the collection. At this time an understanding of the financial and tax implications becomes important, as well as decisions concerning succession and gifting strategies. Often an individual's interest in the collection is not shared by his or her children and grandchildren, or at least not to all of them. In that case, the collector needs to consider how and whether the collection will continue either in the hands of other individuals or in a museum, library, or other venue. As collectors spend time enjoying their objects, they should keep in mind the journey that their objects will take after their lifetime. Proper planning is essential at all points during the collecting process.

This handbook is intended to assist collectors, heirs, and advisors as they seek to develop, protect, and enhance the value of a collection and ensure an enriching legacy for future generations. I hope that the reader will find practical information that will help from many perspectives. After all, life is short, art endures.

—*Richard M. Horwood*

# About the Author

**Richard M. Horwood, J.D., LL.M., M.B.A.**, is a partner in the Trusts and Estates Group of Horwood Marcus & Berk Chartered, a law firm in Chicago, Illinois. He has devoted his practice to business, financial, and tax matters, including business law, art law, income/gift/estate taxation, as well as charitable, succession, and collection planning. He advises business owners, nonprofit organizations, donors, and collectors on a variety of complex planning issues.

Mr. Horwood advises collectors regarding key issues such as authentication; provenance; collection management; tax matters; disposition and charitable, museum, and family gifting. As a collector's counsel, he assists in enhancing the value of a collection by positioning exhibitions and cataloguing as well as working with dealers, auction houses, family foundations, and museums. He has significant experience negotiating art loan agreements, gift acceptance agreements, dealer and auction agreements, and tax-efficient planning strategies during a collector's lifetime and at his or her death.

Mr. Horwood represents a wide range of clients throughout the country, including corporations and other business enterprises of all sizes, family groups, and individuals. He has been a frequent speaker at national conferences and seminars and is the author of numerous articles concerning various aspects of business law. He was chosen as one of the Nation's Top 100 Attorneys by *Worth* magazine and was recognized in the Trusts and Estates section of the 2014 editions of *The Best Lawyers in America* and *Chicago's Best Lawyers*. He has also received the Austin Fleming Distinguished Service Award from the Chicago Estate Planning Council for his significant contribution to the improvement of estate planning practices.



# Acknowledgments

I am fortunate to work with collectors on a variety of issues. That process is enhanced by their personal involvement as well as collaboration with curators, museum directors, dealers, auction specialists, and educators. It is a wonderful opportunity involving constant new discoveries. This handbook covers topics I see most often confronting collectors, heirs, and advisors. My hope is that the material will be readable and helpful to present issues for consideration and discussion. No one is an island, and in the case of this handbook I gratefully acknowledge the assistance of my colleagues at Horwood Marcus & Berk Chartered in the preparation of these materials, as well as the advice and comments of collector clients and art professionals I have been fortunate to work with. Most of all, I want to thank my wife, Janet, for her interest and enthusiasm in my endeavors.

# Index

[References are to pages and footnote numbers.]

## A

AAMD. *See* American Association of Museum Directors (AAMD)  
Ambiguous gifts, 6-2–6-3  
American Association of Museum Directors (AAMD)  
    AAMD Object Registry, 1-5  
    Guidelines on the Acquisition of Archaeological Material and Ancient Art, 1-5, E-1–E-7  
    Policy on Deaccessioning, E-8–E-13  
    problems for donors, 1-6  
Ancient art, guidelines for acquisition of, E-1–E-7  
Andy Warhol Authentication Board, 1-4  
Andy Warhol Foundation for the Visual Arts, 1-4  
Annual exclusion for lifetime gifts, 4-8–4-9  
Archaeological material, guidelines for acquisition of, E-1–E-7  
Art Advisory Panel, H-1–H-3  
Auctions, 2-5–2-8  
    auction house conditions of sale, D-1–D-14  
    auction houses as dealers, 2-5, C-1–C-8  
    bought in, 2-7  
    buyer's premium, 2-7  
    criticisms of, 2-6  
    guarantee price, 2-7–2-8  
    reasons for using, 2-5–2-6  
    reserve price, 2-6–2-7  
    seller's commission, 2-7  
Authenticity  
    certificate of, 1-4  
    costs of, 1-4  
    court guidance, 1-4–1-5  
    selling issues, 2-2  
    value of, 1-4

## B

Bald and Golden Eagle Protection Act (1940), 1-9  
Bona fide purchaser, 1-3  
Bought-in piece, 2-7  
Buck Trust, 6-5  
Buyer good faith, 1-3  
Buyer's premium, 2-7

## C

"Canyon" art piece, 1-9  
Case law  
    *Autocephalous Greek-Orthodox Church of Cyprus v. Goldberg & Feldman Fine Arts Inc.*, 1-3 n.4  
    *Barnes Foundation, In re*, 6-3 n.6

*Christiansen, Estate of, v. Comm'r*, 4-12 n.47, 4-13, 5-3  
*Comm'r v. Groetzinger*, 4-2 n.2  
*Crile v. Comm'r*, 4-3 n.12  
*Elkins Jr., Estate of James A., et al. v. Commissioner*, 4-9–4-10  
*Golanty v. Comm'r*, 4-4 n.13  
*Graffman v. Espel*, 1-3 n.6  
*Hahn v. Duveen*, 1-4 n.13  
*Hendrix v. Commissioner*, 4-12–4-13, 5-3–5-4, 5-9  
*Howard v. Administrators of the Tulane Educational Fund*, 6-2 n.5  
*Indep. Elec. Supply, Inc. v. Comm'r*, 4-4 n.13  
*Jendwine v. Slade*, 1-4 n.10  
*Lahr v. Comm'r*, 4-4 n.13  
*Lindholm v. Brant*, 1-3 n.5  
*McCord v. Comm'r*, 5-3  
*Moore v. Comm'r*, 4-4 n.14  
*Pennsylvania v. Coxe*, 3-4 n.7  
*Petter, Estate of, v. C.I.R.*, 5-3 n.8, 5-4, 5-9  
*Petter, Estate of, v. Commissioner*, 4-11–4-13, 5-3  
*Robertson v. Princeton Univ.*, 6-2 n.4  
*Silverman v. Comm'r*, 3-5 n.14  
*Smith, Estate of, v. Comm'r*, 4-7 n.31  
*Tennessee Division of the United Daughters of the Confederacy (TUDC) v. Vanderbilt University*, 6-7 n.13  
*Tovar v. Indiana*, 1-9 n.32  
*Wandry v. Comm'r*, 5-3 n.7  
*Weisz v. Parke-Bernet Galleries, Inc.*, 1-4 n.14, 1-5 n.15  
*Wrightsmen v. U.S.*, 4-3 n.7  
Cause, combining art with, 5-9–5-10  
*Caveat emptor*, 1-5  
Certificate of authenticity, 1-4  
Charitable gifts  
    during lifetime, 4-5–4-6  
        annual deduction limit, 4-5–4-6  
        related use rule, 4-5  
    family gifting combined with, 5-3–5-5  
        case law, 5-3–5-4  
        disclaimers, 5-4–5-5  
        life insurance, 5-4  
    IRS Form 8283 and instructions, F-1–F-11  
    IRS Publication 561: Determining the Value of Donated Property, G-1–G-16  
    lifetime gifts to charities, 4-11–4-13  
        Hendrix transaction, 4-12–4-13  
        Petter transaction, 4-11–4-12  
    loans to museums, 3-5–3-7  
    transfers upon death, 4-13

[References are to pages and footnote numbers.]

Charitable lead trust (CLT), 5-5  
 CLT. *See* Charitable lead trust (CLT)  
 Collector, classification for income tax purposes, 4-3-4-4  
 Commission, seller's, 2-7  
 Complexities of ownership, 1-2-1-3  
 Conservation of art, effect on basis, 4-6  
 Consignment sale, 2-4, C-1-C-8  
 Court guidance on authenticity, 1-4-1-5  
 CPIA. *See* Cultural Property Implementation Act (CPIA)  
 Cultural Property Advisory Committee, I-1-I-2  
 Cultural Property Implementation Act (CPIA), 1-5-1-6  
*Cy pres* doctrine, 3-4

## D

DAF. *See* Donor advised fund (DAF)  
 Deaccessioning of museum gifts, 3-4-3-5, E-8-E-13  
 Dealers  
   classification for income tax purposes, 4-2  
   defined, 4-2  
   selling through, 2-3-2-4  
     auction houses as, 2-5, D-1-D-14  
     consignment sale, 2-4, C-1-C-8  
     immediate sale, 2-4  
     reasons to use dealers, 2-3-2-4  
 Dedicated museum, 5-8  
 Deferred giving, 5-1. *See also* Planned giving  
 Disclaimers, 5-4-5-5  
 Disposition of art, considerations for, 2-1. *See also* Selling collections  
 Documentation of ownership, 1-2, 1-6  
 Donations. *See also* Charitable gifts; Planned giving  
   charitable gifts during lifetime, 4-5-4-6  
   considerations, 2-1  
   IRS Publication 561: Determining the Value of Donated Property, G-1-G-16  
 Donor advised fund (DAF), 4-11-4-13, 5-2-5-3

## E

Elkins approach to lifetime gifts, 4-9-4-10  
 Enjoy-now, pay-later gift option, 5-8-5-9  
 Estate and gift tax planning, 4-7-4-14  
   gift acceptance agreements, 4-14, B-1-B-5  
   installment sale of art, 4-10-4-11  
   lifetime gifts to charities, 4-11-4-13  
     Hendrix transaction, 4-12-4-13  
     Petter transaction, 4-11-4-12  
   lifetime gifts to family members, 4-8-4-10  
     annual exclusion, 4-8-4-9  
     benefits of, 4-8  
     Elkins approach, 4-9-4-10  
     lifetime gift exemption, 4-9  
   transfers to charity upon death, 4-13  
 Estate tax disputes, 1-9  
 Exhibition loans to museums, 3-3  
 Express warranty, 1-3

## F

Family foundations, 5-2-5-3  
 Family gifting combined with charitable gifts, 5-3-5-5  
   case law, 5-3-5-4  
   disclaimers, 5-4-5-5  
   life insurance, 5-4  
 Foundations  
   Andy Warhol Foundation for the Visual Arts, 1-4  
   family foundations, 5-2-5-3  
   private operating, 3-5-3-7  
 Fractional interest in art objects  
   benefits of, 5-8  
   combining art with a cause, 5-9-5-10  
   dedicated museum, 5-8  
   donations, 5-6-5-7  
   enjoy-now, pay-later option, 5-8-5-9  
   expanding horizons, 5-10

## G

Gift acceptance agreements, 6-1-6-7  
 ambiguous gifts, 6-2-6-3  
 lifetime gifts, 6-1-6-7  
 matching gifts, 6-5-6-6  
 naming-rights gifts, 6-4-6-5  
 overfunded gifts, 6-5  
 planned giving, for, 5-5-5-6  
 restrictive gifts, 6-3-6-4  
 sample, B-1-B-5  
 tax planning, for, 4-14  
 testamentary gifts, 6-6-6-7  
 un-naming rights, 6-4-6-5  
 Gift tax planning. *See* Estate and gift tax planning  
 Good faith of buyers, 1-3  
 Guarantee price, 2-7-2-8  
 Guidelines on the Acquisition of Archaeological Material and Ancient Art, 1-5, E-1-E-7

## H

Hendrix transaction, lifetime gifts to charities, 4-12-4-13  
 History of art possession. *See* Provenance  
 Hopi Indian mask faulty provenance, 1-7-1-8

## I

Immediate sale, 2-4  
 Income tax planning, 4-2-4-7  
   art conservation and restoration, 4-6  
   charitable gifts during lifetime, 4-5-4-6  
     annual deduction limit, 4-5-4-6  
     related use rule, 4-5  
   classifications, 4-2-4-4  
   collectors, 4-3-4-4  
   dealers, 4-2  
   investors, 4-2-4-3  
   like-kind exchanges of collectibles, 4-4-4-5  
   sales and use taxes, 4-6-4-7

[References are to pages and footnote numbers.]

Indiana, Robert, lawsuit, 1-8-1-9  
 Installment sale of art, 4-10-4-11  
 Investor, classification for income tax purposes,  
 4-2-4-3  
 IRS Art Advisory Panel, H-1-H-3  
 IRS estate tax disputes, 1-9  
 IRS Form 8283 and instructions, F-1-F-11  
 IRS Publication 561: Determining the Value of  
 Donated Property, G-1-G-16

## K

Knoedler Gallery litigation, 1-8  
 Kozlowski, Dennis, 4-7

## L

Latin American art, faulty provenance, 1-7  
 Legal title  
   applicability of the UCC, 1-3  
   bona fide purchaser, 1-3  
   buyer good faith, 1-3  
   defined, 1-2  
   theft and, 1-2-1-3  
 Life insurance gifts, 5-4  
 Lifetime gifts  
   ambiguous gifts, 6-2-6-3  
   charities, to, 4-11-4-13  
   exemption, 4-9  
   family members, to, 4-8-4-10  
   matching gifts, 6-5-6-6  
   naming-rights gifts, 6-4-6-5  
   overfunded gifts, 6-5  
   restrictive gifts, 6-3-6-4  
   testamentary gifts, 6-6-6-7  
   un-naming rights, 6-4-6-5  
 Like-kind exchanges  
   income tax planning, 4-4-4-5  
   for selling collections, 2-3  
 Loans to museums, 3-3-3-4  
   agreement terms, 3-3-3-4, A-1-A-8  
   exhibition loans, 3-3  
   other loans, 3-3  
   use of private operating foundations, 3-5-3-8

## M

Matching gifts, 6-5-6-6  
 Migratory Bird Act (1918), 1-9  
 Museums  
   AAMD. *See* American Association of Museum  
   Directors (AAMD)  
   arrangement considerations, 3-1-3-2  
   collector benefits, 3-2  
   deaccessioning, 3-4-3-5, E-8-E-13  
   dedicated, 5-8  
   loans, 3-3-3-4  
     agreement terms, 3-3-3-4, A-1-A-8  
     exhibition loans, 3-3  
     loaning rather than gifting, 3-4-3-7  
     museums without walls, 3-4-3-7  
     other loans, 3-3

museum benefits, 3-2  
 private museum, 3-7-3-8, 5-8  
 private operating foundations, 3-5-3-7  
 promised gifts, 3-4, B-1-B-5  
 relationships with, establishing, 3-2  
 traveling collection, 3-7

## N

Naming-rights gifts, 6-4-6-5  
 National Stolen Property Act, 1-5-1-6  
 Noncash charitable contributions (IRS Form  
 8283), F-1-F-11

## O

Overfunded gifts, 6-5

## P

Petter transaction, lifetime gifts to charities,  
 4-11-4-12  
 Planned giving, 5-1-5-10. *See also* Charitable  
 gifts; Donations  
   charitable lead trusts, 5-5  
   combining family foundations with other tax  
   planning, 5-2  
   combining family gifting with charitable  
   gifting, 5-3-5-5  
   case law, 5-3-5-4  
   disclaimers, 5-4-5-5  
   life insurance, 5-4  
   donor advised fund, 5-2-5-3  
   fractional interest in art objects  
     benefits of, 5-8  
     combining art with a cause, 5-9-5-10  
     dedicated museum, 5-8  
     donations, 5-6-5-7  
     enjoy-now, pay-later option, 5-8-5-9  
     expanding horizons, 5-10  
     gift acceptance agreements, 5-5-5-6, B-1-B-5  
 POF. *See* Private operating foundation (POF)  
 Private museum, 3-7-3-8, 5-8  
 Private operating foundation (POF), 3-5-3-7  
 Private treaty sales, 2-5  
 Promised gifts, 3-4, B-1-B-5  
 Provenance  
   defined, 1-2  
   documentation, 1-2  
   donor problems, 1-6-1-7  
   faulty provenance, 1-7-1-9  
     Hopi Indian masks, 1-7-1-8  
     Indiana, Robert, lawsuit, 1-8-1-9  
     Knoedler litigation, 1-8  
     Latin American art, 1-7  
 Guidelines on the Acquisition of  
   Archaeological Material and Ancient Art,  
   1-5, E-1-E-7  
 historical contents, 1-2  
 IRS estate tax disputes, 1-9  
 laws and guidelines, 1-5-1-6  
 selling issues, 2-2

[References are to pages and footnote numbers.]

**R**

Related use rule, 4-5  
Reserve price, 2-6-2-7  
Restoration of art, effect on basis, 4-6  
Restrictive gifts, 6-3-6-4

**S**

Sales and use taxes, 4-6-4-7  
Seller's commission, 2-7  
Selling collections  
  auctions, 2-5-2-8  
    auction houses, 2-5, C-1-C-8, D-1-D-14  
    bought in, 2-7  
    buyer's premium, 2-7  
    criticisms of, 2-6  
    guarantee price, 2-7-2-8  
    reasons for using, 2-5-2-6  
    reserve price, 2-6-2-7  
    seller's commission, 2-7  
  authenticity, 2-2  
  deciding where and when to sell, 2-3  
  like-kind exchanges, 2-3  
  provenance, 2-2  
  through a dealer, 2-3-2-4  
    auction houses as, 2-5, D-1-D-14  
    consignment sale, 2-4, C-1-C-8  
    immediate sale, 2-4  
    reasons to use dealers, 2-3-2-4  
State Department Cultural Property Advisory  
  Committee, I-1-I-2

**Statutes**

18 U.S.C. §2314, 1-5 n.19  
18 U.S.C. §2315, 1-5 n.19  
IRC §1(h)(4), 2-3 n.5  
IRC §56(b)(1)(A)(i), 4-3 n.11  
IRC §67(a), 4-3 n.10  
IRC §162, 4-2 n.3  
IRC §165(c)(1), 4-2 n.4  
IRC §165(d), 4-3 n.9  
IRC §170(b), 4-5 nn.24-27  
IRC §170(e)(1), 4-2 n.6  
IRC §170(e)(1)(B)(i), 6-2 n.2  
IRC §183(b), 4-4 n.15  
IRC §183(d), 4-3 n.12  
IRC §212, 4-3 n.9  
IRC §453(b)(2)(B), 4-10 n.42

IRC §1031, 2-3 n.7, 4-2-4-5  
IRC §1031(a)(1), 4-4 n.14, 4-4 n.17  
IRC §1031(a)(2)(A), 4-2 n.5  
IRC §1031(a)(3), 4-4 n.19  
IRC §1411, 2-3 n.6  
IRC §2010(c), 4-11  
IRC §2033, 4-10 n.41  
IRC §2035, 4-8 n.33  
IRC §2512(b), 4-10 n.40  
IRC §4942(j)(3)(A), 3-6 n.19  
IRC §4942(j)(3)(B)(i), 3-6 n.19  
IRC §4942(j)(3)(B)(ii), 3-6 n.19  
IRC §4943(c)(7), 5-2  
Treas. Reg. §1.1031(a)-1(b), 4-4 n.18  
Treas. Reg. §1.170A-4(b)(3), 6-2 n.2  
Treas. Reg. §1.170A-4(b)(3)(i),  
  4-5 nn.21-23  
Treas. Reg. §1.183-2(b), 4-4 n.13  
UCC §1, 2-4  
UCC §2-313, 1-3  
Stolen property, National Stolen Property Act,  
  1-5-1-6. *See also* Theft of art

**T**

Taxes  
  estate tax disputes, 1-9  
  planning. *See* Estate and gift tax planning;  
    Income tax planning  
  sales and use, 4-6-4-7  
Testamentary gifts, 6-6-6-7  
Theft of art  
  authenticity, value of, 1-4  
  donor problems with, 1-6-1-7  
  legal title, 1-2-1-3  
Traveling collection, 3-7

**U**

UNESCO, 1-5  
Uniform Commercial Code  
  applicability, 1-3  
  express warranty, 1-3  
  statutes, 1-3, 2-4  
Un-naming rights, 6-4-6-5

**W**

Warhol, Andy, 1-4