Investing in art a good decision

By SONIA ZIMMERMAN, CA

People in the know have been investing in home-grown Canadian art for years. And many have made a lot of money.

As only one example: two very small (maybe 16 by 12 inches) early oils by Canadian artist Jack Bush sold recently in a Toronto gallery for $1,800 each. Their original price? $25 - a 72-fold increase, which by any standards is very hefty appreciation. And this is by no means an isolated case.

The very best blue-chip stocks or triple-A bonds would be hard pressed to match that performance - or even come close.

Art, when it's strictly for investment purposes, is treated like any other investment - and enjoys all the tax advantages.

But there are several characteristics unique to the taxation of art that the investor should be aware of.

In most instances, except for art owned by dealers and artists, a work of art is considered to be a capital property. However, the major difference between art and other investments is that any profit made on art is not taxable until it's disposed of. Interest or dividends on stocks or bonds is taxable annually.

Also, any costs incurred in acquiring art - such as freight, commissions, sales tax and insurance - form part of its total cost for tax purposes. Similarly, most costs of disposal reduce the over-all profit for tax purposes.

The Income Tax Act contains specific rules for what it defines as "listed personal property" (LPP). LPP includes any print, etching, drawing, painting, sculpture or other similar work of art. In order to be classifed as LPP, such items must first be "personal use property" which generally means any property used principally for personal use and enjoyment.

Another thing is that the LPP is deemed to have a cost equal to the greater of its actual cost or $1,000. The selling price is similarly defined to be the greater of the actual selling price or $1,000.

It's very important to note that capital losses or personal use property are not tax deductible unless it is listed as LPP. Also, LPP losses are only deductible against LPP gains.

As well as that, LPP losses can only be applied against LPP gains of the current year, the previous three years, and the following seven taxation years. Other capital losses (on investments) can be carried back three years and forward indefinitely. Therefore, the investor must be wary of disposing of art at a loss if there are no forseeable gains.

Art acquired for business purposes may be depreciated for tax purposes. However, this removes it from the LPP category, so neither the $1,000 base nor capital losses will be allowed.

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Moneycare is general financial advice by Canada's chartered accountants. Sonia Zimmerman is in practice in Toronto.

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