From: Clapp, Ada [redacted]
Sent: Tuesday, November 13, 2012 2:54 PM
To: Eileen Alexanderson
Subject: Art rentals

Hi—I thought you might be interested in this information. My colleague belongs to the same discussion group as I do. I could not go to the lunch today (too backlogged) but he went and filled me in on an interesting discussion. Our guest today (we don't usually have one) was Heather Gray from Sotheby's. She noted that Sotheby's has been getting several calls per week asking about how to price the fair market rent for fine art. What is more interesting is that the IRS recently called Sotheby's to ask the same question. Sotheby's had no real insight to offer on the question. They noted that there is a small rental market in the U.K. where fine art is rented for about 1-1/2% of its fair market value but apparently the rental circumstances differ from what we typically see. She also noted that museums will rent works to each other but at rental value that would not apply to individuals.

Heather said that the IRS currently has a "project" in the works to adopt a uniform IRS position on the issue. The IRS is apparently considering taking the position that the annual fair market rent for a work of fine art should be about 2-3% of the work's fair market value—but that for highly valuable works (this was not quantified), the percentage should be higher. The rental price would not include insurance, shipping or storage of the work.

I am assuming Leon pays nowhere near that much to rent art from the trusts, so this is not great news (even if it is just hearsay at the moment).

Ada Clapp
Managing Director, Wealth Strategist
U.S. Trust Bank of America Private Wealth Management
114 West 47th Street
New York, New York 10036
Phone: [redacted]
Fax: [redacted]
Email: [redacted]