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Here's the Tax Beat broadcast for October 15

Subject Line: The Fine Art of Getting Caught

When most people think of taxes, they think of income tax — the annual bloodletting every April that funds everything from fighter jets to the world's slowest website redesigns. But there's another tax that quietly siphons billions every year without nearly as much drama: sales tax.

Sales taxes are the quiet workhorses of state revenue, responsible for roughly a third of all money states collect. They hit everything from fast food to Ferraris. And in the art world — where a single painting can fetch more than a private island — the sales tax on a single transaction can hit six or seven figures.

That brings us to Sotheby's, one of the world's premier art auction houses, which recently agreed to pay **\$6.25 million** to settle allegations it helped rich buyers dodge New York's steep sales tax on fine art. In the art world, that's pocket change — but in the tax world, it's a masterpiece in skating by with a slap on the wrist.

Here's the brushstroke-by-brushstroke version.

New York imposes an 8.875% sales tax on art sold within the state. For a \$10 million painting, that's nearly **\$900,000** in tax — more than most people's homes. To avoid that, some art buyers submit fraudulent "resale certificates," asserting they're purchasing art not for display but for resale. This exemption makes sense for actual dealers and galleries. But it turns into a tax dodge when private collectors use it to buy art for their personal enjoyment while pretending to be dealers themselves.

According to prosecutors, Sotheby's helped certain clients file resale certificates despite knowing those clients weren't real dealers. One collector reportedly bought more than \$50 million worth of art, including works by Renoir and Rothko, using resale certificates that claimed he would be reselling it. Instead, the works adorned his private homes in New York and (of course) the Hamptons.

In fairness, Sotheby's isn't the first to thread this particular needle. The art world has long played a sophisticated game of *"Catch Me If You Can"* with sales tax. Sellers ship paintings to warehouses in Delaware, where there's no sales tax. Or they "loan" them to out-of-state galleries, sometimes for years, to avoid triggering tax in New York or California. It's a high-culture version of what online shoppers did before *Wayfair v. South Dakota* made e-commerce vendors collect state taxes too.

But what makes this case interesting isn't just the numbers — it's the principle. When a titan like Sotheby's settles for millions over sales tax, it reminds everyone that the rules apply to the elite just as much as they

do to the guy selling used guitars on eBay. And sales tax is regressive, meaning it hits lower-income people harder. When the wealthy avoid it, it deepens inequity. It's one thing for Joe Sixpack to skirt \$100 of tax on an iPhone; it's another for Gotbucks McMoneyball to dodge \$800,000 on a Picasso.

The settlement didn't require Sotheby's to admit wrongdoing. The auctioneers say they settled to avoid the cost of litigation. But for context, the global art market was valued at about **\$68 billion** last year, with nearly half of all sales taking place in the United States. If even a small fraction of those transactions skirt sales tax, that's hundreds of millions in lost revenue.

Of course, the art world might say this kind of enforcement "stifles creativity." But the rest of us might call it accountability with a gilded frame.

So, the next time you admire a masterpiece, remember this: while beauty may be in the eye of the beholder, sales tax is in the hand of the collector. Because in the art world, you can argue about authenticity, provenance, and brush technique all day long — but when it comes to sales tax, the tax collector is the ultimate critic.

Kevin

