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THE TAX LAWYER

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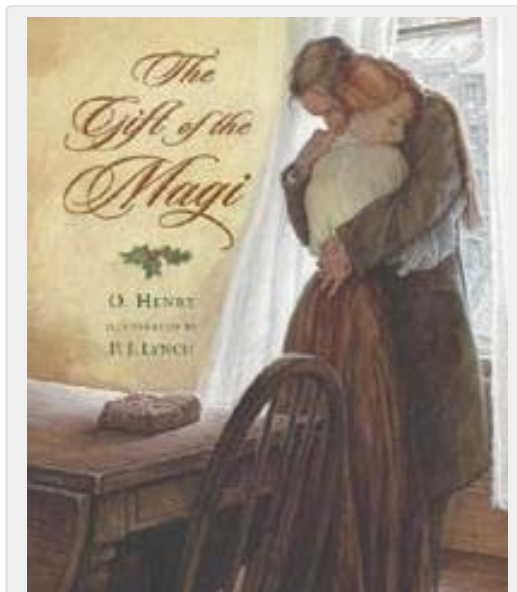
Taxing The Gift Of The Magi

[Don Corleone](#) stops the mob war after Sonny's death by asking the Heads of the Five Families, "How did things ever get so far?" We all get caught up, matters escalate, and it can be hard to remember. Remember when we thought of grander issues than taxes? Universal themes, matters of the heart, home and love?

We know it is [better to give than to receive](#), but in taxes, we are obsessed by rates, complexity and comparative fairness. How does our tax burden compare to everyone else's? In O.

Henry's "[The Gift of the Magi](#)," a struggling young husband and wife want to give the other something special for Christmas. Each has something precious.

Of course, you know what happens. Della cuts off her flowing hair and sells it to a wig maker to buy a platinum chain for Jim's heirloom pocket watch. Jim sells his prized watch to buy combs for Della's hair. They both lose their most prized possessions, but we see that Della's hair and Jim's watch were not their most prized possessions after all.



The Gift of the Magi (Photo credit: Wikipedia)

In our current tax-myopic culture, we pick everything apart with taxes due. Catch an invaluable baseball? You might be taxed. Selling Della's hair to buy Jim a watch chain? Probably taxed. Jim selling his watch? Taxed.

In 2011 Yankees fan Christian Lopez caught Derek Jeter's 3,000th major league hit. Was the valuable ball income when [he caught it](#), worth half a million or more? Did he trigger income when he gave it back to Jeter and received season tickets, bats, balls, and jerseys? [The New York Times](#) quoted tax professor Paul Caron, Tsar of [TaxProf Blog](#), for the unhappy rule that Lopez should report it all.

After all, swaps are usually taxable, says the IRS. See [Do You Barter? The IRS Wants Its Cut](#). As for Della's hair, it's probably taxable although she could argue it's capital gain not ordinary income. Jim has gain on his watch too. If the watch increased in value since he inherited it the gain is taxed when he sells it.

The tax treatment of sales of body parts is seriously discussed in some circles. See [Tax Code Lags Growing Body-Parts Market](#). Whether hair or body parts, selling for cash means tax. Gifts of body parts can trigger taxes too.

Both Jim and Della used all their sale proceeds to buy gifts. That means gift tax. Jim and Della can give each other \$13K in cash or property free of gift tax each year. If the combs or watch chain is worth more than that, they can use some of their lifetime credits or pay gift tax. See [Grab The \\$5M Gift And Estate Tax Perk: It's Gone In 2013](#).

There's lots of tax talk at year-end, this year-end in particular. Do your tax planning. But take time for the important things too.

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