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Shipwrecked Whiskey May Be Worth $871 Million — And The IRS Taxes It

Most people think of sunken treasures like gold coins or bullion, but whiskey is sometimes recovered, too. If it's well preserved, it can be invaluable. In 2021, a single bottle of scotch salvaged from the SS Politician off the coast of Scotland brought £12,925 at auction. Now, 280 barrels of American whiskey could be salvaged from a 170-year-old shipwreck, The Westmoreland, which sunk in 1854 in Lake Michigan. Forbes calculated that 280 barrels could mean up to 56,000 bottles, and they could be worth an eye-popping $871 million.

Of course, no one knows for sure until it is recovered and tested. Some may not want to drink it. As first reported by *The Mirror*, shipwreck hunter Ross Richardson says that a regional distillery may want to use it for scientific research, yet permits are required for removal of any artifacts, and they could take years. But once the haul is up, do they *really* have to worry about looking over their shoulder for the IRS?

Yes, according to the IRS, money or valuables you find are taxed, even if you just happen upon something by pure luck, and even if you don't sell it to turn it into cash. In fact, when it comes right down to it, just about *everything* is fair game for the IRS. So whether it is diamonds you find, gold bars or nuggets you discover, or just about anything else, it's taxable according to *Cesarini v. United States*.

That was a tax case involving Ermenegildo Cesarini, a man who bought a used piano for $15, and found $5,000 in cash inside. When the IRS said it was taxable income, Cesarini went to court to push back on Uncle Sam's cash grab, but the IRS won. The IRS calls finds like this a "treasure trove" and says you have to value it and declare it as income. So some people even have to sell their discovery to be able to pay the tax.

About the only way a recovery is tax-free is if you recover your *own* property, something like art stolen by the Nazis and later recovered. If you can prove it's yours and you are just getting it back, it should not be taxed. But even then, under the "tax benefit rule," if you originally claimed a tax deduction for theft or loss of the property, you must include the value of the recovered property in your income when you get it back. And if the property has gone up in value in the interim, you get stuck with tax on the increased value.

You might think that giving your find to charity would fix the tax problem neatly, but the IRS has an answer there, too. In fact, giving to charity can make the tax problem worse, as sometimes happens with prize money. You can decline a prize and avoid all taxes. But if you accept it and *then* donate it to charity, you can't. Even if you immediately give it to charity, you can only claim charitable contributions on your taxes up to 60% of your contribution base, generally your adjusted gross income.

The limit is lower (30%) for gifts to certain private non-operating foundations, veterans' organizations, fraternal societies and nonprofit cemeteries. You can carry over excess charitable contribution deductions from one year to the next, and you have five years to use it up. In the meantime, though, you are paying tax on money you've given away. It's another example of our complex tax laws, and the many tax traps you might encounter.

Check out my website.