

Preserving the Value of Your Art Collection: Tips for Effective Art Succession Planning

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Bridge Art Strategies



You've planned carefully for the distribution of your real estate, stock portfolio, and business interests. But are you planning just as effectively for your art, antiques, and other collectibles? What are your intentions for the distribution of these assets?

By 2052, an estimated \$41 trillion in assets will be passed inter-generationally, according to the Social Welfare Institute at Boston College, and experts say art and antique assets will make up approximately \$4-6 trillion of that figure.

Still, professional advisors often ignore art succession planning under a mistaken belief that art isn't an asset that requires savvy planning - in fact, many don't even ask their clients about the art, antiques, and collectibles they own. And collectors aren't much better: most don't consider their tangible property a long-term asset worth planning for.

Worse yet, many don't realize the true value of their "stuff," thinking that the antique toy collection, family jewelry, or painting passed down by grandpa have no significant worth for which succession planning is essential.

Heirs Could Face High Estate taxes

But the failure to plan for these assets during your lifetime may be costly. Not having a proper art succession plan could mean your heirs will face hefty tax liabilities. Lack of inventory and current appraisals may account for a grossly inequitable allocation of your valuable collection among your loved ones. Moreover, without a proper succession plan in place, your heirs may dispose of your valuable collection at a hurried auction and end up losing as much as 70% of your collection's value after taxes and transaction fees are factored in.

To preserve the value of your collection and make sure that your intentions are being implemented, consider these ten tips for effective art succession planning:

- 1.** Maintain an up-to-date inventory of your art, antiques, and collectibles. You can't possibly plan for the distribution of your art until you have a comprehensive list of what you own. A simple computer spreadsheet or written inventory may work well for a small collection, while

large or more complex collections may benefit from specially designed collectors' software. Keep track of changes whenever you buy or sell art, loan or gift a piece to another person or entity, have a piece appraised or insured, or incur any damage or loss to an item in your collection.

2. Get a qualified appraisal and valuation. Opt for an appraiser who's a member of either the American Society of Appraisers, the Appraisers Association of America, or the International Society of Appraisers. Appraisers can be an invaluable resource when you are bidding at auction, obtaining a loan against your art, or structuring a gift to a charity.

3. Keep records of purchase and sale transactions, authentication documents, and any information regarding the history of the pieces in your collection. Much like a real estate chain of title, these documents can help you establish your items' provenance and authenticity.

Framework for Charitable Giving

4. Identify charities you would like to benefit through gifts from your collection. Then, come up with a framework for charitable giving: consider whether the charity will accept your gift and whether it should be given outright or in trust. Will there be any restrictions on the gift or endowment funds that will accompany the donation?

5. Familiarize yourself with dealers, appraisers, museum curators and other collectors who have expertise in your area of collecting - they can keep you in the loop about what's selling, who's buying, and how you can make the most of your collection in a fluid marketplace. In addition, these experts can help you find one-of-a-kind pieces that may fit well with your current collection.

6. Assemble a trusted team of advisors. This generally includes an attorney, a financial advisor, a tax specialist, and an art succession planner. Be sure all members of your advisory team know the extent and value of your collection and that you have shared your intentions for the disposition of your art and antique assets.

7. Insure your collection against loss or damage. You have various insurance options, depending on your needs and the uniqueness of your collection. You can insure your art as part of the contents of your home, as scheduled items, or through blanket coverage. We can't emphasize enough the importance of buying insurance for your collection - even an accidentally spilled cocktail or the wrong crating during a move can be detrimental to your collection's value. Remember when Steve Wynn's elbow accidentally tore his Picasso?

Discuss Estate Planning Strategies with Your Advisor

8. Make sure that your advisory team is aware of the extent and value of your collection and that these assets are being included in your overall estate plan. Then, discuss various estate planning strategies with your advisors to determine which methods might be right for you. For

instance, might an irrevocable trust or charitable remainder trust work for you? Or are there financial-based products that will be beneficial in your overall art succession planning?

9. Assess individual pieces in your collection to determine if you have a capital gains issue that requires special planning. Normally triggered by the sale of an asset, a capital gains tax is a tax on the profits earned from the sale of investments. For capital gains purposes, it makes a difference whether you purchased the asset, inherited it, or received it as a gift, so it's best to evaluate this issue on a piece-by-piece basis.

10. Have a conversation with your children (heirs) to see if they want specific pieces in your collection or if they are more interested in converting these assets to cash. Collectors often think they can just pass their pieces to their heirs, but in reality, the kids often don't want the collection - they just want its value! Plan for the future of your collection by taking your wishes and your heirs' preferences into consideration.

Collectors and advisors note: We strongly caution collectors against passing their pieces inter-generationally via a method we call The Empty Hook (where the transfer of goods is not documented and no taxes are paid). This will prove very costly to heirs since estate tax fraud has no statute of limitations.

Whether you collect contemporary folk art or Japanese kimonos, a little bit of planning will go a long way towards preserving the value and true worth of your items. For collectors of art, antiques and collectibles, a proper art succession plan can mean not only huge monetary savings, but also leaving one's intended legacy upon the collection's disposition.