

Collectables and Estate Planning: Things Every Collector Should Know

BY GARY ALTMAN, ESQ.

Did you know that your personal effects, no matter what value, whether or not they are mentioned in your Will or Revocable Trust, must be reported to the IRS on Schedule F of your U.S. Estate Tax Return (Form 706)? Moreover, there is a specific question on that form asking the Executor if the deceased owned any

works of art, any items, or any collections whose artistic or collectible value is worth more than \$3,000? If so, it is likely that the IRS will carefully review these more valuable items. Jewelry, furs, silverware, books, oriental rugs and stamp collec-

tions are all examples of valuable items that must be reported on Schedule F. Seem simple? Not so. You should know about the complications your Executor may face when handling these valuable personal effects and collectibles.

One Man's Junk...Is IRS Treasure?

First, your Executor will need to have each of your assets appraised. Your Estate will pay for the appraisal, and it can receive an estate tax deduction for the expense, but if your Executor has understated the value of any personal effect, there may be significant interest and penalties.

The second complication is liquidity. In the absence of other funds, the artwork or other personal effect in question, or part of a collection, may need to be sold in order to pay any estate tax (or penalty) due. You should consider whether this is something you want to happen.

There are some solutions to the issues raised above. In life, you can sell your valuable piece of art or a collection, so that your heirs can benefit from its worth without the hassle of having it appraised. In the case of a collection, this option will also free your heirs from possibly having to determine how to split it equitably among them. In certain circumstances, you can also request that the IRS issue a Statement of Value that can be relied on for federal income tax, estate tax, or gift tax returns. This way, you can prepare for the amount of tax due and there should be no potential for understatement. Typically, however, such a request is only honored for artwork appraised at \$50,000 or more.

The Ultimate Liquid Asset: Wine

I have collected wine for the past 20 years, and take great pride in my wine cellar. For my estate planning clients, wine is an asset like any other and it must be planned for. A large collection may have to be sold or may be passed on to a family wine lover. While wine is the ultimate liquid asset, it is not really liquid for paying estate taxes, so that must be planned for as well.

Here are some recommendations for wine collectors, specifically:

1. Keep a wine inventory and track values, which should be updated every couple of years.
2. Consider a "Valuables Policy" for your wine as its possible that your homeowner's policy may not cover a loss for your collection.

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3. Make sure your collection is properly maintained and stored.
4. Be sure to select who is going to receive your wine at your death. You must provide for an orderly disposition.
5. Make sure that your Executor knows that the wine you have may be valuable. There are too many stories of unknowing Executors either selling the wine at ridiculous low prices or just throwing the wine out.
6. Drink your wine while you are alive, after all, the main purpose of wine collecting is enjoying your wine and sharing it with your friends and family!


The Bottom Line


Planning for valuable personal effects, artwork and collectibles is not all about estate taxes and the appraisal. The first question collectors need to ask themselves is how they wish for their collection to be divided and distributed upon death. There are many estate planning techniques that can be used depending on the answer to that very important question. Working with an experienced estate planner is the only way to ensure that your wishes are honored and minimize the potential for uncertainty and/or conflict amongst heirs.

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