

# Estate planning and your art collection

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If you're an art collector, it's critical for your estate plan to address your collection separately from other types of assets. Investments in artwork may be motivated in part by potential financial gain, but for most collectors the primary motivation is a passion for the art itself.

As a result, managing these assets involves issues that aren't presented by purely financial assets. Naturally, you'll want to preserve the value of your collection and avoid unnecessary taxes, but you'll also be keenly interested in how your collection will be managed and displayed after you're gone.

## **Know the collection's value**

It's vital to have your collection appraised by a professional at least every three years, if not annually. Regular appraisals give you an idea of how the collection is growing in value and help you anticipate tax consequences down the road. In addition, most art donations, gifts or bequests require a "qualified appraisal" by a "qualified appraiser" for tax purposes.

It's also important to catalog and photograph your collection and gather all appraisals, bills of sale, insurance policies and other provenance documents. These items will be necessary for the recipient or recipients to carry out your wishes.

## **Review your options**

Generally, there are three options for handling your art collection in your estate plan: Sell it, bequeath it to your loved ones, or donate it to a museum or charity.

If you opt to sell, capital gains on artwork and other "collectibles" are currently taxed at a top rate of 28%, compared to a top rate of 20% for most other types of assets. Rather than selling the collection during your lifetime, it may be preferable to include it in your estate to potentially take advantage of the stepped-up basis, which allows your heirs to reduce or even eliminate the capital gains.

If you prefer to keep your collection in the family, you may opt to leave it to your heirs. You could make specific bequests of individual artworks to various family members, but there are no guarantees that the recipients will keep the pieces and treat them properly. A better approach may be to leave the collection to a trust or other entity — with detailed instructions on its care and handling — and appoint a qualified trustee or manager to oversee maintenance and display of the collection and make sale and purchasing decisions.

Donating your collection can be an effective way to avoid capital gains and estate taxes and to ensure that your collection becomes part of your legacy. It also entitles you or your estate to claim a charitable tax deduction.

Before bequeathing your collection to loved ones or donating it to charity, discuss your plans with the intended recipients. If your family isn't interested in receiving or managing your collection or if your charitable beneficiary has no use for it, it's best to learn of this during your lifetime so you have an opportunity to make alternative arrangements. Please contact us with questions.

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