



What to do with the collectibles? Incorporate them into your estate plan

Collectibles such as art, antiques, jewelry, stamps, coins and automobiles may make up a significant portion of your estate. To avoid unnecessary estate taxes, administrative and legal fees, and other costs involved in settling your estate, it's smart to incorporate these assets into your charitable giving and estate plans.

Valuing the assets

When planning for the disposition of your collectibles, have a credible appraiser value them. Why? Because an incorrect valuation could subject you to additional taxes, penalties and interest. The value of property for federal gift, estate and income tax purposes generally is its fair market value (FMV), which is why establishing this value is essential.

In instances where gifts or bequests of art are valued at \$20,000 or more, IRS auditors may refer the appraisal of the gifts to an Art Advisory Panel of the IRS. The panel's findings are adopted as the IRS's official position on the art's value.

Donating to charity

Gifts of art and other collectibles to charity can provide you with significant tax savings. For example, you avoid capital gains taxes. This can be particularly advantageous for collectibles, which are taxed at a 28% long-term gains rate, rather than at the 15% rate that applies to most capital assets.

If the charity's use of the donated property is related to its tax-exempt purpose, you're also entitled to a charitable income tax deduction equal to the property's FMV — up to 30% of your adjusted gross income (AGI). Otherwise, your deduction may be limited to your cost basis (up to 50% of AGI).

If you donate a painting to a museum for display or to an art school for use in one of its classes, for example, the use is related to the charity's exempt purpose. If the charity sells the painting, however, it's not used for a related purpose, and your deduction may be limited to your basis.

If you give away your collection gradually and it continues to appreciate, your deductions will grow with each donation. Giving collectibles away gradually also can help you avoid losing deductions that exceed the 30%-of-AGI limit. Although excess deductions can be carried forward for up to five years, you may lose the deductions permanently if a work or collection is extremely valuable.

If you'd like to keep your collection together but aren't ready to completely give it up, you can give a fractional gift by donating an undivided percentage interest in your collection. For example, if you donate a 50% interest in your art collection to an art museum, the museum can display the art for six months each year, and you can deduct 50% of the collection's fair market value and also enjoy the art for the remaining six months of the year.

A bargain sale is another option to consider if you wish to give your collectibles to charity. If you sell appreciated property to a charity at a price lower than its FMV, you're allowed a charitable deduction for the difference between the sale price and the FMV.

You must allocate the property's cost basis between the gift element and the sale element, based on the FMV of each part. You'll recognize a taxable gain on the difference between the sale price and the cost basis allocated to the sale element, but you won't be taxed on the gain allocated to the gift element.

Gifting to heirs

If you wish to leave collectibles to your heirs, make specific bequests in your will or living trust. If you transfer collectibles through residual gifts — as part of the property that's left after other beneficiaries receive their bequests — the recipient may be faced with tax liabilities. For example, he or she could become accountable to the estate for taxes related to the piece.

You also can transfer collectibles to your loved ones during your life. Tax-advantaged ways include:

Annual exclusion gifts. Gifts of collectibles can qualify for the \$12,000 per beneficiary annual gift tax exclusion (\$24,000 per year for married couples). Collectibles you gift in this manner are entirely removed from your estate.

Lifetime gift tax exemption. If you've already used your annual exclusion for a particular beneficiary or want to make gifts in excess of the exclusion, you can use your \$1 million lifetime gift tax exemption (\$2 million for married couples) to make gifts of collectibles without incurring federal gift tax.

Art LLC or art partnership. You can place your art or other collectibles in a family limited liability company (an Art LLC). Even though it can be fairly complex, an Art LLC can be a convenient vehicle through which to manage and control a collection, regardless of who the owners of interests in the LLC might be.

And if you gift interests in the Art LLC to family members or trusts, an appraiser likely can apply discounts to reflect that the gifted LLC interest isn't readily marketable and doesn't permit the recipient to control the entity's affairs. Such discounts can reduce the gift tax cost on the transfer of the interest.

Devising your best plan

You have many options to consider when gifting your art or other collectibles to charities or loved ones, while enjoying significant tax savings for your estate. Be sure to explore these and other methods for transferring your valuable assets to determine the best technique for you.

What are my collectibles worth?

Follow these guidelines when having your collectibles appraised:

1. Assemble background information on each piece of property, including the sales receipt, details of how you acquired the piece, and the history of the piece.
2. Schedule an appraisal consultation with an accredited appraiser. Choose an appraiser who charges an hourly rate or flat fee. Reputable appraisers won't offer to sell your items for you or base fees on a percentage of an item's worth.
3. Request a report from your appraiser that gives a fair market value of your collection that complies with the latest IRS requirements. The appraisals should be performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP).
4. Keep your appraisal report with your other estate planning documents. Appraisal reports are recognized by courts as reliable testimony to the worth of your possessions.
5. Have your appraisal updated approximately every five years. Market conditions can change, potentially affecting the value of an item. A regularly updated appraisal can help an appraiser better determine what your possessions might be worth in the future or at the time of your death.

For more information, please contact us via phone or e-mail, or visit us on the World-Wide Web:

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