

THE BRIDIDGE GROUP



“Collectors and their advisors need an advocate who knows how to lift art and collectibles out of the estate planning process, and treat them with the special handling every collection deserves.”

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Have you asked yourself these questions? The answers can maximize the financial and philanthropic aspects of your collection.

1. Are you a collector or an accumulator of common objects? Do you understand the difference?
2. Do you know that without a comprehensive art succession plan the value of your art assets may be diminished, going forward, by 60-80%?
3. If you assume your kids will want your “stuff” or “will sort it out,” are you aware you may not be protecting this valuable asset from the IRS?
4. Do you understand the effect a large art inheritance will have on your children and grandchildren, and do you know how to avoid the family “art war”?
5. Do you understand that if a piece is “undeclared” and passed quietly to an heir (the “empty hook” approach) it will cause them serious tax and legal problems?
6. Do you know that you can take advantage of *current* tax laws, which allow you to reduce income tax and eliminate capital gains, as well as estate taxation on your art assets?
7. Do you understand the difference between estate planning and art succession planning, and how the answer can make or break your family art legacy?
8. Do you know that there are ways you can leverage/arbitrage your art holdings for the benefit of your favorite charities?
9. Do you know why proper documentation (including cost basis, proper title, provenance and a relatively current opinion of valuation for each piece) can increase the value of your art holdings?
10. Are you using a team approach when planning for your art assets?

“You need to develop a sense of stewardship, instead of ownership, to see the future your art holdings allow you.”

The High Cost of Denial: Why You Need to Plan

According to the Social Welfare Institute at Boston College, \$41trillion in assets will be passed inter-generationally by 2052. Of this, we estimate that \$6 trillion will be in art and antique assets. Yet, despite the vast amount of wealth in this area, collectors often fail to plan for their collections, and by not seeking succession advice, their assets are glossed over in the estate planning process. This lack of planning can end up costing you as much as 70% of the value of your collection upon your death if items are sold through traditional public sales channels without the proper planning.

The failure of the collecting community to contemplate art and antique assets is an odd phenomenon. The issue here is that financial advisors do not understand how these items need to be planned for. We have examined the data intake questionnaires of several of the top estate planning law firms in the United States and, without exception, there has not been a line inquiring about art, antiques, or collectibles.

On your end, the problem exists as well. There is a widespread reluctance among collectors to discuss these assets with their advisors. This sometimes happens because collectors do not view themselves as collectors. In other situations, collectors are reluctant to discuss these assets because they prefer to keep them under the radar screen due to “empty hook” estate planning that has gone on in previous generations. It also may be the case that collectors will believe that they have taken care of the disposition of the items in the collection because they have placed little stickers on the bottom of each piece indicating which family member should receive it at the time of their death. Failing to properly plan, with an art succession expert, will cause serious tax and financial problems for future generations.

Most collectors don't view their art or antiques as investments or as assets that have long-term financial value. Look at your own collection. Maybe you collect because you love the piece, not because you are looking to cash out. In fact, the very idea of selling a piece of your collection could feel like selling one of your children! Even if you don't view your collection as an investment, you have to become aware of the financial value of the collection, and how it can be used to create wealth for your loved ones or even cash for yourself. If properly planned for, your collection can become as good an investment as anything else you invest in. In fact, it may be better because you can enjoy the beauty of the art while it appreciates in value.

The Kids Will Love It and Other Delusional Justifications

As collectors, we often delude ourselves into thinking that our children appreciate the collection as much as we do. Frequently, however, our children do not want the collection; they want the cash the collection represents.

We have heard many collectors who do not want to deal with the urgencies of lifetime planning say, “I am just leaving it all to my kids and they can sort it out.” What these collectors are missing is two-fold. First, the kids may not want it. Secondly, even if they do want some or all of it, if the transfer is made as an outright bequest in the will or passes under the residuary clause, the kids may have to sell or liquidate all of the assets in order to pay the estate taxes due on the collection.

I have spent years advising collectors to start this conversation with their children. It is also one of the reasons I wrote my book, “Life is Short, Art is Long: Maximizing Estate Planning Strategies for Collectors of Art, Antiques and Collectibles.” Optimizing your collection will require some up-front planning on your part. But the trade-off is the wonderful feeling of knowing you can relax because you have a plan in place.

A Personal Note from Michael Mendelsohn

I, too, have been in denial, thinking that my children will share my love of collecting. Marni is my youngest child so she grew up living with our collection. She experienced the excitement as we acquired new things and our rooms were increasingly dominated by folk art. She was there when we had art-related events in our home to raise funds for charities. Her friends had to be instructed that they could not touch. We have taken her to museum openings and to shows at major museums that included our things. Marni is the one of our three children who had our collection as an active force in her life.

Several years ago, I asked Marni if she could choose any five things from our collection, what would she take with her? She went around the house, and about a half-hour later, came back with a list of five of the most important pieces in the way that Gael and I did. She clarified, however, that she chose these pieces because she'd make the most money when she sold them.

This was an incredible blow and an invaluable lesson to me that has affected the planning I have done for my own collection. The kids don't love the stuff the way we do. It's painful to accept, but sometimes it's just not their thing. They want the cash.

The lesson here is that you need to have a conversation with your children to determine if they want all or any specific pieces in the collection. If any of the children indicate that they want particular items, these preferences need to be included in the planning process. You will need to talk with your advisor about making the transfer in such a way that your children do not get clobbered with taxes, thereby taking all of the joy out of the gift.

You will also want to have a more general conversation with your kids about the collection. Have you told them how much the collection means to you, what you want to happen to it, who you want to have certain pieces, or where you want the collection to wind up? Have you told them how it should be sold, which dealers will know what it's worth, where the records and insurance papers are? Without this information, your kids won't know how to answer the attorney when he asks, "What should we do about your parent's art?" Even if your kids want the cash, not the collection, they should at least be prepared to make the right choice about disposing of it.

