



# North American Management

## Financial Planning Note

**Lea Ann Knight, CFP®**  
Director of Wealth Management

### ART & ANTIQUES IN YOUR ESTATE PLAN

For many of us, any fine art and antiques we've placed in our home are there to bring visual pleasure and perhaps remembrance of a certain person or point in time. When we sit at the desk inherited from a grandparent or gaze at the original oil painting on the wall, we don't necessarily think about its current monetary value. And therein lies the problem.

When was the last time you had your art or antiques appraised? Unlike your investments, you can't go online and see a daily value. And yet, when it comes to accurately portraying your net worth (and therefore, your estate), a potentially significant component of that may be incorrect.

There are two reasons you should get periodic appraisals of your art, antiques and collectibles: to make sure they are adequately insured against theft or damage, and to make sure the future distribution of your estate is handled appropriately. Both are discussed in more detail below.

#### **Insurance**

Most homeowner's policies will cover furnishings in the home, but many exclude fine art, antiques and collectibles without a special rider on the policy. Even then, there are likely to be deductibles and even exclusions, so an appraisal is critical to choosing an appropriate amount for the rider. After a certain dollar amount, however, it may make more sense to opt for specialized insurance separate from your homeowner's policy altogether. A specialty policy (often known as "Inland Marine" coverage) has broader coverage and usually insures not only for incidents in the home, but also protects the piece if it travels (to a second home, a museum, a storage facility, etc.). Over the years, specialty carriers have merged and consolidated, but three major companies with specialized art insurance divisions are Chubb, AIG and AXA. All three have professional appraisers and art experts on staff. Not only can these experts help with the appraisal process, but they can advise on the care, storage and transportation of your valuables.

When insuring these valuables, many insurance carriers will require an inventory with a description and current value. If an item has recently been purchased, a bill of sale will usually be sufficient to prove value. If an item was inherited or bought several years ago, an appraisal will be required. Insurance companies usually recommend getting an updated appraisal on the piece every five years. The American Society of Appraisers and the Appraisers Association of America test and certify professional appraisers if your insurance company does not have an appraiser on staff.

#### **Estate Plan**

When considering where your art goes after you're gone, there are usually two main options – giving it to charity or giving it to your family.

*Giving to Charity:* When considering giving away your collection, or even just a few pieces of it, to charity, the dilemma often becomes whether to do it in your lifetime or wait until after your death. There are some distinct tax advantages to donating your art to charity during your lifetime. It gets the value out of your taxable estate, and you will likely get an income tax deduction as well. If giving art to a museum, you will want to get a gift agreement in place beforehand. This ensures everyone is on the same page as to how the museum will maintain and display the piece. These agreements also cover any insurance requirements and whether you are willing to allow the piece to be loaned to another entity in the future. Another consideration when contemplating a lifetime gift to a museum would be the relative value of the collection as a whole versus breaking it up into individual pieces. This is where a current appraisal of both the pieces and the collection as a unit is helpful.

But what if you are not ready to give up your art? A lesser known option is to “share” the art with a chosen charity. For example, you can give a fractional interest in an individual piece that allows the museum to display it for a portion of the year, while you continue to enjoy it the rest of the time. You will get a charitable deduction for the fractional value. The IRS does, however, require that you gift the remaining interest no later than ten years after signing the original agreement, so this idea only works for those items you plan to give to a charity or museum anyway.

*Giving to Family:* Prefer to keep the collection in the family? Again, you will want to weigh the pros and cons of giving during your lifetime versus after your death. Like any other gift to family, you will be subject to gift and estate tax, unless you keep the gifting under the annual exclusion amount each year (currently \$14,000 per person). You will also want to consider the recipient’s potential plan for that art. What additional funds will they need to maintain and insure it? And if they need to sell it for any reason, they won’t receive the step up in basis that they would get at your death. This can result in a significant capital gains tax. The flip side to this, of course, is that you will be getting an appreciating asset out of your estate, which should reduce estate taxes at your death.

If you wait to parcel out your art to family members on your death, bear in mind that, unlike shares of stock, you can’t give “partial” pieces of a painting. Carefully crafted estate documents will need to be in place to ensure equitable distributions of your estate when art (or any non-liquid asset) is included in the distribution plans.

Some families have addressed this issue by establishing a family limited partnership or limited liability company (LLC). When art is gifted to the LLC, for instance, units can be issued to individual family members. Funds can also be gifted to the LLC for maintenance and storage, so that individuals do not have to worry. This mechanism has the advantage of keeping a collection together or simply keeping the art in the family without worrying about equitable divisions.

Whether you plan to give your valuables to charity or parcel them out to family members, knowing the current value will keep your insurance coverage up to date and help you create an accurate and equitable distribution plan. Again, getting appraisals every five years will help ensure your art collection becomes the legacy you desire.

### **North American Management**

Ten Post Office Square, Suite 1200S  
Boston, MA 02109  
Telephone: 617.695.2136  
Fax: 617.695.2121

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