

Accounting for Collections in your Estate Plan

When thinking about estate planning, people often focus on traditional assets such as real estate, retirement accounts and investment portfolios. But for many families, some of the most valuable — and complicated — assets are collections. Artwork, rare coins or stamps, vintage automobiles, sports memorabilia, and other collectibles can represent significant financial value as well as deep personal meaning. Properly accounting for these assets in your estate plan is essential to protecting both their worth and your legacy.

Start with a written inventory

One of the biggest mistakes collectors make is failing to maintain a written inventory of their collection. Unlike stocks or bank accounts, collectibles can be scattered across locations, stored privately or known only to the collector. Without proper documentation, heirs may not even realize the collection exists, let alone understand its value.

A thorough inventory should describe each item in detail and disclose the location. It should also include purchase dates, costs, provenance, certificates of authenticity and photographs.

The inventory should be updated regularly and shared with the estate's executor. A well-maintained inventory not only simplifies administration but also reduces the risk of loss, disputes among heirs or undervaluation.

Conduct periodic valuations

Collections aren't static assets. Their value can change significantly over time based on market trends, condition, rarity and collector demand. What was once a modest investment may become a six-figure asset — or vice versa. For this reason, periodic professional valuations are critical.

Up-to-date appraisals help ensure your estate plan reflects the true value of your collection. This is particularly important when allocating assets among heirs, funding trusts or determining whether an estate may be subject to estate tax. Valuations are also essential for insurance purposes and may be required at death to establish fair market value for tax reporting.

Working with qualified appraisers who specialize in your type of collection can help provide defensible valuations that stand up to IRS scrutiny if needed.

Understand the unique tax treatment of collectibles

From a tax perspective, collectibles generally are treated differently than most other long-term assets. Under federal tax law, long-term capital gains on collectibles generally are taxed at a maximum rate of 28%, which is higher than the 15% or 20% rate that applies to most stocks, bonds and real estate held long term.

This higher tax rate makes capital gains planning especially important for collectors. One key estate planning consideration is the step-up in basis at death. When a collectible is inherited, its tax basis is generally "stepped up" to its fair market value as of the owner's date of death. This can significantly reduce — or even eliminate — capital gains tax if heirs sell the asset.

Because collectibles may be subject to higher capital gains taxes during life, holding them until death rather than selling them may, in some cases, be more tax-efficient. However, this must be balanced against liquidity needs, estate tax exposure and personal goals.

Integrate collections into your estate plan

Finally, collections shouldn't be planned for in isolation. Consider how they fit into your broader estate plan. Do you want certain items to go to specific heirs? Should a collection be sold to provide liquidity for taxes or equalize inheritances? Is charitable giving an option, such as donating artwork to a museum? Contact your estate planning advisor to help ensure your collection is properly documented, valued and integrated into your estate plan.