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An Estate Plan for Your Treasures

Some Collectors Fail to Plan for Their Artworks and Other Prized Possessions

Howard and Linda Knohl are looking to donate much of their prized artworks and collectibles. *HOWARD AND LINDA KNOHL*

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Alex Cilento has assembled a 3,700-piece casino-chip collection—but can't find any family member who wants to take it.

The New York resident, who is 65 years old and childless, has been collecting the Las Vegas chips—which he estimates are worth as much as $500,000—for more than two decades. No one in his family has expressed any interest in his passion for Las Vegas history or chip collecting, he says. He also is afraid they would unwittingly sell them for far less than they are worth.

Collectors can spend a lifetime amassing things like baseball cards, comic books or even casino chips, as well as art. But they often pay too little attention to what will happen to their prized possessions after they die.

Collectors may hope their children will suddenly find a passion for all the stuff that cluttered their house when they were growing up. They may figure another collector will pay their heirs big bucks for it, or dream of donating it to a museum that will display it for posterity.

Consider what will happen to your collection when you die.

Without proper planning, though, their treasured possessions could wind up being dumped in a yard sale.

They also could miss out on tax savings, says Katherine Dean, managing director of wealth planning at Wells Fargo Private Bank in San Francisco.

Here are some steps collectors can take whether they decide to pass along, sell or donate their collections:

Passing it on. Collectors should make sure there is someone in their family who might be interested in their collections—and they also need to make sure that person can afford the upkeep, including insurance and storage, says Carol Kroch, managing director of wealth and philanthropic planning at Wilmington Trust in Wilmington, Del.

There are other considerations, Ms. Kroch says. If some family members, but not others, are interested, how does the collector compensate those who aren't receiving the collection? If everyone is interested in the collection, do you split it up? If so, does that affect its value? Finally, if no one can afford the costs of keeping the collection, can the collector afford to leave an endowment to maintain the collection?

To answer these questions, the collector would first need to have the collection appraised both as a single collection and as several smaller collections, to see what the impact on its value would be, Ms. Kroch says. The collector also would need to look into long-term storage and insurance costs, to decide how much of an endowment would be needed to cover those costs.

With that information in hand, the collector could then decide whether he or she has the liquidity or other assets to make similar-size gifts or bequests to the family members not receiving the collection and/or to provide for the long-term costs of maintaining the collection, she says.

People who want to pass on some of their collection while they still are alive could consider making annual gifts to start removing the value of the collectibles from the taxable estate, Ms. Dean says. (Individuals can make such gifts of up to $14,000 annually to anyone they wish without tax consequences.) To document these gifts, she recommends filing a gift-tax return even though no tax is due.

Individuals also may use part of their lifetime estate exemption ($5.34 million in 2014) to give larger gifts during their lifetimes without incurring gift tax. Filing a gift return is a must to document the gift, the value of the gift and the exclusion amount used up, Ms. Dean says.

Often, trusts are used to hold the collection, either during the collector's lifetime or transferred to a trust at death, says Tim Speiss, chairman of personal wealth advisers at EisnerAmper in New York.

Selling it. Some people simply choose to sell their collections. They first need to determine the collection's fair value, using an independent appraiser, Mr. Speiss says. Note that collectibles are taxed at the higher capital-gains rate of 28%, and the sale also may be subject to other costs, such as commissions and shipping.

Mr. Cilento plans to have his collection sold upon his death. He has identified a trusted chip dealer—and an alternate one—in his will.

The executor of his trust is to give the dealer all his casino-related items and allow 12 months for him to liquidate everything, take a fair commission and add the proceeds to Mr. Cilento's estate. He also has created a digital inventory of all his chips which includes their estimated value.

"I want to make things as easy as possible for my executor," he says.

Donating it. About three years ago, Howard Knohl and his wife, Linda, started to think about what would happen to their wide-ranging 80,000-piece collection after death.

The collection, which he estimates is worth many millions of dollars, includes everything from paintings, rare books and historical sheet music to clocks.

Mr. Knohl, who says he wants to donate about two-thirds of the collection, hopes a college or other institution will accept most of the vast collection.

He hasn't found a willing recipient yet. "It's time-consuming and very complicated," says Mr. Knohl, a radiologist.

Some of the institutions he has spoken with want only part of the collection. Others want a donation in addition to the actual objects to store and maintain the collection.

The 77-year-old Anaheim Hills, Calif., resident also is worried that if he donates the collection to a large institution, it won't make a big impact.

While he still is considering his options, he is hoping to have a plan in place in the next year or so.

It isn't always so easy for donors to find charities willing to take their collections, Wilmington Trust's Ms. Kroch says. Even if you find one, it might require an endowment fund to maintain the collection, she says.

If collectors want to make gifts during their lifetimes that would be deductible for income-tax purposes, they need to consider the value of the collection in light of their adjusted gross income, or AGI, she says.

Gifts of appreciated tangible personal property held more than a year and donated to a public charity are deductible in the year of the gift to the extent of up to 30% of the donor's AGI, and the unused deduction can be used for the next five years, subject to the 30% limit.

In addition, the charity must use the donated property for a related purpose or the donor won't be permitted a full fair-market-value deduction.

Donors will need to get the collection appraised to justify the charitable deduction and obtain a written acknowledgment of the donation from the charity.

They likely also will need a gift agreement to cover how the charity will use or display the collection and what will happen if the charity is no longer able to use it, Ms. Kroch says.