



MAKING CENTS

INSURANCE, TAX CONCERNS FOR COLLECTORS



-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®

When it comes to insurance, most people look for ways to keep their premiums as low as possible. But the smart money looks to pay as little as possible for the best coverage they can find.

Beyond the basics of most homeowner and auto policies is where you would look to cover valuables such as jewelry, art or other collectibles such as wine, signed memorabilia, stamps or baseball cards. Any collectible is subject to accidental damage or ruination from the elements.

Your typical homeowner's policy will often have very low limits for these collectibles and are not likely to compensate you for any significant appreciation that has occurred since you've acquired that valuable item.

If you own collectibles as a part of a trade or business activity, even if it is your "side job," it will raise an entirely different set

of issues relative to insurance protection. In this case, you would be wise to consider a separate business policy covering your inventory. Talk to a qualified agent about this activity even if you hold certain pieces for years before a sale.

Another issue taking a bite out of your collection of valuables is taxation. As you know, sales of collectibles that create a gain would require claiming that gain and paying taxes on the amount of the gain. Remember to factor in the potential taxes from the sale if you are planning to use those funds for retirement or other needs.

Beyond income taxes are death taxes. For larger collectors, the death tax could cause a real problem if the intent is for the collectibles to be passed on to friends and family. These valuable, but illiquid, assets would be taxed on their fair market value on the date of death. As of now, the estate tax threshold is slated to be \$1 million starting in 2011. That could put many moderate collectors in a situation where death taxes would be due and attributable to the collectibles.

*Any collectible is subject
to accidental damage
or ruination from the
elements.*

As for mitigation of the estate tax, you can give some of your collection to eager and interested beneficiaries during your lifetime. For offsetting the tax, you could buy a life insurance policy on your life in an irrevocable trust. This would create a tax-free pool of funds to pay the death taxes due upon your passing. This is often used for larger estates, but is frequently ignored by collectors.

To avoid paying any estate taxes on your valuables, you can give them to a charity now or upon your passing.

Collectibles can be fun, valuable and profitable, but make sure that you have the protection that you need.

Come visit our blog: www.MakingCentsBlog.com