



Avoiding an Art Collection “Fire Sale”

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Art collections have become an important asset for the wealthy; various surveys have indicated that, on a worldwide basis, a growing percentage of the net worth of ultra-high net worth families is invested in art and other collectibles. Art collectors and investors must incorporate these assets into their overall financial planning. Add to that the factors described below and the reader will understand how a “Fire Sale” could be the result unless careful planning takes place. Here are some key planning factors to consider.

Estate tax planning. Because art and collectibles may be the fastest appreciating component of an estate, their effect on the liquidity of the estate can be severe. Donating of the art to a museum, which is frequently contemplated, is not a simple matter. Many institutions already have excess items which they have no room to exhibit. Again, planning and discussions with potential institutions must take place well in advance of any planned gifts. Many other planning techniques may be considered to alleviate the tax and liquidity burden, including life insurance, gifting, and loans collateralized by the collection.

An illiquid market. The market for art and other collectibles is very different from that of publicly traded securities and other more traditional investments. Depending on the type of art and the concentration by artist of the portfolio, an estate may require months, if not years, to sell part or all of a collection. Further, prices may be subject to wide fluctuations based on a number of outside factors, including the reputation and popularity of the artist, the availability of the artists’ works for sale, general economic conditions, and when and where the art is shown for sale.

Establishing authenticity. This is a buyer beware market. Collectors must be sure to conduct careful due diligence to try to establish the authenticity of a painting. The difficulty of this cannot be overemphasized. Until recently, artist endowed foundations would authenticate contemporary art. Due to a number of lawsuits and the difficulty of distinguishing an original from a copy, authentication by an artist endowed foundation is now rare. The completeness of the provenance and the viewing of the work by experts therefore becomes much more important.

Keeping the art for future generations. Does the next generation of the family have any interest in maintaining any or all parts of the collection? If not, the sooner an orderly plan of disposal is started the better. If there is an interest by the next generation in inheriting and maintain part or all of the collection, the resulting estate tax cash requirements will need to be considered in the overall estate plan.



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