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PEAPACK PRIVATE

Wealth Management

Planning issues arise at every stage of life. Each quarter, we'll take a deep dive into issues our clients find meaningful. This issue focuses on changes to your overall finances, both internal and external. Please reach out to your primary wealth advisor or to our authors with your questions or ideas for future articles. Our guidance can help you achieve your financial goals.

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Behavioral Finance

Jean McAllister, CFP®

We all yearned for the end of 2020, and here we are in 2021. Happy New Year! While the COVID-19 pandemic took center stage, there were several sub-plots to the drama that was 2020; including economic, political and social turmoil. Many investors were gripped by the constant news flow and some fell victim to the script.

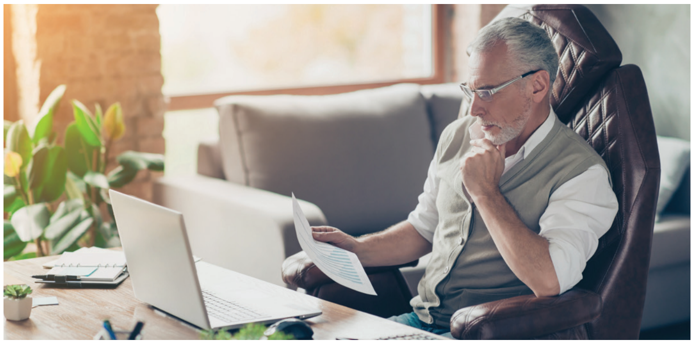
As we begin 2021, the drama continues. Now would be a good time to take stock of how prepared we are as investors to stay the course or reposition our resources to provide for a successful financial future. Honest reflection should include how the events of 2020 impacted our decisions about saving and investing and whether those decisions were made wisely.

There is an entire field of study, behavioral finance, which seeks to better understand the influence of psychology on the behavior of investors. A basic fact of behavioral finance is that investors do not always behave in a rational, controlled way. As humans, we are influenced by our own biases which can lead to bad decision making. These biases fall into four general categories: thinking we know more than we do; inaccurate processing of information; emotional influences and the influence of "others". See if you don't recognize yourself in some of the more commonly observed biases:

- **Overconfidence bias** – a false self-assessment of our individual talent and skill level which can lead to a deficit of caution or the illusion of knowledge, for example, ignoring expert advice or failing to seek expert advice about investing.

- **Anchoring bias** – when investors rely too much on initial information and fail to adjust their thought process to accommodate new information. Holding a favorite stock find, confident that it will deliver a high return, despite new information that negatively impacts the company's market value or industry prospects. This is related to Loss Aversion (below).

- **Recency bias** – the tendency for investors to put too much emphasis on recent events, thinking they will extend into the future, for example, market timing your investments – either investing at the top of the market or pulling money out after a sharp downturn, believing the market direction will continue.



- **Loss Aversion** – when the fear of financial loss overwhelms the desire for gain. Examples are investing solely in low return investments, avoiding higher risk/ higher reward securities or holding onto an investment that has lost value despite all facts indicating the loss is irreversible.

- **Herd Mentality** – the tendency for investors to follow what other investors are doing, influenced by emotion and instinct rather than by independent analysis, for example, buying this year's "hot stock" because everyone else is and not considering the possibility that it has become over-valued (and poised for a correction).

Reviewing the political, social and economic upheaval of the past year, it is not surprising that advisors fielded several inquiries borne of these biases. Did you think about going to cash in the last twelve months – or trimming your equity allocation? Did you keep money out of the market, fearing you would invest at precisely the wrong time? Conversely, do today's low interest rates tempt you to increase your equity position in search of higher returns? It is easy to see how investors can make decisions that take them off a carefully planned path.

While we are all vulnerable to our emotions, there are ways to overcome negative behavioral tendencies. If you're reading this, it is likely you are working with investment and financial advisors – or are seriously considering doing so.

Work closely with your advisors - actively engage in discussions about your portfolio and be sure you understand their process for investing and planning. Carefully consider how risk averse you may be – a good investment advisor will discuss this at length. Finally, never be afraid to ask questions when you need to.

A seasoned investment professional can attest to the wisdom of making investment decisions based on rational analysis. While it is not possible to remove the human element from investment decision making, it is possible to invite more humans to the table.

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Financial Resolutions for the New Year

Jodi A. Cirignano, MBA, CFP™, CPA

Many of us are happy to welcome in the new year of 2021 with the hope of brighter days ahead. A new year is the perfect time to review our financial goals, check our progress toward achieving these goals, and take action to strengthen our financial position. To get your finances off to a great start in 2021, we suggest taking the following actions:

- Pay yourself first and set aside a percentage of your income for investment and savings. This should include optimizing contributions to retirement accounts such as 401k plans and/or IRAs. For 401ks and IRAs, the maximum contribution amount in 2021 is $19,500 and $6,000, respectively. If you are age 50 or older, these limits increase to $26,000 and $7,000. If your budget doesn't allow you to contribute the maximum amount, give your hard-working retirement account a raise in 2021 by increasing your contribution percentage.

- Build a cash reserve. One of 2020's lessons was the importance of having a cash reserve to offset lost income, help family members, or even retain the confidence to stay invested when equity markets were volatile. In addition to maintaining 6 to 12 months of living, your cash reserve should include funds for any near-term expenses such as a new car purchase or college tuition payments.

- Reevaluate your spending and see if some of the cuts you made in 2020 can become permanent to free up more dollars for saving and/or paying off debt.

- Optimize your contributions into a health savings account (HSA) if you are enrolled in a high deductible health insurance plan. HSA contributions, earnings and withdrawals are tax-free if used for qualifying medial expenses. Unlike flexible spending accounts, the HSA is not a "use-it-or-lose it account." Unused funds can be carried over from year to year, and the account remains yours if you change jobs or retire. In 2021, the HSA contribution limits for individuals and families are $3,600 and $7,200, respectively. Those age 55 or older can contribute an additional $1,000.

- Consider contributing to a teenager's or young adult's Roth IRA to make a gift that keeps on giving. Roth contributions are made with after-tax dollars, but a Roth IRA account grows tax-free and, if certain conditions are met, distributions are tax-free. The longer a Roth IRA has to grow, the better the results. Small contributions to a young person's Roth account can grow substantially over the decades ahead. While the young person needs to have earned income to be eligible for a Roth IRA, a parent, grandparent or anyone else can gift the dollars for the contribution. Offering to match your young adult's Roth contributions is a great way to instill the savings habit.

- Review your charitable giving goals and create a game plan early in the new year. Many philanthropic individuals can better optimize the impact of their giving and financial situation by planning ahead and selecting the most appropriate gifting vehicle. Here are a few examples:

  - Individuals age 70 ½ and older can reduce their taxable income up to $100,000 a year by making a qualified charitable distribution (QCD) to a public charity. A QCD is the direct transfer of dollars from your IRA to charity. A QCD could be better strategy than making a tax-deductible contribution because a charitable deduction is not available to taxpayers who do not itemize their deductions. Additionally, by reducing your income through a QCD, you may to reduce other taxes such as the Medicare surtax on investment income and income-based Medicare premiums. (Note: For those considering smaller charitable donations, Congress did extend and expand the charitable write-off for those who take the standard deduction instead of itemizing on Schedule A. A deduction of $300 and $600 is available to single and married joint filers in 2021).

  - For those charitable individuals who cannot make a QCD, consider combining contributions that would typically be made over several years into a single tax year. "Bunching" charitable contributions in a single tax year (combined with other tax deductible items such as state and local income taxes and mortgage interest) will increase the likelihood of exceeding the standard deduction ($12,550 for individuals, $25,100 for married filing jointly, with an additional $1,700 or $2,700 for seniors) and realizing a tax benefit.

- Review your insurance portfolio to ensure adequate coverage to safeguard your family, protect your financial position, and prepare for the unexpected. Many of us are saving/investing to meet specific financial goals, and the appropriate insurance can help us keep our goals on track should an unforeseen financial loss occur. Each family's and individual's financial situation and risk profile is unique and the types and amounts of coverage needed will differ. Needs evolve over time, so it's not only important to review existing coverage at the time of the annual policy renewal, but to determine if different coverages are needed.

  For example, if you don't already have excess liability insurance (also known as umbrella coverage), talk to your financial advisor and insurance agent about obtaining this coverage and the appropriate level of insurance for you. This insurance provides an extra layer of protection against large personal liability claims by paying claims in excess of the liability limits on your auto and homeowner's policies. For example, if an injured party in an auto accident is awarded a $1 million judgment and your auto liability limit is $500 thousand, an excess liability insurance policy may cover the difference. This coverage is inexpensive relative to the amount of financial protection and peace of mind offered.

- Review your wealth transfer plan to determine if it is consistent with your wishes and needs. As your review your plan, consider the following: have there been any changes to our family or financial situation? Have we moved to another state since our plan was created? Are the executors, trustees and attorneys-in-fact still appropriate? Are the beneficiary designations for our retirement plans are still appropriate?

Taking these steps can help improve your financial position and enjoy the peace of mind that comes with having a plan in place.

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Joe Biden, Taxes, and You

Claire E. Toth, JD, MLT, CFP™

We enter the Biden presidency with a narrow Democratic majority in Congress, giving the new president very little room to maneuver. Those who feared their tax bills would double effective January 1 should breathe easier—that is almost uncertain to happen. Still, President Biden has touted his ability to work across the aisle, so tax legislation is possible.

Most provisions of the 2017 Tax Act are due to expire after 2025, so tax changes are scheduled to come regardless. Stepping back from that, the unprecedented government spending in response to the Covid-19 epidemic means Congress will have to raise revenue somehow, someday.

With all that in mind, Biden has put forth—in very general terms—some proposals to raise taxes on higher-income taxpayers and to provide tax incentives to those lower down. Others have floated separate proposals. Often tax proposals take years to become law, so some of the following may be enacted sometime.

Biden Proposals: The Big Picture.

Following the 2017 tax act, the effective tax rate on those with million-dollar annual incomes was less than that on the lower fifty percent of taxpayers.[1] The Biden tax plan doesn't directly repeal the 2017 law. Instead, it focuses on increasing specific taxes on high earners. Most of these apply at annual incomes of $400,000 or more; some kick in at the $1 million level.

Proposal One: Rejigger Social Security Taxes.

Social Security tax of 6.2% comes out of the first $142,800 (for 2021) of earned income, with the employer paying a matching 6.2%. That wage cutoff effectively drops the tax rate on higher earners by 6.2%; it also means lower income workers often pay more in Social Security taxes than income taxes.

The Biden plan restores the Social Security tax at earned income above $400,000. This would create a donut, where the wages of the wealthy (but not wealthiest) workers remain partially exempt from Social Security, just as they are today. It would also inject some additional funds into shoring up Social Security. Note that the current Social Security salary cap is inflation adjusted. The $400,000 restoration level would not be. Thus, the donut would shrink a bit annually.

The additional Social Security tax would be imposed worker by worker. An employed married couple where each earns less than $400,000 would not be subject to this tax, even if together they exceeded $400,000. It is unclear how—if at all—the employer's 6.2% comes into play here.

Of the Biden tax proposals, this is the one absolutely requiring sixty votes in the Senate to be enacted. For that reason alone, it is unlikely to move forward.

[1] Newsweek, October 19, 2019

Proposal Two: Equalize Taxes on Earned and Unearned Income.

Under a progressive tax code, the more income you have, the higher the marginal rate on the next dollar of income you make. However, the highest tax rate on ordinary income is 37 percent, whereas the highest tax on qualified dividends and capital gains is 20 percent. This means that the greater proportion of your total income from those dividends and capital gains, the lower your overall tax rate may be. This has been borne out by recent tax filing statistics. In 2017, those reporting income of $2-$5 million paid 27.8 percent of their income in federal taxes. Those reporting income of $5-10 million paid 27.4 percent, those reporting more than $10 million paid 24.3 percent.[2]

For decades, some tax policy wonks have argued that the rate differential between ordinary income and capital gains creates distortions in investments and consumes legal and accounting resources better spent elsewhere. Consistent with this analysis, the Biden tax proposal would eliminate the rate distinction between earned income and dividends/capital gains for those making $1 million per year or more. The plan would also raise the top tax rate back to its pre-2017 rate of 39.6 percent; it is already due to move back there in 2026. The combination could effectively double the marginal tax rate on millionaires.

Proposal Three: Limit the Value of Itemized Deductions and Tax Expenditures.

The 2017 tax law drastically reduced the number of taxpayers who itemize deductions by doubling the standard deduction, limiting to $10,000 the amount of state and local taxes included in itemized deductions, and reducing the cap on deductible mortgage interest. It also eliminated several deductible expenses altogether. Unrestricted itemized deductions are basically limited to charitable gifts and investment interest.

The Biden plan would limit the value of itemized deductions to 28 percent of income, even if the taxpayer is in a higher bracket. It would also bring back the Pease limitation. For every three dollars of income above $400,000, taxpayers would lose one dollar of itemized deductions. A taxpayer with income of $700,000 would see itemized deductions cut by $100,000. These provisions would force more taxpayers into taking the standard deduction.

There are also proposals—not fleshed out—to limit the value of so-called tax expenditures for higher income taxpayers. These include the income exclusion for employer-paid health insurance, the tax benefits of retirement and college savings plans, the aforementioned capital gains preference, and others. The Congressional Budget Office has calculated that over the past decade, these tax expenditures resulted in $12 trillion of lost tax revenue. They almost entirely favor the wealthy—nearly 60 percent of them go to the top 20 percent of income earners, and almost a quarter go to the top one percent.[3]

Proposal Four: Reduce Estate Tax Exemptions and Eliminate Basis Step-Up.

The 2017 Tax Act doubled the amount each person can leave at death before paying estate tax. That amount currently stands at $11.7 million—a married couple has twice the exemption. The exemption is scheduled to be halved come 2026. The Biden plan would reduce the exemption, to its 2009 level of $3.5 million per person. In 2009, 2.4 million Americans died, and 5,700 taxable estate tax returns were filed[4], compared to 2.8 million deaths and 1,900 taxable estate tax returns in 2018.[5] Even if reducing the exemption amount doubled the number of taxable returns filed from 2009, fewer than half of one percent of all estates would be taxable.

Today, most taxable assets receive a basis step up at death, to fair market value. The step up allows heirs to sell what had been highly appreciated assets at little or no tax cost. This tax benefit goes overwhelmingly to the wealthiest families. Depending on the version you read, Biden's plan would either eliminate the basis step up or tax those unrealized capital gains at death—the former iteration is the more workable. It is unclear how extensively this will apply. For example, will some dollar amount of assets get a stepped-up cost basis and only the excess above that threshold not? Others have offered that proposal.

Eliminating the basis step up at death was tried once before, in the mid-1970s. It was a resounding failure, largely because records of original cost basis were few and far between. Since then, technology has solved much of that problem. For instance, for the past decade brokerage firms have been required to track and report securities' cost basis.

[2] Marketwatch, July 16, 2020. Note the distinction between marginal tax rate—the percentage tax you'll pay on your next dollar of income—and effective tax rate—the percentage of your total income you pay as taxes.

[3] Center on Policy and Budget Priorities.

[4] Internal Revenue Service, Statistics of Income, "Estate Tax Year of Death Tables."

[5] Urban-Brookings Tax Policy Microsimulations Model

Proposal Five: Expand Tax Benefits for Middle and Moderate Incomes.

The Biden plan would direct some of the extra Social Security taxes collected to provide enhanced benefits to low-income seniors. Forty-three percent of unmarried seniors (largely female) rely on Social Security for 90 percent or more of their income[6], so increased benefits would have a significant impact. The plan would also expand the Earned Income Tax Credit to cover these seniors and create a new credit for their unpaid caregivers.

Further, Biden has proposed increasing the Child and Dependent Care Tax Credit from $2,000 to $3,600 and the Dependent Care Credit from $3,000 to $8,000. Both of these credits would be at least partially refundable. This means those with little or no tax to pay could receive the credits as direct payments from the government. Other proposals would benefit first time homebuyers and those buying health insurance on public exchanges.

If all the Biden tax proposals were to be enacted—they will not be—families making less than $160,000 or less could see their tax bills drop from $500-$1,000. Those making between $500,000 and $1 million could see an average increase of 2.4% in total taxes. Those making $1 million or more would see that largest increase—perhaps as much as 16%

Not Proposed (Yet) Financial Transactions Tax.

Some Democrats, including Michael Bloomberg during his brief presidential run, have proposed a small tax on every security sale and purchase. It could work out to $10 on a $10,000 transaction, for instance. Proponents estimate it could raise almost $800 billion over ten years. They also claim it would be progressive, voluntary, and discourage short-term trading. Watch to see if the Biden administration picks up on this proposal.

Secure Act II—Possible Changes to Retirement Plans.

The top Democrat and Republican on the House tax-writing committee recently introduced SECURE Act II. Attached to the right legislative vehicle, some version of this will likely become law. The SECURE Act, effective last year, raised from 70-1/2 to 72 the age at which retirement plan (including IRA) owners must begin taking distributions. SECURE II would further increase that age, to 75, and would eliminate the requirement altogether for those with total retirement plan balances of $100,000 or less.

Those aged 50 and over can make "catch-up" contributions to employer retirement plans. This year, the catch up contribution amount for 401k plans is $6,500 SECURE II would leave that amount in place for those ages 50-59 and boost it to $10,000 for those 60 and over. As this legislation makes its way through Congress, we'll bring you further analysis.

[6] National Council on Aging.

A Matter of Trust

Gregory D. Sawicki, CFP™, CPA, PFS

In 1986, musical artist Billy Joel released a song titled "A Matter of Trust" in which he proclaimed that the key to a long-term relationship is Trust. A "Trust," from a legal standpoint, is also a relationship among several different parties. Trusts have existed since Roman times, but it was not until 12th and 13th century English common law that the system was more formally developed. At the time when a landowner left England to fight in the Crusades, he would shift the ownership and management responsibilities over to someone else with the understanding that the ownership would be given back upon his return. In this example, the Crusader was equivalent to a modern day "creator" of the trust, and also the "beneficiary," while the trusted person was the "trustee".

Trust Defined and the Parties Involved

A trust, in simple terms, is a legal entity involving at least three parties that holds assets for the benefit of another. The power of a trust is in its versatility as a trust can be used to accomplish many goals. Legal powers of a trust are defined by state law and the terms of the trust are detailed in a legal document called a trust agreement.

The first party involved is the person who creates the trust, known as a grantor, trustor, settlor, or creator. The grantor names a person, multiple people, or even entities that will benefit from the trust. These are known as the beneficiaries. The beneficiaries are often one's loved ones, but they can also frequently be an entity like a charity. In certain types of trusts, you can even name yourself as the beneficiary. There also can be different beneficiaries over time (primary, contingent, or successor beneficiaries). These various beneficiaries can be designated to receive different types of distributions triggered by time or other life events. Two examples of this are income beneficiaries who receive only the income from a trust's assets and remainder beneficiaries who receive only what is left after the income beneficiaries pass away.

The final party that must be included in any trust agreement is called a trustee. The trustee is a very important role because they have legal title to property in the trust and must manage the property according to the terms of the trust agreement and state law. The trustee is a fiduciary who is obligated to manage the trust in the best interests of the beneficiaries. Depending on the purpose of the trust, you can name yourself, another person, or an institution, such as a bank, to be the trustee or trustees. Trustees can also change over time.

There can be other parties involved in a trust arrangement, but the grantor, beneficiary, and trustee are the three that must be named in every trust document.

Why Create a Trust?

Because trusts are such versatile legal entities, they can be used for many purposes with two of the most common uses involving estate planning and asset protection. More specifically, trusts are often used to:

- Avoid the expenses and delay of probate (assets held in a Trust are not subject to probate). Also, a will, once admitted to probate, is a public record. A trust agreement is private.
- Preserve assets for your children until they are grown and/or provide income and access to a surviving spouse
- Create a legacy in your name to a charity while providing for you and your family during your life
- Plan for your own support in the event of incapacity
- Protect assets from your creditors and/or the creditors of your heirs
- Minimize estate taxes through tax efficient planning and distribution of wealth

These are just a few of the very many possible uses of a trust.

Of course, to achieve the benefits of a trust, there are some consequences you should carefully consider. Trusts have fees associated with them to set up and maintain. There could be professional fees for establishing the trust agreement and the recurring services of a trustee. Some trusts also have their own tax filings. Depending on the type of trust and its goal, you may have to give up some control, or all control, over the assets placed into the trust. Finally, there may be income tax considerations because some trusts have their own tax rates that may be higher than if the assets were just held personally.

Common Types of Trusts

One very common type of trust is called a Revocable Living Trust. Property that passes through a living trust is not subject to probate, allowing for estate settlement efficiency and privacy. Living trusts are also attractive because you maintain control of your assets, they can be changed or even terminated at any time while you are living, and they don't require a separate income tax return while you are living (the income generated by the trust's assets is included on your income tax return). However, assets in living trusts are not protected from creditors and are subject to estate taxes when you die (a living trust can no longer be amended or revoked after death). If the terms of your Revocable Living Trust provide that after your death the assets continue to be held in trust for your beneficiaries, your Revocable Living Trust becomes a type of Irrevocable Trust.

You can also create an Irrevocable Trust during your lifetime. An irrevocable trust created during your lifetime will have much more rigidity in changing or dissolving it once created. You generally can't remove assets or change the beneficiaries and trust terms of this type of trust. Still irrevocable trusts created during your lifetime are powerful estate planning tools. Assets transferred to an irrevocable trust are no longer considered held by you (so they are not part of your estate when you die). This includes all future appreciation on the assets. Like revocable trusts, property transferred to your beneficiaries via irrevocable trust also avoid probate. This type of trust may also protect your assets from the claims of creditors.

Trusts can also be established by your will upon your passing. These are called Testamentary Trusts. When your will is probated, selected assets "pour over" into the trust. From that point on, these trusts operate very much like the other trusts described.

Because you tell your lawyer how to draft the trust terms, whether it's a trust created during your lifetime, or a trust established under your will, the trust gives you a certain amount of control over how the assets are managed and distributed, even after your death.

Conclusion

The above are some of the most common types of trusts. There are many more specific types of trusts. The type of trust used and the mechanics of its operation will differ depending on the objective. Your estate plan may even require the use of multiple trusts. A discussion with your attorney and financial professionals regarding goals should be held prior to creating and funding any trust.

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How does your Collection fit into your Estate Plan?

Cynthia Aiken, MBA, CFP™

The recent death of self-made real estate billionaire, Sheldon Solow, prompts the question of how his heirs will handle one of the finest 20th century art collections. Amassed over five decades, Solow's collection may be worth as much as $500 million and spans a wide range of pieces including paintings by van Gogh, Matisse and Modigliani, Egyptian antiquities, Miro bronzes and a Botticelli masterpiece. His widow and son are considering establishing a private museum or selling parts of the collection. His heirs have emotional, financial and tax-related issues to consider.

If you are a collector, you understand Solow's passion for accumulating items that are meaningful and often valuable. It is likely that you have spent significant time and money (maybe not quite $500 million) developing your collection. Depending on your interests, you may have one or several collectible categories: postmodern art, vintage cars or mid-century furniture, just to name a few.

Your collection – also known as "passion investments" - reflects your personal taste, interests and deep knowledge of your subject and may be an important personal expression. However, have you treated your collection as an important asset in your financial portfolio?

Although your collection is meaningful to you personally and may be very valuable, it could be a thorny problem for the executor of your estate and your heirs.

Many legal, financial and tax advisors do not include collections in their client planning, often because of the complexity related to valuing and distributing private collections. Although your collection is meaningful to you personally and may be very valuable, it could be a thorny problem for the executor of your estate and your heirs.

If you overlook estate planning for your collection, the result could be reduction in value of the collection, its dismantling, estate or income tax consequences, or unintended family strife over how to handle your beloved collection fairly. Here are some points to consider as you start planning for your collection as part of your estate.

Estate planning for your collection -

For estate planning purposes, a collection is defined as a group of items that have value due to their quality, age, historical importance, unique nature or market demand.

Have you discussed your collection with your heirs? This may be a delicate discussion, but it is best to avoid surprises when your Will is read. By talking to your heirs now, you may get an indication of whether they will want to keep the collection or hope to eventually sell it. Do your heirs want to keep certain pieces and plan to sell the rest? This information can help you determine the best way to distribute the collection fairly to multiple heirs, especially if there are items of vastly different values.

Perhaps you want to give some items to family members during your lifetime. "Face to face" giving can be very satisfying. However, you should consider the tax consequences of your gifts. If you give items valued at less than $15,000 in one year, you may avoid having to file a gift tax return. Alternatively, larger gifts will count toward your lifetime estate and gift tax exclusion, which is currently $11.7 million per individual.

If you want to keep the collection intact, it could be transferred to a trust that you create while living. This estate planning tool would allow the trust beneficiaries to avoid estate tax and probate complications and fees. Alternatively, you could bequest the collection to a Limited Liability Company (LLC) that you create, in which your heirs would own interest. You should discuss gifting strategies with your estate attorney.

Perhaps you want to leave your collection to your family's next generation, particularly if the collection is connected to family history. Such a collection could include antique furniture, books or family papers. You may see this as passing along the stewardship of a family legacy.

If you don't plan to pass your collection to your heirs, you should consider planning strategies such as selling the collection (either during your lifetime or at your death), using the collection to fund charitable intentions, making lifetime gifts or shifting highly appreciated pieces outside of your taxable estate. If your intention is to have the collection sold after your death, keep in mind that it will be included in your estate.

Many serious collectors make the difficult decision to sell their collection rather than leave it to their heirs. This can be particularly true if they feel the collection will be a financial or logistical burden for their heirs.

If considering the sale of your collection, is the collection more valuable sold as an entire collection or sold as separate pieces? If pieces were purchased many years earlier, they may have appreciated significantly in value. Sales of collectibles have a taxable capital gains rate of 28% versus the maximum capital gains rate of 20% on financial assets.

Are you hoping to donate your collection or items to a charity or museum? Although this is a wonderful way to share your collection, not all charities will accept a donation in this form. It is helpful to have a planning conversation with the institution to understand their policies. Before finalizing your donation, compare the tax benefits of making a lifetime gift versus a transfer-at-death gift. You may be eligible for a charitable income tax deduction; however, you should seek specific legal and tax advice.

Other charitable institutions besides museums could benefit from your collection. For example, you could donate your collection to a food bank, but you would only receive a charitable deduction for the collection's cost basis. Alternatively, you could sell the collection and donate the proceeds directly to charity, which would enable you to take the full fair market value as a charitable deduction. Please consult your legal and tax advisors on these issues.

Inventory, appraisal and insurance of your collection -

Whether you decide to pass down your collection to your family, donate or sell it, it is important to maintain an accurate and complete inventory. A complete inventory will facilitate tracking the provenance of each item and valuing items for future appraisals or sales. It is also wise to maintain a list of trustworthy dealers and appraisers.

A good inventory should include:

- Dates for purchases or sales and by and to whom
- Records of loans or gifts
- Appraisals and insurance records
- Damage and loss records

Professional appraisals of your collection help determine the Fair Market Value (FMV) - the price an educated buyer is willing to pay, and an educated seller is willing to accept. You will need to know your collection's FMV to determine estate and gift taxes, just as you would with other assets. Also, if you decide to gift a part of your collection valued at more than $5,000, you must substantiate the value with a professional appraisal by a qualified appraiser.

Is your collection properly insured? Theft or accidents can happen. There are several ways to insure your collection:

- Include items in your homeowner's insurance as part of home contents
- Ask your insurer to write a separate insurance schedule for your collection
- Purchase blanket coverage insuring the collection along with other personal assets

Consider using an insurance company specializing in artwork and collectibles. The insurance company will need an appraisal of the collection when the insurance is underwritten and every five years thereafter.

Start planning for your collection -

Although your collection may not be of the magnitude of Sheldon Solow's collection, it can be a very complex asset that requires specialized planning. By establishing an appropriate succession plan - supported by inventories, appraisals, insurance and a legal framework to gift, sell or donate your collection – you will have confidence that the ultimate disposition of your collection will follow your wishes.

Please contact Cindy at (908) 864-3992 or caiken@pgbank.com with any questions.