

DE TRUST CONFERENCE 2017

*The Price is Right:
Managing Inherited Art and Other Collectibles within a Trust*

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Overall Market Growth

- Global Art market - **\$20 billion in 2003 to \$56 billion in 2016**
- Increase in total art sales of 60% between 2009 and 2013, despite financial crisis of 2008-2009

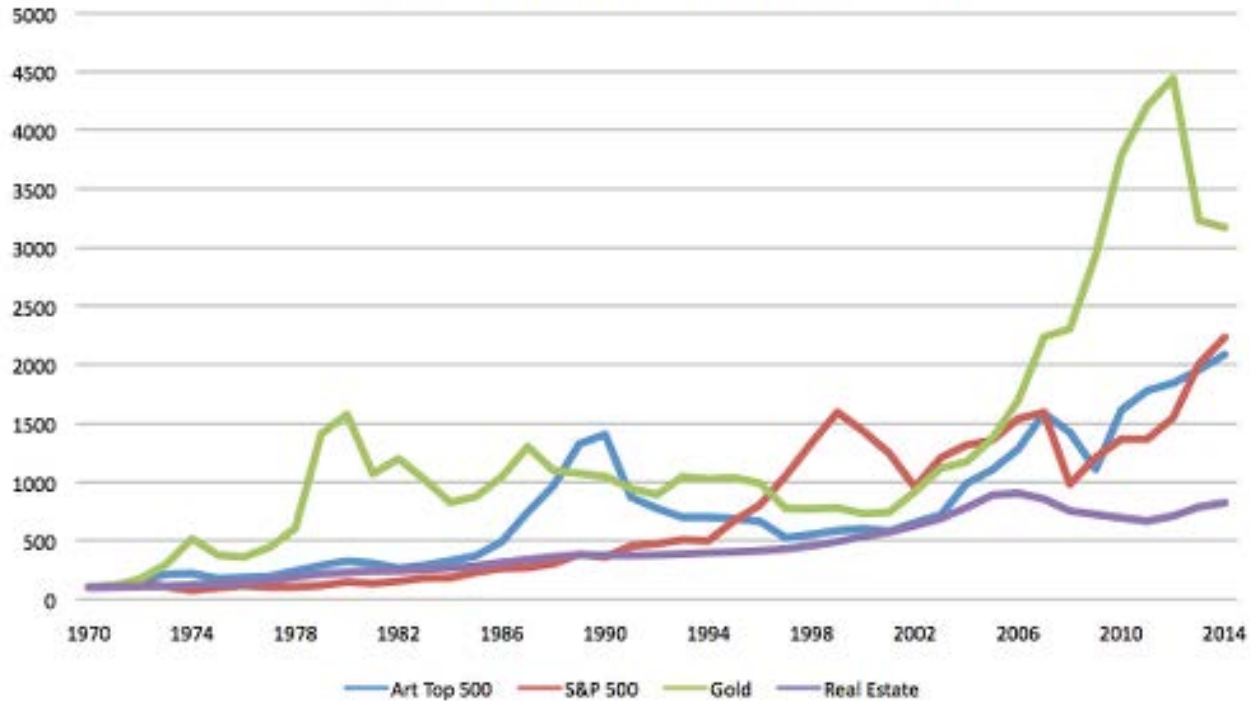
Figure 1. Christie's and Sotheby's auction sales (in millions US\$) by category 2000-2015



Source: Artfact

Art as an Asset Class

Art as an Alternative Asset Class, 1970 - 2014



2016 Art Market Stats

- Sales at auction of works valued >\$1 M increased 73% 2006-2016
- Post War/Contemporary produced 52% of sales by value; Modern 43%
- Chinese auction totals increased to 34% vs US 32% vs UK 18% by value
- US still in the lead for overall sales (see next slide)
- Dealers accounted for 57% of the art market trades; auction 43%, movement away from auction
- 41% of dealers' sales made at Art Fairs
- Online sales \$4.9 billion
- Auction sales \$22.9 billion
- Dealer sales \$32.5 billion

How to Protect Works of Art as Assets:

General Concerns for Protecting Works of Art

Proper handling, displaying and storage is critical to the preservation of art:

1. Environmental conditions (Temp/RH)
2. Air Quality
3. Exposure to light
4. Security
5. Handling
6. Shock/Vibration
7. Pests
8. Protection from hazards (water, fire, earthquakes, etc)
9. Collections Management

Environmental Conditions: Temperature and Relative Humidity

Type of Object	%RH	Degrees in Farenheit
Furniture	45 - 55%	68 - 72°
Paintings and Paper		
Textiles		
Objects		

Mode	Effect
Dimensional Change	warping, dislocation of joints, splitting, breaking of fibers, delamination, loss of surface material, cracking
Chemical Reaction	corrosion of metals, fading of dyes, weeping or crizzling glass (clouding), cystallization and movement of salts, disintegration and yellowing of paper
Biodeterioration	mold growth (RH 70% or above), bacteria

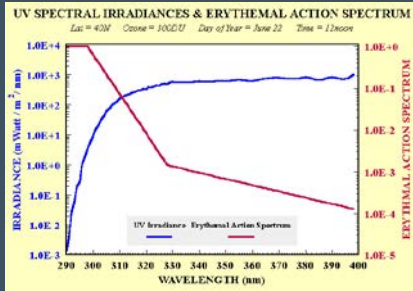
AIR QUALITY



LEIBERT HVAC

- **PRECISION COOLING/HEATING**
 - +/- 2 DEGREES
- **HUMIDITY CONTROLLED**
 - +/- 3 % RH
- **CARBON FILTRATION**
 - Removes off-gassing and particulate

Exposure to Light; Maximum Exposure and UV Exposure



No exposure to UV rays, via blocking/filtering

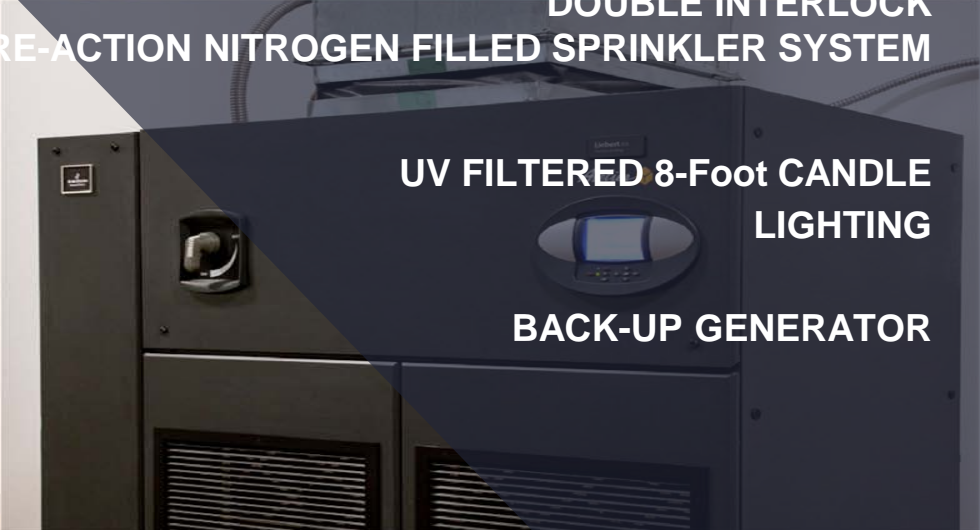
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DELAWARE
FEATURES

Mechanically and Technologically Advanced

DOUBLE INTERLOCK
PRE-ACTION NITROGEN FILLED SPRINKLER SYSTEM



UV FILTERED 8-Foot CANDLE
LIGHTING

BACK-UP GENERATOR





CUSTOM PACKING OPTIONS

TRANSPORTATION ENVIRONMENT & SECURITY

THE *ULTIMATE CUSTOM EXPERIENCE*
FEATURING



24 HOUR ROADSIDE REDUNDANCY



ALARM SYSTEMS



CLIMATE CONTROLLED AIR RIDE



GPS TRACKING



SHOCK ABSORPTION

Shock stability/Abrasion resistance

Proper Foam
Air Ride Vehicles
Proper Handling
Crated vs uncrated

DELAWARE FEATURES

VIEWING ROOM

FULL SPECTRUM LIGHTING WITH GALLERY ATMOSPHERE



DELAWARE FEATURES

OPEN STORAGE

DESIGNED FOR THE COLLECTOR WHO HAS A FLUCTUATING
COLLECTION.

OPEN STORAGE ALLOWS FOR CONTINUED GROWTH AND ALL THE
SECURITY OF PRIVATE STORAGE.

WHAT MAKES A QUALITY ART SERVICES FIRM

KNOWLEDGE/EXPERTISE/EXPERIENCE

INSURANCE UNDERWRITERS VERIFICATION

INDUSTRY REFERENCE - MUSEUMS/CONSERVATORS

COMMITMENT TO QUALITY

CUSTOMER/ART - CENTERED APPROACH

ATTENTION TO DETAIL - EVERY PIECE IS CUSTOM/SEPARATE

ADHERENCE TO INTERNATIONAL/TSA STANDARDS

SERVICE STANDARDS

Using Art as an Asset - Tax Deferral (and other) Strategies

1031 Exchanges



Art in trusts



Private Museums



Avoid sales and use tax



Art as collateral



In 2014, Deloitte's Art & Finance report stated that 76% of collectors acquire art and collectibles for collecting purposes with an investment view, up from 53% in 2012

1031 Exchange



Five requirements to qualify for a 1031 Exchange:

- There must be an exchange using a **qualified intermediary**
- The exchange must be of property that qualifies under **IRC § 1031(a)**
- The replacement property must be of **like-kind** to the property relinquished
- Both relinquished and replacement property must be held for productive use in a **trade or business or for investment**
- Exchange period **180 Days Maximum**

Short-Term Collectible Capital Gains Tax Rates: Collectibles held less than one year are taxed at personal income tax rates, just like short-term capital gains taxes on stocks or bonds.

Long-Term Collectible Capital Gains Tax Rates: *Art and collectibles held one year or longer are taxed at 28 percent. Thus, if you bought a Cy Twombly for \$100,000 in 1980 and sell it for \$20,000,000 in 2015, you would owe \$5,572,000 in capital gains taxes.*

Art in Trusts



Frank Stella, *Concentric Square*,
1966
SOLD \$4,000,000, 2014



Sales and Use Tax



Collector in California



Purchases Andy Warhol, *Dollar Sign* in New York \$782,500



Immediately shipped out of state (avoid New York state use tax)

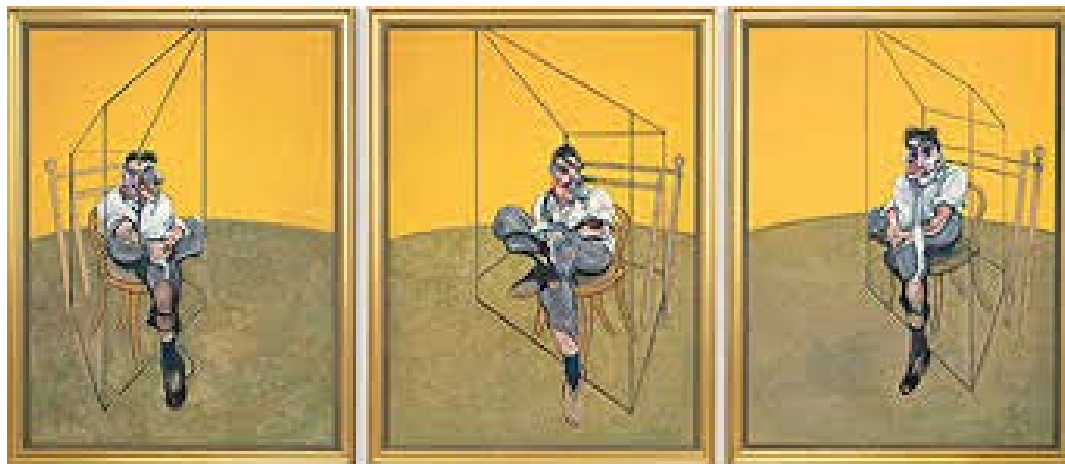


Jordan Schnitzer Museum of Art
Eugene, OR
0% use tax



Collector in California

Tax Break on Art



Francis Bacon, *Three Studies of Lucian Freud*

Purchased for \$142 million

15 weeks at The Portland Art Museum vs. Private Residence in California

\$11 million saving in California use taxes

Private Art Museums and Foundations



The **Brant** Foundation Art Study
Center
Greenwich, CT



Glenstone
Potomac, MD



The **Broad**
Los Angeles, CA



Rubell Family Collection
Miami, FL

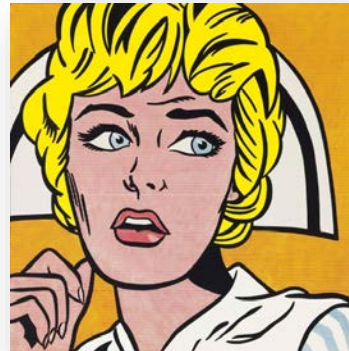
Planning Strategy: Art as Collateral



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- Purchase artwork
- Raise cash to expand a business
- Re-finance other debt
- Avoid the taxes and transaction costs associated with sale
- Diversify wealth by investing in other asset classes
- Fund life events (e.g. divorce settlement, estate taxes)
- Supplement income



QUESTIONS?

THANK YOU FOR ATTENDING THE DE TRUST CONFERENCE