

ESTATE PLANNING FOR A PHILATELIC COLLECTION

"We are only the temporary custodians of our philatelic gems."

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Philatelists spend a great deal of time accumulating their collection which is an enjoyable activity that consumes both time and capital. Integral to the consideration at time of acquisition is the intrinsic value of the investment. Ideally, as collectors, if one were able to dispose of the asset on ideal terms and conditions, then the investment would likely realize, its true value. However it is not always possible to achieve these ideal conditions and one may not be able to dispose of the material themselves for a variety of circumstances, not the least of which could be the death or incapacity of the person, and for that reason there is a need for what is termed "*estate planning.*"

Estate planning is perceived by some to be a difficult task, and it is often approached with much reticence and trepidation, simply because it is perceived as requiring much legal expertise. It is true that professional advice is required, however the primary aspect of estate planning is simply documenting what the individual wishes the executor's will accomplish when acting on the individual's behalf in accordance with his aspirations. Thus the first step in the "**ESTATE PLANNING PROCESS FOR PHILATELISTS**" is to document what the individual wishes to accomplish with regards to the disposition of his/her collection.

Philatelists are not unique in their avocation, wherein they concentrate on acquisition but do not contemplate; with as much enthusiasm; the disposition of the collection. Since your stamp collection is likely to be the most unusual and difficult portion of your estate to administer, it is essential that you safeguard your wishes, desires and aspirations with regards to your collection in a written document. The chances are that none of your family members nor your administrator are experienced philatelists, so with some advance planning you can help them attain maximum value from your material. Time is also one of the allies of the executor in achieving the best realization, so a little foresight on your part can make a major contribution towards this goal.

Thus the **A B C's** of Estate Planning:

- A.** Advance planning for the disposal of your collection, *essential for several reasons*
- B.** Build a valuation document.
- C.** Cataloguing your collection.

Consider these facts:

- An organized collection makes it clear what you own and thus what is required to fill the gaps, should you continue collecting.
- Your inventory will be an invaluable document should you have to negotiate with your insurance company in the event of a loss.
- In the event of incapacity or disability the collection can likely be disposed of in an orderly fashion possibly generating funds that may be required for your care.
- Clear instructions on value and method of disposition will avoid confusion and possible differences among beneficiaries. (*Dealers/auctioneers generally cringe at the thought of having to deal with a collector's spouse or heirs who are generally confused and untrusting.*)

What are the steps to **ESTATE PLANNING FOR PHILATELIC COLLECTION?**

The following check list is provided as a guide for Estate Planning:

- 1. Get organized and stay organized**
- 2. Prepare an Inventory (*catalogue your collection*)**
- 3. Prepare a reasonably accurate valuation**
- 4. Record special bequests**
- 5. List Options for Disposal**
- 6. Prepare instructions for your administrator**
- 7. Consider the Tax Implications of the Sale**

1. GET ORGANIZED AND STAY ORGANIZED

Some of the nightmare stories that stamp dealers and auction houses have experienced:

- Lifetime accumulations of loose stamps and covers stuffed into thousands of envelopes, shoeboxes, tins, etc.
- Avoid the house that is full of unorganized material (*most dealers/auctioneers will cringe at the thought of handling its disposal.*) It is possibly the worst case for your heirs because:
 - there is too much material to handle in an orderly fashion.
 - one can't easily tell the gems from the run-of-the-mill,
 - the fees charged to evaluate the material will likely seem too high.
 - pilfering is easy
 - disposal may take a long time
 - anyone willing to buy it outright will likely offer what seems a very low price.

Dealers and auctioneers have advised that when it comes to selling, a well-organized collection generates the best results. One auction house is quoted as saying: "If it arrives in shoe-boxes, it goes out that way." Remember, dealers and auction houses are businesses. You cannot expect them to spend time organizing your material. They need to turn a profit and for them time is money. They would be required to spend more time to prepare a proper evaluation on your disorganized collection. Disorganized collections would simply be sorted into general lots. In both cases, your estate and in turn your heirs are the losers.

Some of the things dealers and auctioneers told us they prefer to handle:

- Intact exhibits - They tend to sell better than if they are broken up.
- Covers and specialist items, on pages along with relevant research findings will help the assessor make a timely and proper valuation.
- Printed albums – Since they are arranged according to catalogue order making it easier to prepare an assessment. In addition the more valuable items are easier to identify.
- Stock books – If the contents are arranged in catalogue sequence.

If you have a valuation or a detailed inventory at least it is something that can be commented on, which is much better than nothing at all.

2. PREPARE AN INVENTORY

List the major parts of your collection:

List all your exhibits in detail. Include details such as titles of exhibits, identifying features of albums and stock books and where each is located. If you have a single frame or multi frame exhibit list each of the pages, and the items contained therein. Better still make a photocopy of the individual pages and list the values on each page then compile a summary, page by page.

Compile a value for items in albums, stock books and unmounted material of note. If you have items of particular worth, list these along with images of the items so that they cannot be overlooked or misidentified.

Also, do not forget to make an inventory of your philatelic library and your awards.

It is a sad fact that our heirs usually have little appreciation of our collection. Thus, an inventory of your collection will be an indispensable tool for your heirs and administrator.

3. PREPARE A REASONABLE VALUATION

An auctioneer told us of a serious collector who told his spouse that he spent very little on his collection. Therefore, when that specialist collector died, the spouse, thinking that the collection had "no value" sold it to a local collector for a fraction of its true worth. After all: "he told us that he never spent anything on his collection."

It is important to establish the true value of your collection and record it. If over-valued, your heirs will be disappointed when it is finally sold. They will think that they were taken advantage of. If under-valued, then you have done a disservice to your heirs. Your valuation must be kept up-to-date and needs to be revisited regularly. Realize that your idea of your collection's value might be outdated because the demand for your material has changed. Include a file containing expert certificates and receipts or proof of purchase for particularly valuable items. Some collectors write, in pencil, the amount they paid on such items as covers. (*see note on valuations & taxes below*)

The value of your collection is not market value. Remember that items you acquired at a fraction of catalogue will sell at the same kind of discount. Condition is the essential factor in stamp value. If you have acquired damaged or defective items, you are kidding yourself and your heirs if your collection is valued or insured at full catalogue. In making an inventory, list nominal catalogue, the discount value to replace with comparable material, and then a deeper discounted value, which might be realized at a forced sale. Any collector who stays current with auction realizations knows the difference between the prices for superb copies and the discount realizations for average or defective copies.

Finally, all this information should be kept with your other valuable papers so that it is easily available when the time comes. Also, if you have thought it best not to reveal to your spouse the true amount you spent on your collect, consider placing your valuation in a sealed envelope with instructions as to when it is to be opened.

Whoever is retained to do an assessment of your collection, deserves to be properly remunerated. Make this clear to your administrator and your heirs. It is not the time for them to be cheap. Insist that this be done as a business transaction with fair rates of pay. Insist that they receive two appraisals or offers. You need to prepare a short list of those you want to do this job otherwise the first two names in the yellow pages or those closest to the office of the administrator will be the ones that are used. Be sure to leave precise instructions for your administrator clearly identifying the material to be disposed of and in which fashion. In addition, list names and contact information. Otherwise, your valuable collection that took you decades to build maybe sold on the basis of looking in the yellow pages.

4. RECORD SPECIAL BEQUESTS

If you have promised any item(s) to another collector or organization, such designation must be in writing along with the terms of transfer. Your heirs may be swamped with alleged promises of this type. The way to protect your heirs is to leave a detailed list, with images where necessary, of any items, along with the names of individuals or organizations to which you wanted them given.

Leaving the collection to an heir – Should you be in the enviable situation where your spouse, child or a close relative is a knowledgeable collector able to appreciate you collection, then this might be your chosen option.

Bequest – Especially if the material has a particular significance, you might decide to donate it to a fellow collector, a museum, a society. In some instances, the recipient will issue a tax receipt to you and/or your estate.

Outright gift – Consider passing the collection, or part of it on to a young relative or friend of the family to start them in the hobby or to a stamp club so they can encourage others into the philatelic pursuit.

5. LIST OPTIONS FOR DISPOSAL

There are many ways to dispose of your stamp collection or parts of it. Protect your valuables by insisting that any third party evaluation take place in your presence or in the presence of someone, you trust. Theft is always a concern.

Managing the dispersal of your collection yourself is the most desirable.

Reduce your exposure and consider selling major portions of your collection once you reach the position of having enjoyed the exhibiting and or research of various components.

Some of the pre-eminent circumstances for self-liquidation are:

- you know what you have
- you can best identify the valuable items
- you know the best places to sell the various items
- you have control of an orderly disposal
- you are less likely to get taken advantage of than your spouse or executor
- you will have the peace of mind knowing that the disposal has been done according to your wishes

Stamp Club Sale – This maybe an appropriate venue to dispose of your less valuable material. Unless you expect a sizable return, it might be best simply to specify that the club keep any profits and use the funds for the benefit of the members.

Sale - If the collection is valuable, you may wish it sold instead of donated. You should prepare a list of dealers, auction houses or Specialists Societies and specify which of these should be offered certain parts of your collection. Remember stamp dealers and auction houses are business and will charge a fee.

- Selling to a dealer – This maybe the most convenient method of disposing of your collection. You should instruct your administrator to obtain at least two offers. Also caution the estate to ensure that the firms and/or individuals are financially sound. Be advised that not all dealers are reputable and that they should bear in mind the proverb “*caveat Emptor.*” However if you choose wisely the returns could be much more than what you thought possible.
- Auction - If your collection has considerable value, then the best method of disposal is likely by auction, and you should include a list of firms whom you recommend.
- Society Auction – If your Specialist Societies run regular auctions then parts of your collection may be best sold through them. The members are most apt to know the value of the specialized material and pay good prices.

Speed of selling

- Fast – dealer or individual, outright purchase, likely this will yield a lesser price, but perhaps no fees.
- Medium – dealer after a thorough assessment, weeks to months, likely at fair market value with allowance for the dealer’s profit upon resale. Dealers often do not charge an appraisal fee if the material they assessed is eventually sold to them.
- Slow – private treaty, weeks to years, at your set price. Fees to be paid for referrals. Well-established auction house, many months to a year or more, at market value. Fees to be paid.

6. PREPARE INSTRUCTIONS FOR YOUR ADMINISTRATOR

If you embark on the disposal of the collection yourself, it would still be advisable to set down in written form your intentions, goals and objectives, both as guide to yourself as well as a backup document for the Estate Plan. This backup document will serve as an excellent guide, for your estate administrator, should any unforeseen circumstances arise.

Therefore as a backup measure it may be wise to utilize a copy of your disposal plan which could serve as instructions and guide.

The guide which you prepare either as a self help guide or as instructions for others should encompass the following:

- the location of your inventory list
- the name of the company with which your collection is insured, the amount, the renewal date and the location of the policy
- the names of colleagues, dealers or individuals working for auction houses who can advise the administrator on your material. If possible introduce the administrator to these people.
- where you suggest your collection be sold
- the valuation papers (*Be sure to leave precise instruction for your administrator clearly identifying the material to be disposed of and in which fashion. In addition, list names and contact information.*)
- the location of any special bequest list
- whom you want the material sold to or through
- how quickly the dispersal should be made

Leave clear instructions to your administrator and your heir regarding the valuations. Suggest that the disposal is a business transaction, and that the cheapest is not always the best. Suggest that they get two appraisals as well as two offers. You should prepare a short list of those you suggest could do this job because selecting consultants by neophytes and non-philatelists is very difficult.

7. CONSIDER THE TAX IMPLICATIONS OF THE SALE

The following is a brief summary, as to the possible impact on your collection of the taxes imposed by the relevant authorities. For further advice on this subject and the liability and/or impact the reader should retain the services of a specialist in this area.

You have possibly already been exposed to the impact of taxes on the Philatelic hobby, when you acquired items for your collection. The items which would have directly impacted your purchases were the recently (1991) imposed GST as well as local Sales Tax (Harmonized Tax), levied by most Canadian Provinces.

Also to be considered is the inclusion in your income of the possible Capital Gain on the disposition or deemed disposition of your philatelic collection.

When attempting to grasp the impact of taxation on your estate, consider that all of your assets are subject to taxation within certain boundaries, and that the liability for tax on your philatelic collection happens by virtue of a definition within the Income Tax Act referred to as Listed Personal Property, which specifies that :

"listed personal property" of a taxpayer means the taxpayer's personal-use property that is all or any portion of, or any interest in or right to, any print, etching, drawing, painting, sculpture, or other similar work of art,

(a) jewellery,

(b) rare folio, rare manuscript, or rare book,

(c) stamp, or

(d) coin;

The purpose of enacting this definition within the legislation is to clarify the types of Personal Use Property which are to be impacted by specific rules related to inclusion within the tax base (*varied from time to time but currently 50%*), as well as specifying that the Losses from **Listed Personal Property** can only be applied to reduce the gains from **Listed Personal Property**.

The importance of recognizing these rules is to alert the philatelist to the need to track the cumulative costs of their collection. The reason for this tracking is to ensure that if there are gains realized on the dispositions during one's lifetime or deemed dispositions by an individual's executors; that there is a minimizing of the impact of taxation by the application of any losses. The losses could have been realized during one's lifetime and not have been applied, in which case they can be carried forward and applied by the estate. Similarly the cost of accumulating the collection is needed.

As was stated above, one should consult with professional advisers in order to fully appreciate the impact of this on one's estate.

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We wish to express our thanks to the many stamp dealer and auctioneer members of the PSSC who contributed their experience to this document.