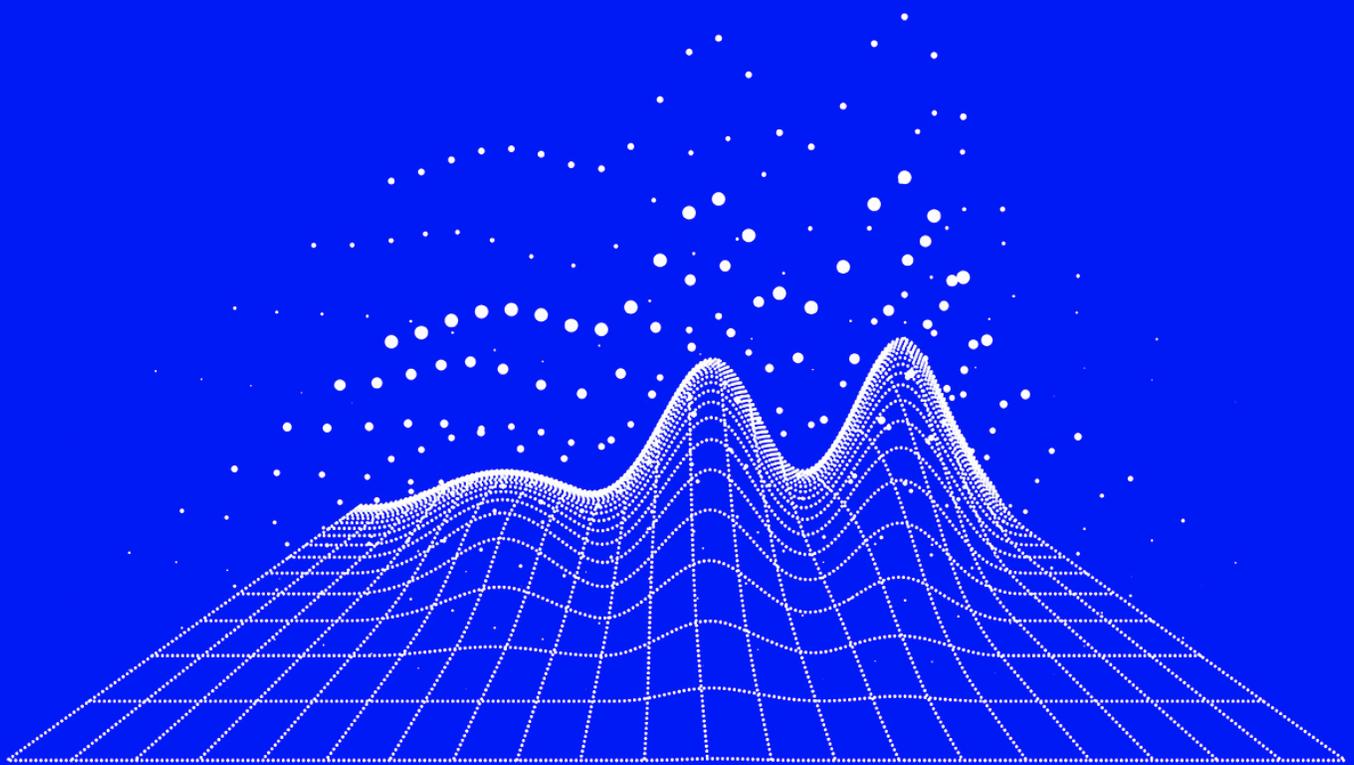


Monetization Strategies for Art and Collectibles

Christopher E. Vroom, CFA



Collector^{*IQ*}

Professional Edition

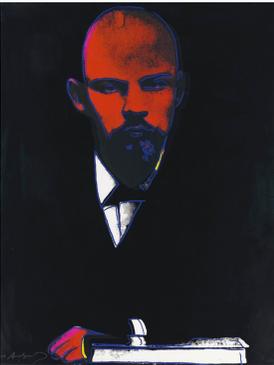
for Family Offices

Holdings of fine art and collectibles have grown significantly over the past two decades due both to broadening participation and rising values.

Fine art, investment grade wine, classic cars, coins and the like have become asset classes in their own right with financial products evolving to unlock value. We expect this trend to continue as big data enables more accurate valuations of these holdings and advisors grapple with the challenges associated with incorporating these assets into estate planning, asset allocation, tax and philanthropic planning.

Persistent price appreciation has created significant embedded gains for many owners. Yet optimizing after-tax proceeds is not always straightforward due to the substantial transaction costs typically associated with these less liquid holdings; costs which, under certain circumstances, make philanthropy a better choice.

To illustrate, consider the sale of Andy Warhol's Lenin, which was purchased in 1996 by a prescient collector for the sum of \$232,195. Fast forward to 2016, this same picture sold at Sotheby's for \$8.1 million, representing a 19.4% compound annual growth rate over 20 years.

|  Andy Warhol <i>Lenin</i> 1986 | Exchange | Sale | Gift |
|--|-------------|--------------------------|---------------------------|
| Cost Basis | \$232,195 | \$232,195 | \$232,195 |
| FMV | \$8,112,500 | \$8,112,500 | \$8,112,500 |
| Discount | \$1,216,875 | | |
| Commission | \$1,622,500 | \$1,274,512 ⁱ | |
| Net Pre-Tax Proceeds | \$5,273,125 | \$6,837,988 | |
| Taxes Payable | \$2,879,126 | \$3,733,002 | |
| After-Tax Value* | \$2,393,999 | \$3,104,986 | \$4,429,425 ⁱⁱ |

- i. Assumes owner is a New York City resident with income sufficient to utilize the full-benefit of the charitable contribution (50% of AGI for contributions to 501(c) 3 organizations and 30% of AGI for private foundations).
- ii. Based on Sotheby's current buyers premia for a \$8.1 million purchase.

As shown above, under many circumstances, the after-tax value realized from making a charitable contribution exceeds the after-tax proceeds from a sale via either a private dealer or auction house. Helping clients manage their philanthropic objectives is one way CollectorIQ can strengthen the family office or advisor-client relationship.

For further information on on tax strategies, appraisals, qualified intermediary services and liquidity alternatives, please contact us at advice@collectoriq.com.



About the Author

Christopher E. Vroom, CFA is the Founder and CEO of CollectorIQ, a New York-based SaaS platform focused on financializing non-financial assets. He also founded Art+Culture Projects, a publisher of high-quality, limited-edition prints and multiples which are produced with leading artists and curators from around the world. Previously, Vroom founded and was Chairman of Artspace.com, the world's leading marketplace for fine art, sold to Phaidon Press in 2014. He was a Managing Director and Global Group Head for Internet Equity research at the Credit Suisse First Boston Technology Group and was a Managing Director who ran the consumer equity research group at Alex. Brown & Sons where he followed high growth retailers (including Starbucks which he took public in June 1992).

As a Patron of the arts, Vroom is the Founder of the New York-based non-profit Artadia, which for nearly 20 years has provided nearly \$7 million in support to artists from all parts of the United States. Vroom received his BA from The University of Chicago in Economics in 1987.

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