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Collectibles Is a Market in Transition

Buying collectibles for investment purposes has always been a tricky market, but a number of trends in today's market makes it even harder to profit. As a result, the rule for success is buy what you love...if you are lucky some items may turn out to be valuable. Among the trends depressing the value or collectibles are:

- The greatest of the collecting generations, the World War II generation, is dying, and there's nobody stepping up to replace them in terms of buying all the stuff that they bought.
- The collectibles market peaked in the mid-1990s.
- Millennials are not that interested in accumulating collectibles but are choosing to spend their money on experiences, traveling, going for dinner or drinks, wellness and fitness. Minimalism has become a big way of life as young adults seek to declutter their lives.
- As homeownership becomes more expensive and more difficult for younger generations to achieve, more are living with their parents or in smaller accommodations. There's no room for large furniture and all the accumulations that marked their parents' lives.
- The increasing availability of collectible items online has made more items available and led to a fall in price for many categories.

There is also a tax penalty to investing in collectives. The Taxpayer Relief Act of 1997, while lowering the maximum capital gains rate on the sale of most assets to 20%, left the maximum rate on gains from the sale of collectibles at 28%. In certain situations, resulting from the phaseout of the alternative minimum tax exemption or the Sec. 199A deduction, the marginal rate on collectible gains can exceed 28%. Much of the rationale for keeping taxes on collectibles high was that it was an investment class of the wealthy, who did not need another tax break.

Collectibles are specifically defined as

- Any work of art;
- Any rug or antique;
- Any metal or gem;
- Any stamp or coin;
- Any alcoholic beverage
- Any musical instrument;
- Any historical objects (documents, clothes, etc.).

However, the IRS has the authority to deem any tangible property not specifically listed in either Sec. as a collectible for Sec. 408(m)(2) purposes and, thus, by reference for Sec. 1(h)(5) purposes. For example, collectibles could include restored automobiles, valuable baseball cards, or even rare comic books. Coins and bullion are classified as collectibles for purposes of computing income taxes.

While collectibles haven't died out altogether, maker, proof of authenticity, prior owner, historic importance and rarity are key factors impacting the value. The rarest items may still command top prices at auctions, however, there is limited demand for many of the mass-produced items collected by the baby boomers.

Brian Carruthers

Brian R. Carruthers, CFP, CMT

BCA
BRIAN CARRUTHERS & ASSOCIATES

Your Conservative Advisory Firm Since 1990
301 Forest Avenue
Laguna Beach, California 92651-2115 USA

Telephone: 1-949-464-1900
www.gobcafunds.com
brian@gobcafunds.com