

Planning Matters

Do You Have A Personal Property Balance Sheet?

Imagine this simple exercise: you are handed two small pieces of paper, face down. The rules are simple: pick one sheet, answer the question, and then do the other. You have just thirty seconds per page. There is no time for reflection, just answer the questions with your immediate first response.

In fact, you can do the exercise right now - here are the questions:

- Page 1 Other than your family members, what are the five objects you cherish most?
- Page 2 What are the five most expensive personal items you own?

The answers are not as important as bringing to the surface and addressing the core issue that personal property may have very different valuation criteria than typical investment assets. These differences need to be understood.

Personal property occupies an ambiguous place in the planning process, falling into a “grey area” of responsibility. Financial advisors, accountants and lawyers are not experts in art, silver, exotic cars, summer places or yachts. Their mandate is to look after investments, advise on best procedures, and to guide you through the dance of the Regulatory agencies.

From that perspective, the usual brief entries on their Personal Questionnaire ask if you have art, other collections, a summer house or a boat. Then,

the little boxes get checked off yes or no. This is usually followed up in a Will whereby the personal property is handed over to the Trustee to deal with at his/her discretion or on the basis of very open directions.

The skirting of personal property stems from the underlying professional job definition of your advisors, and the understanding that personal property can be like a match near a gas can. The results can be explosive.

What is personal property?

The facile response is “anything that isn’t an investment”. Generally, personal property is what you live with and includes your house, a summer place, furnishings and contents, boats and cars. The range and scope of personal property is broad. Revenue Canada characterizes listed personal property as “items in this class *usually*[sic-my emphasis] increase in value”:

1. Prints, etchings, drawings, paintings, sculptures or other similar works of art;
2. Jewellery
3. Rare folios, rare manuscripts, or rare books;
4. Stamps;
5. Coins.

Interestingly, items such as antiques, silver, and crystal are not included. The economic swings of these markets are another topic.

What is a Personal Property Balance Sheet?

A Personal Property Balance Sheet is a snap shot of “non-investment” assets, and completes the global picture of what you own and what is important to you.

What differentiates a Personal Property Balance Sheet from a Financial Balance Sheet is that it works to track and evaluate non-tangible values along with financial worth. The result is a detailed analysis and statement of worth(s), which provides a more nuanced basis for next step decisions.

What does a Personal Property Balance Sheet do?

1. It provides a focus on what you have and what it’s worth;
2. It can identify items with significance other than monetary worth;
3. It functions as a planning tool for immediate and long term planning;
4. It is a key tool in Estate administration, representing pro-active decisions on your part to expedite the process and minimize costs.

Personal Property Balance Sheet process: Inventory, Analysis, Appraisal

1. The first step is defining the scope of the inventory and completing it; the better your records, the easier the task;
2. Step two is general analysis and categorization by appropriate values; specifically, the sorting values that ranks items in a meaningful way for you, eg. family, historical, cultural, emotional importance
3. Step three is a formal appraisal for the Value in dollar terms.

What is an appraisal?

An appraisal is a justified opinion of the worth in dollar terms of an item on a specific date based on the objective of the appraisal and its application as requested by the client, e.g. Replacement Cost, Net Cash Value, Fair Market Value. Usually, only one value is sought in an appraisal.

1. What is the Replacement Cost of this painting for replacement insurance coverage?
2. What is the Net Cash Value of this painting after transaction costs and capital gains tax?

Or

3. What is the Fair Market Value of this collection of Meissen porcelains, and how can they be divided between beneficiaries to give each share equal monetary value and artistic importance?

An appraisal written to accepted professional standards (*USPAP*-Uniform Standards of Professional Appraisal Practice) will deliver a comprehensive assessment identifying the arguments and rationale for worth, on which decisions can be made. Additionally, since a professional appraisal is an independent opinion, objectivity is maintained.

Objective monetary assessments, on paper, sharpen a viewer's perspectives on value and desire, especially if there are strong alternative or emotional connections to an object. The Family item, now with a justified monetary worth, may suddenly not be so desirable to a beneficiary if it means they get the item while other beneficiaries get commensurate cash to invest or to spend as they see fit.

Conversely, if the important family item turns out to be a fake, or of contested genuineness, then readjusting for dollar value is necessary to maintain equitable distribution.

Below is a Personal Property Balance Sheet example.

Image	Artist / Maker	Title	Year	Cost*	Level**	Appraisal
	HAIDA	A Haida Argillite Panel Pipe Collected by Uncle Joe in Skidegate	1868	Inherited Value \$750.00	Level A	15,500.00
	Georgian Period, 1738 - 1820	George III Mahogany Chest on Chest from the "Old House"	ca 1800	2,500.00	Level A	6,250.00
	Henry Birks & Sons, 1879 -	Grannie's Birks Sterling Silver Tea and Coffee Service	ca 1950	Inherited Value \$1100.00	Level A	525.00
	May, Henrietta Mabel, ASCA, CGP, RPS, FCA, 1884 - 1971 Canadian	Untitled - Houses In A Landscape	ca 1930	2,650.00	Level B	132,000.00
	Smith, Gordon Applebe, 1919 - Canadian	Sea Edge	1990	2,760.00	Level B	35,000.00
	Genn, Robert, 1936 - Canadian	Coast Classic - Quiet Evening	ca 1990	3,500.00	Level C	2,500.00
	Shadbolt, Jack Leonard, 1908-1998	Untitled - Houses and Abstraction	1972	1,750.00	Level C	2,750.00
				15,010.00		194,525.00

* Cost = Acquisition cost

** Level = Client personal importance sorting category

Enter Signor Pareto

In 1906, Vilfredo Pareto an Italian economist observed that 80% of the land in Italy was owned by 20% of the population. This analysis was subsequently developed into an economic principle about efforts and rewards, the *Pareto Rule*, or more commonly referred to as the 80/20 split. In business, it translates that 20% of sales generate 80% of the profit.

The Pareto Rule also applies to estates: 80% comprises financial instruments and investments and 20% personal property. Further, the 20% of personal property generates 80% of beneficiary or estate issues.

It may be a bit of a stretch to call it the ‘Pareto’ Personal Property Balance Sheet, but the close documenting of the 20% personal property portion of an estate is an important planning tool for now and later. It can provide a personal value matrix within which to analyze and rank possessions. In doing so, it can speak to dollar value and supply a customized tool with which to consider the disposition of the 20% of personal property assets while working to address and minimize the 80% of problems.

While every estate has unique characteristics, all share similar generic issues: succession, continuity and emotional baggage. A Personal Property Balance Sheet provides an approach to these matters. Based on general analysis and specific appraisal valuation, it dovetails into your overall financial, estate and tax planning. Perhaps more important, it brings the often orphaned 20% of your estate into the light and provides a process of decision making, whereby all of your advisors (and family) see the full picture.

To paraphrase the old charge card slogan: “Your Personal Property Balance Sheet: don’t leave home without one.”

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Peter Malkin appraises personal property, specializing in fine art, as a key tool for all aspects of individual and family planning: Insurance, equitable distribution, estate and tax strategies, wealth management, purchase /sale, gifting and probate. A Member of the International Society of Appraisers, he has an MA in Art History (UBC), was curator of Historical Exhibitions at the Vancouver Art Gallery, and Associate Director of the Bill Reid Foundation and Bill Reid Gallery of Northwest Coast Art.