

**CHAPTER 26**  
**THE FEDERAL GIFT AND ESTATE TAXES**  
**SOLUTIONS TO PROBLEM MATERIALS**

<u>Question/ Problem</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
1	Unified tax as an excise tax; income tax distinguishable	Unchanged	1
2	Past and present Congressional policy as to transfer taxes	Unchanged	2
3	Estate taxes and inheritance taxes contrasted	Unchanged	3
4	Federal gift tax: incidence of	Unchanged	4
5	Issue ID	New	
6	Change of residence to avoid Federal estate and gift taxation	New	
7	Current status of the Federal estate tax	Unchanged	7
8	Relationship between unified tax credit, exclusion amount, and exemption equivalent	Unchanged	8
9	Justification for the alternate valuation date	Unchanged	9
10	Alternate valuation date: conditions for election	New	
11	Forms of undivided ownership compared as to similarity	Unchanged	11
12	Obligation of support: when applicable	Unchanged	12
13	Loans resulting in gift tax consequences	New	
14	Issue ID	Unchanged	14
15	Future interest limitation to annual exclusion and the trust for minors exception	New	
16	Rules regarding the gift-splitting provisions of § 2513	Unchanged	15
17	Procedural aspects of filing a Federal gift tax return	Unchanged	16
18	Gross estate, taxable estate, probate estate distinguished	Unchanged	17

<u>Question/ Problem</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
19	Application of 3-year rule under § 2035	Unchanged	18
20	Joint tenancy variations under § 2040	Unchanged	19
21	Life insurance: transfer tax attributes	Unchanged	20
22	Liabilities: effect on marital and charitable deductions	New	
23	Qualified charities: estate, gift, and income taxes compared	Unchanged	22
24	Rules governing use of QTIPs	Unchanged	23
25	Effect on change in § 2011 (credit for state death taxes) on state revenue	Unchanged	25
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28	Election and effect of the alternate valuation date	New	
29	Alternate valuation date: when election not available	Unchanged	29
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31	Examples of transfers that are and are not subject to the Federal gift tax	Unchanged	31
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39	Gift and estate tax consequences of a tenancy in common	Unchanged	39
40	Joint tenancies created by gifts	New	
41	Gift and estate tax consequences of a joint tenancy	New	
42	Gift and estate tax consequences of a joint tenancy between husband and wife	New	
43	Transfers of life insurance policies; application or nonapplication of § 2042	New	
44	Deduction of liabilities, taxes, funeral expenses under § 2053 in arriving at the taxable estate	Unchanged	44
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46	Effect on exemption equivalent of § 2057 election	Unchanged	46
47	Computing the credit for state death taxes	Modified	47
48	Computing the credit for tax on prior transfers	Unchanged	48
49	Computation of estate tax liability	New	

## CHECK FIGURES

28.a.	\$2,610,000.	38.a.	\$560,000.
28.b.	No.	38.b.	\$0.
28.c.	\$2,800,000.	39.a.	Gift \$300,000.
29.a.	Not.	39.b.	Include \$600,000.
29.b.	Not.	39.c.	Yes, when considering the marital deduction.
29.c.	Not.	40.	\$450,000; yes, \$1,200,000.
29.d.	Not.	41.a.	Gift \$700,000.
29.e.	Possibly can elect.	41.b.	\$0.
30.a.	No.	42.a.	\$700,000.
30.b.	Yes.	42.b.	\$1,000,000.
30.c.	Yes.	43.a.	\$0.
30.d.	No.	43.b.	\$40,000.
30.e.	Possibly.	43.c.	\$40,000.
30.f.	Cannot be ascertained.	43.d.	\$200,000 under § 2035.
30.g.	No.	44.a.	Deduction allowed.
31.a.	Yes.	44.b.	No inclusion and no deduction.
31.b.	Yes, but offset by marital deduction.	44.c.	Deduction.
31.c.	No.	45.a.	\$1,500,000.
31.d.	Yes.	45.b.	\$200,000.
31.e.	No.	46.	Sam \$625,000; Helen \$700,000; Art \$675,000.
31.f.	No.	47.a.	\$0.
31.g.	Yes.	47.b.	\$13,800.
31.h.	No.	47.c.	\$18,500.
32.	No transfer tax due.	47.d.	\$15,480.
33.	\$1,100,000 gift to Arnold.	48.a.	\$320,000.
34.a.	\$77,490.	48.b.	\$360,000.
34.b.	\$0.	49.	Meg \$150,750; Caleb \$352,500; Lily \$413,750; Buzz \$389,200.
35.	\$2,414,800.		
36.	Value of trust + \$80,000 + \$35,000.		
37.a.	\$0.		
37.b.	\$1,200,000.		
37.c.	No.		

## DISCUSSION QUESTIONS

1. An excise tax is a tax on the transfer of property. In the case of the Federal unified transfer tax, the excise tax imposes a progressive set of rates on lifetime gifts or amounts passing at death. Unlike the income tax, therefore, it is a tax on wealth and not income. p. 26-2
2. At the outset, Congress favored the gift tax over the estate tax because of the lower tax rates that applied. In the Tax Reform Act of 1976, the unified transfer tax notion evolved. Tax neutrality prevailed as both the estate and gift taxes were subject to the same tax rate schedules and the same unified transfer tax credits. In the Tax Relief Reconciliation Act of 2001, the elimination of the estate tax is projected, while the gift tax is retained. This background reflects a tax policy that is anything but consistent. See *Tax in the News*, "An Erratic Approach to Transfer Taxes," on p. 26-3.
3. The Federal estate tax is a tax on the right to pass property at death and is imposed on the decedent's estate. Except in the case of a surviving spouse and the possible allowance of a marital deduction, the relationship between the decedent and the heirs has no bearing on the determination of the tax liability.

Unlike the Federal estate tax, state inheritance taxes are taxes on the right to receive property at death and are levied on the heirs. Furthermore, the relationship of the heirs to the decedent usually has a direct bearing on the inheritance tax determination. In general, the more closely related the parties, the larger the exemption and the lower the rates.

p. 26-3

4.
  - a. The gift tax is imposed on the donor.
  - b. The gift tax generally is imposed on a nonresident alien who transfers tangible property located in the U.S. The gift tax usually does not apply to transfers of intangible personalty.
  - c. If the donor is either a citizen or a resident of the U.S., the gift tax applies irrespective of where the property is located.

p. 26-4

5. For individuals who are neither citizens nor residents of the U.S., the Federal gift tax is applied only to gifts of property situated within the U.S. However, gifts of intangible assets such as stocks and bonds are not taxable. Thus, the gift of land is subject to the gift tax, while the gift of stock is not. p. 26-4
6. John's change of residency will avoid neither transfer tax, as he remains a U.S. citizen. If, however, he also renounces his U.S. citizenship, § 2107 would prove to be a hurdle (for at least ten years). But even if and when he becomes a nonresident alien, any of John's property located in the U.S. could be subject to transfer taxes. p. 26-4 and *Global Tax Issues*, "Expatriation to Avoid U.S. tax."
7. The Federal estate tax is by no means eliminated. True, the Tax Relief Reconciliation Act of 2001 schedules elimination, but this occurs over a phase-out period lasting

through 2009. As to the chances of these changes taking place as formatted, see *Tax in the News*, “What Are the Chances?” on p. 26-8.

8. The *exclusion amount*, also known as the *exemption equivalent*, is the amount of the taxable gift or taxable estate that is sheltered from gift or estate tax by the *unified transfer tax credit*. p. 26-7
9. The alternate valuation date election was designed as a relief provision to ease the economic hardship that could result when estate assets decline in value over the six months after the date of death. p. 26-8
10. As reflected by the situation presented in Example 8, any other approach would permit an increase in income tax basis with little or no estate tax consequences. These limitations, therefore, emphasize that the objective of the § 2032 election is to reduce estate tax consequences. p. 26-9
11.
  - a. Both possess the right of survivorship.
  - b. Both do not possess the right of survivorship.
  - c. Both involve husband and wife.

pp. 26-9 and 26-10
12. Satisfying the obligation of support does not constitute a gift. In this case, however, the age of the son and the nature of the property goes beyond the scope of what represents support. p. 26-11 and *Ethical Considerations*
13. Yes, if the loan provides for no interest charge (or interest at a rate below market). Barring certain exceptions, the difference in rates could represent a gift. Example 15
14. Jody should consider disclaiming some or all of his inheritance from Leon. If this occurs, the property will pass directly to Brenda and avoid any transfer tax (either gift or estate) at Jody’s level. A disclaimer is attractive because: Jody does not need the property; he is in poor health; and, he is on good terms with Brenda. pp. 26-13, 26-14, and Examples 16 and 17
15.
  - a. The § 2503(c) trust allows a trustee to accumulate income on behalf of a minor. In many cases, forcing a distribution of such income to someone not of age and lacking maturity would be ill advised.
  - b. The § 2503(c) trust allows the trustee to accumulate income without running afoul of the future interest prohibition. Thus, the grantor is not otherwise deprived of the annual exclusion when making gifts to minors through the accumulation trust vehicle.

p. 26-15
16.
  - a. Section 2513 was designed to place married donors residing in common law states on a par with those in community property states. The gift-splitting approach makes available the annual exclusion and unified tax credit of the non-owner spouse. Compare Examples 23 and 24. pp. 26-16 and 26-17

- b. The election is made by filing a gift tax return (e.g., Form 709-A). Example 26
  - c. Although the election to split is not necessary when gifts of community property are made, it would be available when one of the spouses makes a gift of his or her separate property. p. 26-18
- 17.
- a. A Federal gift tax return may have to be filed even though no gift tax is due. Such might be the case where the gift exceeds the annual exclusion but is covered by the unified tax credit. p. 26-18
  - b. The § 2513 election to split gifts can only be made by filing a gift tax return. Example 26
  - c. If a gift of a future interest is involved, a gift tax return must be filed. p. 26-18
  - d. Regardless of the donor's tax year for income tax purposes, gifts are reported on a calendar year basis. p. 26-18
  - e. An extension of time for filing the income tax return (calendar year taxpayer) also extends the time for filing any Federal gift tax return that may be due. p. 26-18 and Footnote 30
18. The gross estate and the taxable estate are determinations necessary for Federal estate tax purposes. The probate estate, however, is not tied to the Federal estate tax determination.
- a. Simply stated, gross estate comprises all property which is subject to Federal estate tax. Taxable estate is the gross estate less the deductions allowed by the appropriate provisions of the Internal Revenue Code. A comparable analogy would be the difference between gross income and taxable income for income tax purposes.
  - b. To be contrasted with the gross estate is the concept of the probate estate. Controlled by state (rather than Federal) law, the probate estate consists of all of a decedent's property subject to administration by the executor or administrator of the estate operating under the supervision of a local court of appropriate jurisdiction (usually designated as a probate court).
- pp. 26-18, 26-19, and 26-28
19. It applies to life insurance policies transferred within three years of death. Moreover, there is a "gross-up" for any gift taxes paid during this three-year period. p. 26-21 and Example 32
20. The key to the solutions that follow turns on how much of a contribution Colette is considered as having made to the cost of the property. To the extent that such contribution is recognized for tax purposes, a proportionate part of the value of the real estate is excluded from Emile's gross estate.
- a. If the co-owners receive the property as a gift from another, each co-owner is deemed to have contributed to the cost of his or her own interest. Thus, if Emile and Colette are equal owners, only one-half of the value of the property is included in Emile's gross estate. p. 26-25 and Example 40

- b. Presuming Colette can prove that she provided all of the purchase price, none of the value of the property is included in Emile's gross estate. If Emile and Colette are husband and wife, one-half of the value of the property is automatically included in Emile's gross estate. p. 26-25 and Example 42
  - c. In computing a survivor's contribution, any funds received as a gift from the deceased co-owner and applied to the cost of the property cannot be counted. Thus, all of the value of the property must be included in Emile's gross estate as Colette is deemed to have made no contribution. p. 26-25 and Example 41
  - d. The pro rata share of the value of the property attributable to Colette's contributions will be excluded from Emile's gross estate. Income from gift funds can be counted as a contribution even though the gift funds cannot. p. 26-25
- 21.
- a. The term has been broadly defined. It includes, for example, both term and whole life policies.
  - b. Incidents of ownership are various elements of control over a policy (e.g., power to change beneficiaries).
  - c. The owner of the policy makes a gift to the beneficiary of the proceeds when the insured dies (i.e., the policy matures). This assumes the owner is not the insured.
  - d. When the owner dies, the fair market value of any unmatured policies is included in his or her gross estate.
- pp. 26-26 to 26-28 and Examples 48 to 50
- 22.
- a. Presuming the value of the property is included in the gross estate, any mortgage that relates to it is deductible under § 2053. Thus, a mortgage reduces the amount of the taxable estate.
  - b. Unless otherwise specified in the decedent's will, a mortgage accompanies the property passing to the surviving spouse and reduces the marital deduction allowed.
  - c. Unless otherwise specified, the mortgage reduces the charitable deduction allowed.
- pp. 26-28 to 26-30 and Examples 52 and 53
23. Largely this is the case. As noted in the text, however, there are some differences such as for certain nonprofit cemetery associations and foreign charities. p. 26-29
- 24.
- a. If the transfer is by gift, the QTIP election is to be made by the donor spouse. If the transfer is by death, the election is to be made by the executor of the estate of the deceased spouse.
  - b. The election qualifies the property interest for the marital deduction.
  - c. Upon the death of the surviving spouse, the trust will be included in his or her gross estate.

pp. 26-32, 26-33, and Examples 56 and 57

25. For those states that base their death tax entirely on what § 2011 allows (i.e., they use a “pick-up” or “sponge” tax approach), the new changes will reduce revenue. One way to make up the shortfall would be for the state to enact a death tax that does not depend on § 2011. For this possibility, see *Tax in the News* on p. 26-36.
26. The purpose of § 2013 is to ease the burden of estate taxes when the same assets are transferred by successive deaths. Section 2013 could apply as to transfers between spouses if the marital deduction was not available. p. 26-35
27. Items (a) and (e) are subject to indexation, while items (b), (c), and (d) are not. pp. 26-5, 26-7, 26-38, and Footnotes 13 and 61

### PROBLEMS

28.
  - a. \$2,610,000.  $\$1,150,000 + \$710,000 + \$750,000 = \$2,610,000$ . The value on the date of sale controls as to the Oriole stock. This is not the case with the sale of the Kingfisher stock, as the transfer occurred *after* the alternate valuation date.
  - b. No. “Disposition” is broadly defined and would include the satisfaction of a bequest.
  - c. \$2,800,000.  $\$1,100,000 + \$900,000 + \$800,000 = \$2,800,000$ .

p. 26-8 and Examples 6 and 7

29.
  - a. Because of the unlimited marital deduction, no estate tax is due. Thus, the § 2032 election cannot be made.
  - b. Due to the combination of the marital and charitable deductions, no estate tax is due. The § 2032 election cannot be made.
  - c. Both the estate tax liability *and* the gross estate must *decrease*. Thus, the § 2032 election is unavailable.
  - d. Since no estate tax return is due, the § 2032 election is unavailable.
  - e. An estate tax return is due since the filing requirement of \$1,000,000 is reduced to \$980,000 ( $\$1,000,000 - \$20,000$ ). Consequently, a § 2032 election is *not* precluded by this condition.

pp. 26-8, 26-9, 26-40, and Examples 8, 65, and 66

30.
  - a. Transfers to political organizations [as defined in § 527(e)(1)] are exempt from the application of the Federal gift tax. p. 26-11
  - b. A gift to a corporation by a nonshareholder is generally considered as a gift to its individual stockholders. Thus, Phillip probably made a gift to the stockholders of Crow Corporation. p. 26-4

- c. For Federal gift tax purposes, the transfer from Phillip to Teri is not supported by full and adequate consideration and, therefore, is treated as a gift. Reg. § 25.2512-8 and p. 26-12
- d. Phillip has not made a gift to Teri when the account is established. p. 26-26
- e. A gift probably occurs upon the withdrawal of the funds by Teri. However, gift tax is probably avoided due to the marital deduction. pp. 26-24 and 26-25 (*Ethical Considerations*)
- f. Under § 2516, transfers of property interests made under the terms of a written agreement between spouses in settlement of their property rights are deemed to be for adequate consideration and, thereby, are exempt from the Federal gift tax if the final divorce is obtained within a specified period of time after entering the agreement.

As the problem does not specify how long after the agreement the divorce took place, it is impossible to decide whether Phillip made a gift or not.

p. 26-13

- g. No gift occurred upon the acquisition of the bonds. In addition, Teri's redemption is not treated as a gift because the bonds passed to her by testamentary disposition (i.e., Teri acquired the bonds by virtue of surviving Phillip) and not through a lifetime transfer. p. 26-27
- 31.
- a. The creation of a joint tenancy in real estate may avoid the Federal gift tax only if the parties are husband and wife and the marital deduction is utilized. Since Jeff and Chris are brothers, Jeff has made a gift to Chris upon the creation of the tenancy. pp. 26-24, 26-25 and Example 40
  - b. A gift has occurred but it will be offset by the marital deduction. pp. 26-25 and 26-26
  - c. No gift takes place on the creation of the trust, since Jeff has not ceased to have dominion and control over the property. p. 26-10 and Example 10
  - d. Since the transfer now becomes complete, a gift takes place. p. 26-10 and Example 11
  - e. The mere purchase of a life insurance contract with the designation of someone else as beneficiary does not constitute a gift. As long as the purchaser still owns the policy, nothing has really passed to the beneficiary. p. 26-28
  - f. Even on the death of the insured-owner, no gift takes place since the proceeds going to the beneficiary constitute a testamentary and not a lifetime transfer. p. 26-28
  - g. The policy proceeds are treated as a gift from Jeff to Chris. p. 26-28 and Example 50
  - h. The Federal gift tax does not apply to tuition payments made to an educational organization (e.g., a college) on another's behalf. p. 26-11

32. Under § 2516, transfers of property interests made under the terms of a written agreement between spouses in settlement of their marital or property rights are deemed to be for adequate consideration. As adequate consideration is present here, no gift occurs as to the \$600,000 Chester pays Louise during his life. But what about the \$300,000 installment paid after Chester's death? As these funds were owned by Chester at the time of his death, they should be included in his gross estate. However, because Chester is legally obligated to pay the third installment, a liability exists. A deduction under § 2053 (for claims against the estate), therefore, neutralizes any estate tax consequence. pp. 26-13 and 26-29
33. Regarding the December 2002 disclaimer of a partial interest, the effect of § 2518 is to treat one-half of the land as passing from Jesse to Arnold. In other words, Lorena is not involved in the transfer. As to the June 2003 action, however, the disclaimer is not timely. Because the nine-month requirement is not met, § 2518 does not apply. Consequently, Lorena will have made a gift to Arnold of \$1,100,000 (50% X \$2,200,000). p. 26-13 and Examples 16 and 17
34. a. Marsha's gift tax liability is computed as follows.

Amount of gift	\$1,200,000
Subtract annual exclusion	(11,000)
Taxable gift	<u>\$1,189,000</u>
Gift tax on \$1,189,000 per Appendix A, p. A-18 [\$345,800 + 41%(\$1,189,000 - \$1,000,000)]	\$423,290
Subtract unified tax credit for 2003	(345,800)
Gift tax due on 2003 gift	<u>\$ 77,490</u>

- b. If the § 2513 election is made, the following results.

	<u>Marsha</u>	<u>Paul</u>
Amount of gift	\$600,000	\$ 600,000
Subtract annual exclusion	(11,000)	(11,000)
Taxable gifts	\$589,000	\$ 589,000
Add prior taxable gift	0	500,000
Current and prior taxable gifts	<u>\$589,000</u>	<u>\$1,089,000</u>
Gift tax for Marsha—on \$589,000 per Appendix A, page A-18 [\$155,800 + 37%(\$589,000 - \$500,000)]	\$188,730	
Subtract unified tax credit	(345,800)	
Gift tax attributable to Marsha	<u>\$ 0</u>	
Gift tax for Paul—on \$1,089,000 per Appendix A, page A-18 [\$345,800 + 41%(\$1,089,000 - \$1,000,000)]		\$382,290
Subtract—		
Deemed paid tax on 1976 gift	\$155,800	
Unified tax credit	<u>345,800</u>	(501,600)
Gift tax attributable to Paul		<u>\$ 0</u>

By making the § 2513 election, therefore, Marsha saves \$77,490 in gift taxes (compare the results of parts a. and b.).

p. 26-16 and Examples 22 to 24

35. Pat's gross estate includes the following.

Maroon stock	\$1,100,000
Crimson stock	800,000
Maroon dividend	8,800
Davenport bonds	500,000
Davenport interest income	6,000
	<u>\$2,414,800</u>

The Crimson dividend is not included because the record date was subsequent to Pat's death. Interest income on the bonds is included only to the extent of the amount accrued as of date of death.

Examples 27 and 28

36. The value of the trust is included in Curt's gross estate. The amount included is its value on the date of Curt's death. The \$80,000 of life insurance proceeds also is included in Curt's gross estate. Under the "gross up" rule, the \$35,000 of gift tax is included in the gross estate. The other gifts do not fall within the scope of § 2035 and have no direct estate tax consequences. pp. 26-19 to 26-21 and Example 32

37. a. No gift tax results when a grantor creates a revocable trust. If the trust distributes any income to the children, Irma will have made a gift as to such distributions. p. 26-10 and Example 10
- b. \$1,200,000. The retained life estate causes the inclusion in Irma's gross estate. § 2036 and pp. 26-21 and 26-22
- c. No. The release of a power to revoke a retained life estate within three years of death causes the inclusion in Irma's gross estate. § 2035(a)(2) and p. 26-21

38. a. \$560,000 (70% X \$800,000).
- b. \$0.

p. 26-23 and Examples 36 to 37

39. a. Yes. Darcy has made a gift to Kirk of \$300,000.
- b. Yes. Darcy's estate must include \$600,000 (1/2 X \$1,200,000).
- c. The answers do not change, but the ultimate tax consequences are different. Both transfers are offset by the allowance of a marital deduction. Consequently, no tax results.

pp. 26-24, 26-25, and Examples 39 and 51

40. Presuming Bertha can prove that she furnished all of the consideration for the purchase, none of the office building is included in Barney's gross estate. In the case of the residence, however, \$450,000 (1/2 of \$900,000) is included. Since that portion of the residence passes to Teri, Barney's estate can claim \$450,000 as a marital deduction. Bertha has made a gift of \$600,000 to Barney when she purchased the office building and a gift of \$300,000 each to Barney and Teri when she transfers her residence. p. 26-25, and Examples 40 and 41
41. a. Gabe made a gift to Nelda of \$700,000 (1/2 of \$1,400,000) in 1991. Example 46  
b. None, as Nelda did not contribute to the acquisition of the tenancy. Example 40
42. a. Gabe made a gift to Nelda of \$700,000 (1/2 of \$1,400,000) in 1991. However, a marital deduction neutralizes the tax effect of the gift. Example 46  
b. \$1,000,000 is included in Nelda's gross estate, but a marital deduction in this amount is allowed. Example 43
43. a. None of the proceeds are included in Eric's gross estate as neither was he the owner of the policy nor was his estate the designated beneficiary. What has happened is that Hope has made a gift to Ward of \$200,000.  
b. As the policy is on Hope's life and she is still alive, it has not matured. Under § 2033, however, Eric's gross estate must include the unmatured value of the policy (i.e., \$40,000).  
c. Again, as the policy has not matured, its value is limited to \$40,000, and this is the amount included in Eric's gross estate.
- a. The three-year rule of § 2035 will force full inclusion of the proceeds in Eric's gross estate.  
pp. 26-21, 26-26, 26-27, and Examples 32, 47, and 49
44. a. Homer's estate is allowed a deduction under § 2053. Although the claim may not be legally enforceable, a special exception applies to unpaid church pledges. p. 26-29  
b. The value of these lots will not be included in Saleha's gross estate. However, no deduction will be allowed since no inclusion took place. p. 26-29  
c. The taxes paid can be claimed for estate tax purposes under § 2053. pp. 26-28 and 26-29
45. a. As to Tract A, \$800,000 (\$1,000,000 – \$200,000) is allowed. As to Tract B, the full \$700,000 is allowed. Thus, the total marital deduction is \$1,500,000 (\$800,000 + \$700,000).  
b. \$200,000. To allow the \$100,000 on Tract B would lead to a double deduction.  
p. 26-30 and Examples 52 and 53

46. As to decedent Sam, the exemption equivalent is \$625,000 (\$1,300,000 – \$675,000). Normally, \$650,000 was allowed.

As to decedent Helen, the exemption equivalent is \$700,000 (\$1,300,000 – \$600,000).

As to decedent Art, the exemption equivalent is \$675,000. Although \$800,000 would meet the \$1,300,000 limitation, the \$675,000 is the maximum allowed for year 2000.

p. 26-33, Table 26-1, and Examples 58 and 59

- 47. a. \$0. The table amount is \$0. As the adjusted taxable estate is \$30,000 [\$90,000 (taxable estate) – \$60,000], it does not exceed \$40,000.
- b. \$13,800. The table amount for 2003 is \$13,800 (50% X \$27,600), and this is less than \$32,000.
- c. \$18,500. The amount paid is used because it is less than the table amount for 2003 of \$19,400 (50% X \$38,800).
- d. \$15,480. The table amount is \$15,480. The table amount prior to 2003 was  $\frac{\$27,600}{100} + 5.6\%(\$900,000 - \$840,000) = \$30,960$ . For 2003, therefore,  $50\% \times \$30,960 = \$15,480$ .

p. 26-35, Examples 61 and 62, Appendix A, p. A-19

- 48. a. \$320,000 (80% X \$400,000).
- b. \$360,000 (80% X \$450,000).

p. 26-35 and Examples 73 and 74

49. ***Decedent Meg***

Taxable estate		\$ 600,000
Add: gift made in 1985		<u>500,000</u>
Tax base		<u><u>\$1,100,000</u></u>
Tentative tax on total transfers		
\$345,800 + 41%(\$1,100,000 – \$1,000,000)		\$ 386,800
Less:		
Unified tax credit for 1998	\$202,050	
Gift tax paid on 1985 gift*	<u>34,000</u>	<u>(236,050)</u>
Estate tax due		<u><u>\$ 150,750</u></u>

\*Computation of gift tax on 1985 gift

Tentative tax		\$ 155,800
Less unified tax credit for 1985		<u>(121,800)</u>
Gift tax for 1985		<u><u>\$ 34,000</u></u>

***Decedent Caleb***

Taxable estate		\$ 900,000
Add: gift made in 1987		<u>700,000</u>
Tax base		<u>\$1,600,000</u>
Tentative tax on total transfers		
$\$555,800 + 45\%(\$1,600,000 - \$1,500,000)$		\$ 600,800
Less:		
Unified tax credit for 1999	\$211,300	
Gift tax paid on 1987 gift*	<u>37,000</u>	<u>(248,300)</u>
Estate tax due		<u>\$ 352,500</u>

\*Computation of gift tax on 1987 gift

Tentative tax		
$\$155,800 + 37\%(\$700,000 - \$500,000)$		\$ 229,800
Less unified tax credit for 1987		<u>(192,800)</u>
Gift tax for 1987		<u>\$ 37,000</u>

***Decedent Lily***

Taxable estate		\$1,000,000
Add: gift made in 1999		<u>800,000</u>
Tax base		<u>\$1,800,000</u>
Tentative tax on total transfers		
$\$555,800 + 45\%(\$1,800,000 - \$1,500,000)$		\$ 690,800
Less:		
Unified tax credit for 2000	\$220,550	
Gift tax paid on 1999 gift*	<u>56,500</u>	<u>(277,050)</u>
Estate tax due		<u>\$ 413,750</u>

\*Computation of gift tax on 1999 gift

Tentative tax		
$\$248,300 + 39\%(\$800,000 - \$750,000)$		\$ 267,800
Less unified tax credit for 1999		<u>(211,300)</u>
Gift tax for 1999		<u>\$ 56,500</u>

***Decedent Buzz***

Taxable estate		\$ 900,000
Add: gift made in 2002		<u>1,000,000</u>
Tax base		<u>\$1,900,000</u>
Tentative tax on total transfers		
$\$555,800 + 45\%(\$1,900,000 - \$1,500,000)$		\$ 735,000
Less:		
Unified tax credit for 2003	\$345,800	
Gift tax paid on 2002 gift*	<u>-0-</u>	<u>(345,800)</u>
Estate tax due		<u>\$ 389,200</u>

\*Computation of gift tax on 2002 gift

Tentative tax	\$ 345,800
Less unified tax credit for 2002	<u>(345,800)</u>
Gift tax for 2002	<u>\$ -0-</u>

Figure 26-2, Tables 26-1, 26-2, and Appendix A

NOTES