

PROBLEM I

In 2000, P (who has made no prior gifts), gave \$685,000 to C. What is P's gift tax liability?

1.	Taxable Gift [2501(a); 2503(a)]	685,000
2.	Annual Exclusion [2503(b)]	(10,000)
3.	Deductions [2522-2524]	0
4.	Taxable Gift	675,000
5.	Tentative Tax [2502(a); 2001(c)]	220,550
6.	Applicable Credit [2505(a); 2010(c)]	(220,250)
7.	Gift Tax Due	0

PROBLEM II

In 2001, P gives an additional \$585,000 to C. What is P's gift tax liability?

1.	Taxable Gifts [2503(a)]	585,000
2.	Annual Exclusion [2503(b)]	(10,000)
3.	Deductions [2522-2524]	0
4.	Taxable Gifts	575,000
5.	Prior Year's Taxable Gifts [2504(a)]	675,000
6.	Cumulative Taxable Gifts	1,250,000
7.	Tentative Tax [2502(a)]	448,300
8.	Tentative Tax on Prior Gifts [2502(a)]	(220,550)
9.	Tentative Tax	227,750
10.	Applicable Credit [2505(a); 2010(c)]	(220,550)
11.	Applicable Credit Used [2505(a)]	220,550
12.	Applicable Credit Remaining	0
13.	Gift Tax Due (line 9 – line 12)	227,750

PROBLEM III

D, a widower, dies in 2001, without ever making a gift. D died with the following assets, expenses, claims, and bequests:

Tangible Effects (2033)	435,000
Life Insurance (2042)	100,000
Land Owned Jointly With Son (2040)	200,000
Administrative Expenses (2053)	15,000
Claims Against the Estate (2053)	10,000
Charitable Bequests (2055)	35,000

What is the estate tax liability?

1.	Gross Estate (2032 – 2046)	735,000
2.	Deductions (2053 – 2056A)	(60,000)
3.	Taxable Estate (2051)	675,000
4.	Gross Estate Tax (2001)	220,550
5.	Applicable & Other Credits (2010 – 2016)	(220,550)
6.	Estate Tax Due	0

PROBLEM IV

Assume that D has assets of \$2,000,000, and

- A. D holds the assets until death in 2000; or
- B. D gives away $\frac{1}{2}$ of the assets in 2000, pays the gift tax incurred, and held the remaining assets until death in 2004.

PART A ESTATE TAX LIABILITY

1.	Gross Estate (2032 – 2046)	2,000,000
2.	Deductions (2053 – 2056A)	0
3.	Taxable Estate (2051)	2,000,000
4.	Gross Estate Tax (2001)	780,800
5.	Applicable & Other Credits (2010 – 2016)	(220,550)
6.	Estate Tax	<u>560,250</u>

PART B GIFT TAX LIABILITY

1.	Taxable Gift [2501(a); 2503(a)]	1,000,000
2.	Annual Exclusion [2503(b)]	0
3.	Deductions [2522 – 2524]	0
4.	Taxable Gift	1,000,000
5.	Tentative Gift Tax [2502(a); 2001(c)]	345,800
6.	Applicable Credit [2505(a)]	(220,550)
7.	Gift Tax Due	<u>125,250</u>

PART B ESTATE TAX LIABILITY

1.	Gross Estate [2032 – 2046]	874,750
2.	Deductions [2053 – 2056A]	0
3.	Taxable Estate [2051; 2001(b)]	874,750
4.	Adjusted Taxable Gifts [2001(b)]	1,000,000
5.	Tentative Estate Tax Base	1,874,750
6.	Tentative Estate Tax [2001(b)]	724,438
7.	Tax on Adjusted Taxable Gifts [2001(b)]	(125,250)
8.	Gross Estate Tax [2001(b)]	599,188
9.	Applicable & Other Credits [2010 – 2016]	(220,550)
10.	Estate Tax	<u>378,638</u>

TOTAL TAX IN B	125,250	Gift Tax
	<u>378,638</u>	Estate Tax
	503,888	

SAVINGS, B OVER A	560,250	A
	<u>503,888</u>	B
	56,362	

Two questions to ponder:

1. In B does D get a double benefit from the applicable credit (i.e., D uses it to offset the gift tax [line 7] *and* the estate tax [line 9])?
2. Why is there a savings of \$56,362 in B? How is this possible if the gift and estate taxes are unified?