# 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 ½ 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 | 560, 250 |

## 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 | 125,250 |

**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 | 378,638 |

| | | |
|---|---|---|
| TOTAL TAX IN B | 125,250 | Gift Tax |
| | 378,638 | Estate Tax |
| | 503,888 | |
| SAVINGS, B OVER A | 560,250 | A |
| | 503,888 | 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?