

Module Twelve – Trusts and Corporations

Question 28. Sammy Settlor creates a trust “from Sammy Settlor to Tommy Trustee in trust for Billy Beneficiary.” Sammy transfers title for these items to the trust (values at the time of transfer in parentheses): BlackAcre (\$5,000,000); a painting entitled WingedCamels (\$1,000,000); and a vintage restored 1969 corvette automobile (\$200,000). Choose the most correct answer selection.

- a.* Sammy’s instructions in the trust command Tommy to perform regular maintenance on the corvette; Tommy fails to do this; Tommy is liable for failure to follow trust instructions.
- b.* Tommy fails to perform regular maintenance on the corvette and as a result it loses a third of its value in the first year; Tommy is liable for failure to prudently manage trust assets.
- c.* Tommy mortgages BlackAcre for \$1,000,000, transferring the sale proceeds into his personal offshore bank account, hiding that transfer from everyone; Tommy sells WingedCamels for \$1,000,000 to pay the mortgage payments over the life of the loan (which is ten years); Tommy is liable for failure of loyalty.
- d.* Tommy rents BlackAcre to TMI, Inc. for the sum of \$200/month; market value for the rent of BlackAcre is \$500/month; Tommy is the president and fifty percent owner of TMI; Tommy is liable for self-dealing.
- e.* All of selections *a* through *d* are correct characterizations.

Module Twelve - Trusts and Corporations – Answer Key

Question Number	Correct Answer
28	e