ESTATE PLANNING
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PROBLEM SET 8

A

First, read section 2040 of the Internal Revenue Code. Then discuss the federal transfer tax consequences of each of the following transactions and series of events:

1. Bob Bigbucks is the father of Billy Bigbucks. With funds constituting his separate property, Bob buys the Lazy K ranch from Andy Angus, an unrelated third party, who transfers title to the property "to Bob Bigbucks and Billy Bigbucks, as joint tenants with right of survivorship." The purchase price is $100,000. Bob dies 10 years later, survived by Billy and Bob's wife, Betty. Bob's will leaves all of his property to Betty. At the time of Bob's death, the ranch is worth $200,000.

2. Same facts as in 1, except that Billy predeceases Bob by five years, at which time the ranch is worth $50,000.

3. Same facts as in 1, except that Bob and Billy each pay $50,000 of the purchase price of the ranch. Billy pays for his share of the purchase price with money that he had received as a birthday gift from his mother and father one year prior to the purchase.

4. Same facts as in 1, except that Bob and Billy receive the ranch as a gift from a distant cousin.

5. Same facts as in 1, except that prior to Bob's death, Billy gives his interest in the ranch to Lois Luckee. At the time of the gift, the ranch is worth $150,000.

B

Frank, a Texas resident and widower, is the father of Sonny. Frank is contemplating the purchase of land in Oklahoma for $500,000. Sonny is Frank's sole descendant, and Frank wishes for Sonny to benefit from Frank's assets upon Frank's death. Sonny has run into some financial difficulties with financial institutions, however, so Frank does not want to give outright ownership of all of the land to Sonny until he matures a bit. Frank would like to avoid the hassle of ancillary probate administration of any of his assets when he dies. A certified financial planner has recommended that Frank purchase the property and instruct the parties to draft a deed naming Frank and Sonny as joint tenants with right of survivorship. Frank asks you to advise him as to whether this is a good idea. *What do you tell Frank?*

C

What is a "widow's election" provision in a will? What are the income tax and transfer tax consequences of the election?

D

Your client, Lucy Mertz, is a wealthy entrepreneur married to a rather financially unsophisticated former entertainer, Ricky Ball. Lucy is ten years older than Ricky. Lucy and Ricky have a twenty-five year old son (Gomer) who walks dogs for a living. Lucy owns numerous assets as her separate property, including cash. Lucy is considering the purchase of a whole life insurance policy on her life, with Ricky named as the primary beneficiary, and Gomer named as the contingent beneficiary. At a recent dinner party, Lucy heard one of her friends discussing the creation of a trust holding life insurance. Lucy asks you about the details of such an arrangement, and desires an overview of the advantages and disadvantages of this approach. *What do you tell Lucy?*

E

Discuss the estate tax consequences of the following events.

1. Bob, a Texas resident, bought a $100,000 whole life insurance policy and paid $3,000 in premiums. Then he married Winnie. After the marriage, $12,000 in premiums were paid with community funds. On his death, $100,000 in proceeds were paid to Winnie.

2. Dana buys a life insurance policy while she is married to Mark with funds in their joint bank account. Dana is the insured. Dana names her estate as the beneficiary of the policy. Dana dies.

3. Harry, who is married to April, is the insured under a $100,000 community life insurance policy that names the couple's daughter May as beneficiary. Harry dies, survived by April and May.

4. Meg controls FameCo. FameCo buys life insurance on Meg's life, and the proceeds are payable to FameCo upon Meg's death.