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**ESTATE AND GIFT TAX
FALL 2025
BOGDANSKI**

**FINAL EXAMINATION
(Three hours)**

INSTRUCTIONS

This examination consists of three essay questions, each of which will be given equal weight in determining grades. Three hours will be permitted for this examination. At the end of the three hours, you must turn in this set of questions in the original envelope in which this set came. You must submit your answers using Exemplify.

No credit will be given for anything written on this set of questions. Only your electronic answer file will be graded.

Use of any electronic device during this exam, other than a device on which you are taking the exam using Exemplify, is strictly prohibited. If you need it, the calculator function in Exemplify is activated.

Pay close attention to the final portion, or “call,” of each question. Failure to respond to the matters called for will result in a low score for the question. On the other hand, discussion of matters outside the scope of the call of the question will not receive credit.

Be sure to explain as thoroughly as possible your answers to the questions posed. Your reasoning, discussion, and analysis are often as important as any particular conclusion you reach.

The suggested time limit for each question is one hour. Experience has shown that failure to budget one’s time according to this limit can result in a drastic lowering of one’s overall grade on this examination.

Unless otherwise specified, assume that:

- all persons named in the questions are individuals, U.S. citizens, and U.S. residents;
- the federal wealth transfer tax laws in effect in 2025 remain in effect permanently; and
- for *all years* in which the transactions and events described in the questions take place, the unified credit exemption equivalent is \$14,000,000, and the gift tax annual exclusion amount is \$19,000, in each case without any annual change on account of inflation.

Any references to “the Code” mean the Internal Revenue Code of 1986, as amended.

QUESTION ONE
(One hour)

Winnie, a wealthy widow, has used up all of her estate and gift tax unified credit. Winnie's spouse died with no unused unified credit. Winnie is named in a trust established several years ago by Winnie's late brother, Oscar ("Oscar's Trust"). The trust instrument requires the trustee, Banker, to pay the income from the trust corpus every year to Winnie's niece, Nina, until Nina reaches age 30 or Nina's earlier death. When Nina reaches age 30 or dies, the trust is to terminate, and the trustee is to distribute the corpus to Nina or Nina's estate. The trust instrument gives Winnie the power to appoint all or any part of the corpus of the trust to Winnie herself at any time for Winnie's "comfort and welfare." The trust corpus consists of a rapidly appreciating stock portfolio. Banker distributes the trust's substantial income, consisting of dividends from the stocks, to Nina each year, as the trust requires. In 2025, Nina turns 22 years old.

In 2025, Winnie takes out a life insurance policy, with herself as the insured. Winnie names her two adult children, James and Kim, as the beneficiaries of the policy. Winnie then transfers ownership of the policy to her sister, Peggy. As sole policyholder, Peggy has the right in her discretion to change the beneficiaries of the policy, but she never does so. After becoming owner of the policy, Peggy pays all subsequent premiums when due.

Winnie owns two homes. Her principal residence is located in a suburb of a large city. Winnie's other home, a posh vacation home known as Mountacre, is located near an exclusive ski resort. The fair market values of both houses have been increasing every year.

In 2025, Winnie establishes an irrevocable trust, and transfers Mountacre to the trust. Under the terms of the trust, Winnie retains the right to occupy Mountacre exclusively through the end of 2035. At the end of 2035, or sooner if Winnie dies, the trust is to terminate, and Mountacre is to be distributed to James and Kim, or their respective estates, as equal tenants in common. Winnie and the children agree that upon termination of the trust in 2035, Winnie will pay rent to the children based on Winnie's actual use, if any, of Mountacre.

In 2027, Winnie signs and delivers to Banker and Nina a document that purports to release Winnie's power of appointment over Oscar's Trust. However, it is unclear whether this release is effective under applicable state law. In any event, Winnie never exercises the power.

In 2031, Winnie dies, survived by Nina, Peggy, James, and Kim. The trust holding Mountacre terminates, and the trustee distributes Mountacre to James and Kim as equal tenants in common. The insurance company pays the death benefit on the life insurance policy in cash, in equal shares, to James and Kim.

What are the federal estate, gift, and generation-skipping-transfer tax consequences to Winnie, Winnie's estate, and Peggy of each of the transactions and events just discussed, with and without all available tax elections? Be sure to discuss the amount and timing of each item.

Discuss.

(End of Question 1)

QUESTION TWO
(One hour)

Iris and Fred are a married couple. Iris comes from a wealthy family; Fred does not. In 2025, before either of them makes a taxable gift, Fred dies, survived by Iris. Iris is appointed executor of Fred's probate estate.

At the time of Fred's death, Fred was being audited by local taxing authorities. A month before he died, Fred received a notice from the city that he owed \$100,000 in prior years' business taxes, penalties, and interest. After doing some research on the internet, Fred believed that the city's position had about a 50-50 chance of being sustained. Iris, as executor of Fred's estate, hires a tax lawyer, Tim, to contest the asserted local tax deficiency before payment. In 2027, Tim and the city reach an agreement. Iris pays the city \$30,000 to settle the tax case. Iris pays Tim a \$10,000 fee for his services. The payments to the city and to Tim are made from Fred's probate estate and approved by the county probate court.

Fred's taxable estate is finally determined to be \$2,000,000, well below the \$14,000,000 exclusion equivalent for purposes of the estate and gift unified credit. No other estate tax credits are available to Fred's estate.

In 2028, Iris falls in love with Stan, and Iris and Stan are married that year. At the time of their wedding, Stan has not used any of his estate and gift tax unified credit.

In 2029, Iris makes a gift to her adult child, Dory, of corporate bonds with fair market values totaling \$2,038,000. It is the first time that Iris has ever made a gift in excess of the gift tax annual exclusion. After this gift, neither Iris nor Stan makes any additional lifetime taxable gifts.

In 2032, Stan dies, survived by Iris and Dory. Stan's taxable estate is \$11,000,000. Other than the unified credit, no estate tax credits are available to Stan's estate.

In 2034, Iris dies, never having remarried after Stan's death. Iris is survived by Dory, to whom Iris leaves all her assets. Iris's property has an aggregate fair market value well in excess of \$40,000,000 at the time of her death.

Among the assets Iris leaves to Dory is Iris's interest in a limited partnership that Iris established in 2030. Immediately before Iris's death, Iris is the sole limited partner in the partnership; Dory is the sole general partner. As general partner, Dory has exclusive control over the management of the partnership assets, consisting of marketable securities that have been rapidly increasing in value. Only Iris contributed assets to the partnership; Dory received her partnership interest as a gift from Iris. In recognition of that fact, Dory has always timed distributions from the partnership to the partners so as to match Iris's travel expenses, which were substantial.

What are the federal estate, gift, and generation-skipping-transfer tax consequences to Fred's estate, Iris, Stan, and Iris's estate of each of the transactions and events just discussed, with and without all available tax elections? Be sure to discuss the amount and timing of each item.

Explain.

(End of Question 2)

QUESTION THREE
(One hour)

Zoe, a rich individual, has never been married. Prior to 2025, Zoe's unified credit has been exhausted by her lifetime gifts. In 2025, Zoe establishes an irrevocable trust, naming her attorney, Nixon, as trustee. Zoe transfers \$5,000,000 cash to the trust. The terms of the trust are as follows:

- Nixon is to invest the trust corpus with a goal of maximizing current income.
- All of the income from trust assets is to be paid to Zoe's child, Ken, annually for the rest of Ken's life.
- Upon Ken's death, if Zoe is still alive, income is to be paid to Zoe for the rest of Zoe's life.
- Upon the death of the later to die of Ken and Zoe, the trust is to terminate, and the entire corpus is to be distributed in equal shares to any lineal descendants of Ken who are alive at that time. If there are no such living lineal descendants, then the entire corpus is to be distributed to Zoe's brother-in-law, Bob, or Bob's estate.
- For 60 days following the funding of the trust, Bob has the right to withdraw \$19,000 from the trust corpus.

Bob does not exercise his withdrawal right.

In 2027, Zoe dies, survived by Ken and Ken's child, Gloria. Thanks to Nixon's financial acumen, the fair market value of the trust corpus when Zoe dies is \$7,000,000.

At the time of Zoe's death, Zoe is a one-half tenant in common in Greenacre, a large parcel of undeveloped forest land that generates modest income from sales of timber. The property, which is in an area of rapid residential development, has a fair market value at the time of Zoe's death of \$6,000,000. The other tenant in common is Zoe's cousin, Marvin. Marvin originally owned Greenacre outright, having bought it with his savings from employment; Marvin gave Zoe the one-half interest in 2022 out of love and affection. Zoe's will transfers Zoe's one-half interest to a trust in which Marvin's granddaughter, Anne, is the sole beneficiary.

What are the federal gift, estate, and generation-skipping-transfer tax consequences to Zoe, Bob, and Zoe's estate of each of the transactions and events just discussed, with and without all available tax elections? Be sure to discuss the amount and timing of each item.

Discuss.

(End of examination)