1. List six assets included in a decedent's gross estate.
   1. Cash.
   2. Stocks and bonds.
   3. Annuities.
   4. Retirement accounts.
   5. Notes receivable.
   6. Residences.
   7. Other real estate.
   8. Household goods.
   See Exhibit 6.4 for additional selections.

2. What is a revocable transfer?
   A revocable transfer is a transfer where the transferor retains the right to alter, amend, revoke, or terminate the transfer.

3. If a decedent owns a life insurance policy on his own life, at what value is it included in his gross estate?
   A life insurance policy on the decedent’s life owned by the decedent is included in the decedent’s gross estate at the face value, or death benefit, of the life insurance policy.

4. What is meant by “incidents of ownership” in a life insurance policy?
   The term references the right of the insured or his estate to the economic benefits of the policy. Thus, it includes the power to change the beneficiary, surrender or cancel the policy, assign the policy, revoke an assignment, pledge the policy for a loan, or obtain a loan from the insurer against the surrender value of the life insurance policy.
5. **What is a straight single life annuity, and to what extent is its value included in a decedent annuitant’s gross estate?**
   A straight single life annuity is an annuity that pays the annuitant until his death. At the death of the annuitant, his gross estate does not include any value related to the annuity because the annuitant’s interest in the contract terminates at his death.

6. **What is a general power of appointment?**
   A general power of appointment is a power in which the holder can appoint the property (subject to the power) to himself, his estate, his creditors, or the creditors of his estate.

7. **How is real estate valued for purposes of inclusion in a decedent’s gross estate?**
   Real estate is included in a decedent’s gross estate at the fair market value of the property at the decedent’s date of death or the alternate valuation date, or the sales price of the real estate if it sold between the date of death and the alternate valuation date (if properly elected). To obtain these fair market values (other than for a sale), an appraisal is required.

8. **How are publicly traded common stocks valued in a decedent’s gross estate?**
   Publicly traded stocks are valued at the average of the high and the low for the day of the decedent’s date of death. If the decedent died on a Saturday or Sunday, the stock is valued at the average of the applicable values for the preceding Friday and subsequent Monday. Also, if the stock is a dividend-paying stock, the value should include any dividends if the decedent died after the X dividend date and before the date of payment.

9. **List three valuation discounts.**
   Any three of the following:
   1. Minority discount.
   2. Lack of marketability discount.
   4. Key person discount.

10. **What are the requirements for an estate to elect the alternate valuation date?**
    The executor can make the election to value the estate six months after a decedent’s date of death (the alternate valuation date), if such election will decrease both the value of the gross estate and the estate tax liability.

11. **List three available deductions from a decedent’s gross estate.**
    Any three of the following:
    1. Funeral expenses.
    2. Last medical expenses.
    3. Administrative costs.
    4. Debts.
    5. Losses during estate administration.

12. **How is the applicable estate tax credit related to the applicable estate tax credit equivalency?**
    The applicable estate tax credit is the estate tax that correlates to the estate tax credit equivalency. For 2014, the estate tax credit is $2,081,800 and the estate tax credit equivalency is $5,340,000.
13. **Explain the availability of the credit for tax on prior transfers.**
   A credit is given for estate taxes paid within 10 years of the decedent’s date of death for property included in the gross estate of the decedent. The credit is subject to a percentage limitation that depends upon how long the decedent survived the transferor.

14. **Under what circumstances may an estate take a credit for foreign death taxes paid?**
   A credit for foreign death taxes is only allowed for death taxes paid on property situated within the country to which the tax is paid, on property included in the decedent’s gross estate, and with respect to the decedent’s estate. The credit is only allowed for U.S. citizens, and the credit does not include any interest or penalties paid in connection with foreign death taxes.

15. **When is a decedent’s federal estate tax return due?**
   The federal estate tax return is due nine months after the decedent’s date of death. A six-month extension of time to file is available.

16. **What is an heir’s adjusted basis in property inherited?**
   Generally, the adjusted basis of inherited property is the fair market value of the property at the decedent’s date of death, or if properly elected by the executor, the fair market value at the alternate valuation date, which can be found on Form 706.

17. **How is the holding period of inherited property in the hands of the heir calculated?**
   The holding period of property acquired from a decedent is deemed to be long-term. This applies regardless of whether the property is disposed of at a gain or loss and regardless of the decedent’s holding period.
1. Jack had been working with an estate planner for several years prior to his death. Accordingly, Jack made many transfers during his life in an attempt to reduce his potential estate tax burden, and Jack's executor, Tom, is thoroughly confused. Tom comes to you for clarification of which assets to include in Jack's gross estate. Which of the following transactions will not be included in Jack's gross estate?

a. Jack gave $40,000 to each of his three grandchildren two years ago. No gift tax was due on the gifts.

b. Jack purchased a life insurance policy on his life with a face value of $300,000. Jack transferred the policy to his son two years ago.

c. Jack and his wife owned their personal residence valued at $250,000 as tenants by the entirety.

The correct answer is a.
The $40,000 gifts to his grandchildren are excluded from his gross estate because only gifts of life insurance within three years and any gift tax paid on a gift within three years are included in a transferor's gross estate. The life insurance policy included in answer b is included in the Jack’s gross estate because transfers of life insurance within three years of death are included in the decedent’s gross estate. Any property owned at the decedent’s date of death, as in answer c, is included in the decedent’s gross estate. (Do not confuse gross estate inclusion with probate inclusion.) Even though Jack gave the mountain home in answer d to his daughter, and the value of the property generally would not be included in Jack’s gross estate, the fact that Jack continued to utilize the property each weekend and maintained the property would cause inclusion in his gross estate.

2. The gross estate of a decedent who died in the current year would not include which of the following items?

a. A luxury sedan, valued at $60,000, driven every day by the decedent.

b. Cash of $1,000,000 given to decedent’s daughter two years ago. No gift tax was paid on the transfer.

c. A bond given to decedent’s cousin last year. Gift tax of $4,000 was paid on the transfer.

d. A home which the decedent owned as tenants by the entirety with his wife.

The correct answer is b.
The $1,000,000 transfer is not included in the decedent’s gross estate because the three year look back rule only applies to life insurance. Only the gift tax paid on the transfer in answer c would be included in the decedent’s gross estate. The property listed in answer a and answer d would be included in the decedent’s gross estate.
3. Despite his efforts to transfer all of his property out of his estate during his life, Gordon died on January 16th still owning the following property:

<table>
<thead>
<tr>
<th>Property</th>
<th>Adj. Basis</th>
<th>FMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Residence</td>
<td>$20,000</td>
<td>$320,000</td>
</tr>
<tr>
<td>Rental Property</td>
<td>$84,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Rental Income on above property (February payment)</td>
<td>$2,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Cancelled vacation cruise refund (check received 12/31 but not cashed)</td>
<td>$4,500</td>
<td>$4,500</td>
</tr>
<tr>
<td>Cash</td>
<td>$18,000</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

What is the value of Gordon's gross estate?

a. $124,500.
b. $128,500.
c. $422,500.
d. $424,500.

The correct answer is c.

The personal residence, the rental property, the cruise refund and the cash are all included at the fair market value at Gordon’s date of death. The rental income is not included because the payment was made after Gordon’s death, and it was not owed to Gordon before his death. $320,000 + $80,000 + $4,500 + $18,000 = $422,500. The rental income would be included in the estate’s income tax return (Form 1041).

4. In August of the current year, Jim died of lung cancer. Jim’s son, Doug, has decided to prepare his father’s estate tax return, but has come to you for clarification on whether the following list of items are included in Jim’s gross estate. After reviewing the list, which item(s) will you tell Doug to exclude from Jim’s gross estate?

a. A life insurance policy on the life of Jim’s wife owned by Jim.
b. A check from Doctor’s Hospital for the refund of medical expenses that Jim initially paid, but were subsequently paid for by Jim’s health insurance company. The reimbursements were due to Jim before his death.
c. A check from ABC Corporation for dividends in the amount of $15,000 declared September 23rd (the month after Jim’s death).
d. A payment of $500,000 from Mutual Life Insurance of America representing the proceeds of a life insurance policy owned by Jim.

The correct answer is c.

Jim died in August. The dividends from ABC Corporation in the amount of $15,000 are not included in Jim’s gross estate because they were not declared until September. The life insurance policy in answer a is included in Jim’s gross estate as all property owned by the decedent at his date of death is included in the decedent’s gross estate. The check from the hospital detailed in answer b is included in Jim’s gross estate because the payments were due to him before his death. The life insurance policy in answer d is included in Jim’s gross estate because life insurance owned or transferred within three years of a decedent’s date of death are included in the decedent’s gross estate.
5. To avoid inclusion in a power holder’s gross estate, a power should limit the appointment of property to the power holder for the sole purpose of:
   a. Pleasure.
   b. Support.
   c. Wealth.
   d. Happiness.

   The correct answer is b.

   A power of appointment which limits the holder's benefit to support is not included in the power holder's gross estate. As a general rule, a power which limits the power holder's benefit to health, education, maintenance, or support (or any combination of those listed) is not included in the power holder's gross estate.

6. Before her death, Alice loaned Jerry $400,000 in return for a note. The terms of the note directed Jerry to make monthly payments including interest at the applicable federal rate. If Alice dies before the note is repaid, which of the following affects the valuation for Alice's gross estate?
   1. Jerry’s inability to make payments timely.
   2. The market rate of interest.
   3. The remaining term of the note.
   4. Alice forgives the note as a specific bequest in her will.

   The correct answer is c.

   If Alice dies before Jerry repays the note, the note is included in Alice's gross estate at the fair market value of the note plus any accrued interest due at Alice's date of death. This fair market value is affected by the interest rate, maturity date, and Jerry's ability to make the note payments, but not by Alice's forgiveness of the note in her will. The forgiveness of the note is deemed a specific bequest and the fair market value of the note is still included in Alice's gross estate.

7. Gus dies owning several shares of an infrequently traded stock. If Gus dies on Wednesday, November 7th, and the stock has the following trading information:

   Monday, 11/5  $31
   Thursday, 11/8  $36
   Monday, 11/12  $28

   What is the per share value (rounded to the nearest dollar) of the stock on the federal estate tax return?

   a. $31.
   b. $33.
   c. $34.
   d. $36.
The correct answer is c.

To value an infrequently traded stock, or to find the value on a date which falls in between trading dates, we must follow a special formula. First, multiply the first trading price after the valuation date by the number of days between the valuation date and the last trade before the valuation date. Add to this product, the product of the last trading price before the valuation date by the number of days between the valuation date and the first trade after the valuation date. Now, divide the total of the two by the total number of days between the trade before the valuation date and the trade after the valuation date.

\[
\frac{(2 \times \$36) + (1 \times \$31)}{3} = \frac{\$103}{3} = \$34
\]

8. Of the following expenditures from an estate, which is not a deduction from the gross estate to arrive at the taxable estate?
   - a. Payment to United Charitable Organization (a 501(c)(3)) to satisfy a specific bequest.
   - b. Distribution of assets to spouse to satisfy specific bequests listed in will.
   - c. Payment to Second USA Bank for a credit card balance.
   - d. A payment to decedent’s friend for $10,000 to satisfy a specific bequest.

The correct answer is d.

Payments made to satisfy specific bequests to individuals other than a surviving spouse or a charity are not deductions from the gross estate to arrive at the taxable estate. All of the others are deductible expenses or transfers.

9. When a U.S. citizen dies and bequeaths property to his U.S. citizen spouse, the marital deduction is limited to the following amount:
   - a. $780,800.
   - b. $2,081,800.
   - c. $5,340,000.
   - d. The marital deduction is unlimited.

The correct answer is d.

For transfers to a U.S. citizen spouse, the marital deduction is unlimited.

10. After an extensive hospital stay, Daryl died of heart failure in August of the current year. In computing Daryl’s taxable estate, which of the following is not deductible?
    - a. Payment to Good Insurance representing the past due balance of Daryl’s car insurance for the month July.
    - b. Per the will, a payment to Daryl’s friend John.
    - c. Payment to Brian’s Engraving for Daryl’s tombstone.
    - d. Payment to Howe & Dewey, LLP, the estate’s attorneys.

The correct answer is b.

A specific bequest, as detailed in answer b, is not deductible. All of the other answers are deductible expenses or transfers.
11. Johnny died eight months ago and his executor is finalizing his estate tax return. The executor has determined that Johnny’s gross estate includes $400,000 of real estate, $750,000 of cash and cash equivalents, and $300,000 of qualified retirement plans. The total gross estate is $1,450,000. As the executor reviews the deductions, which of the following will he deduct from the total gross estate to arrive at the adjusted gross estate on his Form 706?

a. Income in Respect of Decedent (IRD).
b. Unlimited charitable deduction.
c. Unlimited marital deduction.
d. Executor’s fee.

The correct answer is d.
The executor's fees listed in answer d are deductions from the gross estate to arrive at the adjusted gross estate. The marital deduction and charitable deduction, as listed in answers b and c, are deductions from the adjusted gross estate to arrive at the taxable estate. Income in respect of a decedent, answer a, is a deduction on the estate’s Form 1041 or a beneficiary's Form 1040, and is not a deduction on the decedent’s Form 706.

12. Jude has begun some estate planning. What is the maximum amount of estate tax Jude can avoid by using the applicable estate tax credit during 2014?

a. $780,800.
b. $2,081,800.
c. $3,500,000.
d. $5,340,000.

The correct answer is b.
Jude can shelter estate tax of $2,081,800 using the applicable estate tax credit of $2,081,800. The applicable estate tax credit equivalency or exclusion amount is $5,340,000 for 2014.

13. If a decedent dies in 2014 with a taxable estate of $6,000,000 and has never used any of his applicable estate tax credit, what amount of the decedent’s estate tax will be absorbed by the applicable estate tax credit amount in 2014?

a. $780,800.
b. $1,455,800.
c. $2,081,800.
d. $5,340,000.

The correct answer is c.
The applicable estate tax credit for 2014 is $2,081,800.

14. An estate tax return must be filed for a U.S. resident or a U.S. citizen dying during 2014 if the total value of his gross estate plus post-1976 adjusted taxable gifts on his date of death is greater than:

a. $1,000,000.
b. $2,081,800.
c. $3,500,000.
d. $5,340,000.
The correct answer is d. 
This question is asking for the applicable estate tax credit equivalency for 2014, or the fair market value of property that can transfer with an estate tax less than or equal to the applicable estate tax credit. For 2014, the applicable estate tax credit equivalency is $5,340,000.

15. If an estate pays the funeral expenses of the decedent, on which tax return are these expenses deducted?
   a. The decedent's final return (Form 1040).
   b. The decedent's estate tax return (Form 706).
   c. The income tax return of the decedent's estate (Form 1041).
   d. The surviving spouse's income tax return (Form 1040).

The correct answer is b. 
If the funeral expenses are paid by the decedent's estate, the expenses are deducted on the federal estate tax return. If the expenses are paid by anyone else (or any other entity), the expenses are not deductible.

16. Christie's father has been diagnosed with cancer and has been given one year to live. In an attempt to avoid capital gains tax, Christie transfers her stock with an adjusted basis of $1,000 and a fair market value of $11,000 to her father. Christie's father dies seven months after the transfer when the fair market value of the stock was $12,000 and Christie's father's will leaves her everything, including the stock. Christie subsequently sells the stock for $19,000. What is Christie's capital gain on the transaction?
   a. $7,000.
   b. $10,000.
   c. $18,000.
   d. $19,000.

The correct answer is c. 
A special rule applies when the donee of property dies within one year of the transfer and the donee bequeaths the property back to the original donor. In this case, the heir (original donor) will not receive a step up to fair market value in the property. Here, Christie will receive her stock from her father's estate with her father's basis - which was her basis before the original gift - or $1,000. So, when Christie sells the stock for $19,000, she has an $18,000 capital gain.