1. Explain how an intra-family sale of property can be an advantageous strategy for reducing an individual’s gross estate.
An intra-family sale can reduce an individual’s gross estate because the sale of the property will remove any future appreciation in the fair market value of the sold property and will remove the future income from the sold property from the individual’s gross estate.

2. List three of the major differences in the gross estate treatment of transfers during life and bequests at death.
- Transfers during life for support are excluded from the gross estate, whereas transfers at death for support are included in the individual’s gross estate.
- Qualified transfers during life are excluded from the gross estate, whereas transfers at death for the same “qualified” purposes are included in the gross estate.
- The annual exclusion only applies for transfers during life. Transfers at death do not qualify for the annual exclusion.
- Any future appreciation on property transferred during life is excluded from the individual’s gross estate. Property transferred at death is included in the gross estate at the full fair market value at the individual’s date of death.
- Any income on property transferred during life is excluded from the transferor’s gross estate. An individual who transfers property at his death includes all of the income from the property received (or owed) until death in his gross estate.
- The gift tax paid on transfers during life is excluded from the transferor’s gross estate.

3. List the transfer techniques most commonly used with loved ones.
SCINS, private annuities, partial sale-gift transactions, outright gifts, gifts in trusts, family limited partnerships, qualified transfers, and transfers qualifying for the marital deduction.

4. What is the term of a private annuity?
A private annuity has a term equal to the life of the seller.
5. **What is the buyer's adjusted basis in property purchased through a private annuity?**
   A buyer's adjusted basis on property purchased through a private annuity is the sum of all of the annuity payments.

6. **What is the SCIN premium?**
   The SCIN premium is a premium paid by the buyer to the seller that is either built into the note payment or is added to the sales price of the asset. The SCIN premium gives the buyer the right to cancel any remaining installment payments if the seller dies before the end of the defined installment sale term.

7. **If the seller outlives the term of a SCIN, how is the buyer affected?**
   If the seller outlives the term of the SCIN, the buyer pays all of the installment payments plus the SCIN premium for the term of the SCIN, and thus overpays for the property transferred by an amount equal to the SCIN premium.

8. **What is the buyer's adjusted basis in property purchased through a SCIN?**
   The buyer's adjusted basis in property purchased through a SCIN is the agreed upon purchase price, including the value of the note.

9. **Explain the gift tax consequences of a SCIN and a private annuity.**
   Neither a SCIN nor a private annuity will have any gift tax consequences as long as the present value of the expected future payments (excluding the SCIN premium) as of the date of the sale equals the fair market value of the property sold.

10. **What is a GRIT?**
    Grantor retained income trusts (GRITs) are irrevocable trusts in which the grantor retains an income interest in the trust for the term of the trust. The grantor donates property to the trust and the income from the asset is distributed to the grantor during the term of the trust. At the end of the trust term, the remaining property is distributed to the beneficiary. It should be noted that IRC Section 2702 eliminates most of the benefits of a GRIT when the beneficiary is a member of the family.

11. **What is a Grantor Retained Annuity Trust (GRAT)?**
    A GRAT is an irrevocable trust that pays a fixed annuity to the grantor for a defined term, and at the end of the term pays the remainder of the trust to some noncharitable beneficiary.

12. **Explain the gift tax consequences of a GRAT.**
    If the annuity payment is paid to the grantor and the remainder paid to a noncharitable beneficiary, the grantor will have made a gift equal to the present value of the remainder interest, or the fair market value of the property contributed to the trust less the present value of the retained annuity interest. The gift of the remainder interest is not eligible for the annual exclusion as it is a gift of a future interest.

13. **What are the tax consequences if the grantor of a GRAT dies before the trust term ends?**
    If a grantor of a GRAT dies before the end of the trust term, the entire asset is included in the grantor's gross estate.

14. **How does a Grantor Retained Unitrust (GRUT) differ from a GRAT?**
    A GRUT pays a fixed percentage of the trust assets to the grantor each year, instead of a fixed annuity.
15. **What is a Qualified Personal Residence Trust (QPRT)?**  
A QPRT is a special form of GRIT where instead of receiving trust income, the grantor of the QPRT receives the “use” of a personal residence as the income. The remainder beneficiaries of the QPRT will receive the personal residence at the end of the annuity term.

16. **Explain the gift tax consequences of a QPRT.**  
The transfer of the residence to the QPRT is treated as a gift to the extent that the fair market value of the residence exceeds the present value of the grantor's retained interest (the right to use the personal residence). The FLP also allows for the donor to retain control over the partnership and the partnership assets.

17. **What is the usual primary purpose of establishing a family limited partnership?**  
The primary purpose of establishing a family limited partnership is to transfer assets to younger generations at reduced gift tax valuations.

18. **Discuss the discounts available when valuing the interests of a family limited partnership.**  
The limited partnership interests of a family limited partnership transferred to the younger generations is usually subject to many transfer restrictions and the owners of the limited partnership interests have little or no control of the partnership. Because of these limitations, the limited partnership interests are usually valued with a substantial discount that can range between 20% and 40%. By utilizing these discounts, the transferor can transfer the limited partnership interests at reduced transfer costs.

19. **List the disadvantages of using a family limited partnership to transfer interest in property.**  
A family limited partnership requires operational costs, such as account fees, attorney fees, accounting fees, and other miscellaneous reporting costs. Also, each time an interest in the partnership is transferred, an appraisal is required to determine the fair market value of the partnership interest being transferred.

20. **Which property transfers at death by contract?**  
The following property transfer at death by contract: life insurance, annuities, qualified plans, IRAs, TODs, Totten Trusts, and PODs.
1. Which of the following statements regarding installment sales is correct?

   a. All payments received by the seller in an installment sale are considered interest income.
   b. At the death of the seller, the principal balance of the installment sale is included in the seller's gross estate.
   c. The present value of the expected remainder value of the property sold in an installment sale is subject to gift tax at the date of the transfer.
   d. An installment sale would never be used with a related party.

   The correct answer is b.

   At the death of the seller, the fair market value of the remaining payments from the installment sale is included in the seller's gross estate. Answer a is incorrect because the payments received by the seller, depending upon the seller's adjusted basis in the property, are allocated as return of capital, capital gain, and interest income. Answer c is incorrect because an installment sale is a sale and does not have an expected remainder value - at the end of the installment payments, $0 principal remains on the note. Answer d is incorrect because an installment sale may be used to transfer potentially appreciating property to a related party. Even though an installment sale would not create a related party advantage, future income and appreciation from the property sold are removed from the seller's gross estate.

2. In 2014, Roxanne paid Badlaw University $12,000 for her nephew’s tuition and gave her nephew $24,000 in cash. Roxanne is single and did not make any other gifts during the year. What is the amount of Roxanne’s taxable gifts for the year?

   a. $0.
   b. $2,000.
   c. $10,000.
   d. $24,000.

   The correct answer is c.

   The transfer to Badlaw University would be a qualified transfer not subject to gift tax and the $24,000 cash transfer would be eligible for the annual exclusion of $14,000 ($24,000-$14,000 = $10,000).

3. During the year, Johnson created a trust for the benefit of his six children. The terms of the trust declare that his children can only access the trust’s assets after the trust has been in existence for 15 years and the trust does not include a Crummey provision. If Johnson transfers $84,000 to the trust during the year, what is his total taxable gifts for the year?

   a. $0.
   b. $12,000.
   c. $60,000.
   d. $84,000.

   The correct answer is d.

   Because the trust does not include a Crummey provision, the transfer to the trust is a gift of a future interest not available to be offset by the annual exclusion. As such, the entire transfer to the trust for the year is subject to gift tax.
4. Which of the following statements regarding private annuities is correct?

a. If a seller dies before the end of the private annuity term, the buyer continues to pay the annuity to the seller's estate.

b. A private annuity must include a risk premium to compensate the seller for the possibility of cancellation at the seller's death.

c. A private annuity cannot give the seller a security interest in the property.

d. With a private annuity, the buyer must make the annuity payments for the lesser of the term of the annuity or the life of the seller.

The correct answer is c.

A private annuity cannot give the seller a security interest in the property or the private annuity treatment is disallowed. Answers a and d are incorrect because a private annuity requires the buyer to pay the annuity payment for the remaining life of the seller. Answer b is incorrect because the risk for the buyer in the private annuity is that the seller lives longer than his life expectancy and the buyer overpays. To compensate for this risk, the buyer does not have to make the payments if the seller dies before his life expectancy.

5. Perry’s father sold the family business to him using a private annuity. The private annuity was structured such that Perry would pay his father $40,000 per year plus interest, for the remainder of his father’s life. At the date of the sale, Perry’s father’s life expectancy was 20 years and Perry’s father was in great health. After six years, Perry’s father died of a heart attack and Perry sold the business for $2,000,000 six months after his father’s death. What is Perry’s capital gain/loss on the transaction?

a. $240,000.

b. $1,760,000.

c. $1,960,000.

d. $2,000,000.

The correct answer is b.

A buyer’s adjusted basis of property purchased with a private annuity is equal to the sum of all annuity payments paid. In this scenario, Perry made six annuity payments of $40,000, or a total of $240,000. Since he sold the property for $2,000,000, his gain is calculated by subtracting his basis from the sales price to arrive at $1,760,000 ($2,000,000-$240,000).

6. Which of the following statements regarding self-cancelling installment notes (SCINs) is correct?

a. If a seller outlives the SCIN term, the buyer continues to pay the SCIN payment until the seller’s death.

b. If the buyer dies before the end of the SCIN term or the death of the seller, his gross estate includes a debt equal to the present value of the remaining payments.

c. A SCIN cannot give the seller a collateral interest in the property sold.

d. If the seller dies before the end of the note term, the seller is deemed to have made a taxable gift to the buyer equal to the difference between the payments made and total principal payments on the SCIN.
The correct answer is b.

If the buyer dies before the end of the SCIN term or the death of the seller, his gross estate includes a debt equal to the present value of the remaining payments. Answer a is incorrect because SCIN payments cease at the earlier of the death of the seller or the end of the SCIN term. Answer c is incorrect because a SCIN can allow the seller to retain a collateral interest in the property sold. Answer d is an incorrect statement.

7. Todd purchased his mother’s home through use of a SCIN. Under the terms of the SCIN, Todd was to pay his mother $20,000, plus interest, and a SCIN premium, per year for 10 years. If Todd’s mother died after 4 payments were made, what would be Todd’s adjusted basis in the home?
   a. $0.
   b. $80,000.
   c. $160,000.
   d. $200,000.

The correct answer is d.

The buyer’s adjusted basis in property transferred in exchange for a SCIN is the fair market value of the property at the date of the sale regardless of the number of payments made by the seller. In this case, the fair market value of the property must have been the annual principal payment times the expected term of the SCIN, or $200,000 ($20,000 \times 10).

8. Harry, age 60, owns 400 shares of ABC Corporation, which he expects to increase 300% over the next four years. Harry eventually wants to transfer the stock in ABC Corporation to his son, Billy, but Billy is currently incapable of managing the stock or the income from the stock. Harry expects Billy to be responsible in five years. Of the following, which transfer method would work best to remove the expected appreciation of the stock from Harry’s gross estate and protect the property for Billy?
   a. Private annuity.
   b. SCIN.
   c. GRAT.
   d. QPRT.

The correct answer is c.

The GRAT with a term of five or more years will allow Harry to transfer the stock to Billy at a gift tax cost equal to the current fair market value of the stock (before the 300% appreciation) less the sum of the annuity payments that will be paid back to Harry. This transfer method is not as ideal as a direct gift of the property because the annuity payments will return to Harry and will be included in his gross estate. Also, if Harry dies during the term of the GRAT, the full fair market value of the stock, at Harry’s date of death, will be included in Harry’s gross estate. Neither a private annuity nor a sale will meet Harry’s goals because both give Billy access to the stock immediately. A QPRT is also not an option because a QPRT is a special GRIT which transfers a personal residence.

9. Which of the following statements regarding a Grantor Retained Annuity Trust (GRAT) is correct?
   a. The remainder interest of a GRAT is payable to a noncharitable beneficiary.
   b. The term of the trust should be set equal to the life expectancy of the grantor.
   c. The remainder beneficiary is taxed on the income in the GRAT each year.
   d. At the end of the GRAT term, the property reverts to the grantor.

The correct answer is b.

The GRAT with a term of five or more years will allow Harry to transfer the stock to Billy at a gift tax cost equal to the current fair market value of the stock (before the 300% appreciation) less the sum of the annuity payments that will be paid back to Harry. This transfer method is not as ideal as a direct gift of the property because the annuity payments will return to Harry and will be included in his gross estate. Also, if Harry dies during the term of the GRAT, the full fair market value of the stock, at Harry’s date of death, will be included in Harry’s gross estate. Neither a private annuity nor a sale will meet Harry’s goals because both give Billy access to the stock immediately. A QPRT is also not an option because a QPRT is a special GRIT which transfers a personal residence.
The correct answer is a.
The remainder interest of a GRAT is payable to a noncharitable beneficiary. Answer b is incorrect because the term of the GRAT should be less than the grantor's life expectancy because if the grantor dies during the term of the trust the full fair market value of the trust assets are included in his gross estate. Answer c is incorrect because the grantor is taxed on the income in the GRAT each year. Answer d is incorrect because at the end of the GRAT term, the property is payable to the noncharitable beneficiary.

10. Dave transferred $5,500,000 to a GRAT naming his two children as the remainder beneficiaries while retaining an annuity valued at $500,000. If this is the only transfer Dave made during the year, what is Dave's total taxable gift for the year?
   a. $0.
   b. $4,972,000.
   c. $5,000,000.
   d. $5,487,000.
The correct answer is c.
The remainder interest is a taxable gift from Dave to his children equal to the value of the property contributed to the GRAT less the value of the annuity retained, $5,500,000-$500,000 = $5,000,000. Because the remainder interest is a gift of a future interest it is not eligible for the annual exclusion.

11. Of the following statements regarding a Qualified Personal Residence Trust (QPRT), which is true?
   a. At the end of the QPRT term, the residence reverts to the grantor.
   b. At creation of the QPRT, the grantor has a taxable gift to the remainder beneficiary eligible for the annual exclusion.
   c. At the end of the QPRT term, the grantor must begin paying rent to the remainder beneficiaries of the QPRT if he continues to live in the residence.
   d. A QPRT is ideal for a personal residence that is expected to appreciate at a lower rate than the Section 7520 rate.
The correct answer is c.
Answer c is a true statement. Answer a is incorrect because the residence transfers to the remaindermen at the end of the QPRT term. Answer b is incorrect because the remainder interest is not eligible for the annual exclusion. Answer d is incorrect because the QPRT is ideal for a personal residence which is expected to appreciate at a higher rate than the Section 7520 rate.

12. In an effort to keep any of its future appreciation out of her gross estate, Mary, a 73-year-old widow, transferred her home into a Qualified Personal Residence Trust (QPRT) naming her only son as the remainder beneficiary. Which of the following statements regarding a QPRT is false?
   a. If Mary has a taxable gift at the date of formation of the trust, the gift is not eligible for the annual exclusion.
   b. If Mary outlives the term of the QPRT and continues to live in the house, she must pay her son rent.
   c. At the termination of the QPRT, the personal residence is distributed to Mary’s son.
   d. If Mary dies during the term of the QPRT, her gross estate will include the value of her home at the date of the transfer to the QPRT.
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The correct answer is d.
All of the answers are correct with the exception of answer d. If Mary dies during the term of the QPRT, her gross estate will include the value of her home at her date of death.

13. Which of the following statements regarding Family Limited Partnerships (FLPs) is correct?
   a. The primary purpose of creating a FLP is to provide joint management of the property contributed to the FLP.
   b. At the creation of the FLP, the transferring individual will have a capital gain equal to the difference between the fair market value of the property transferred and his adjusted basis in the property.
   c. The limited partners in the FLP control all of the day-to-day functions of the FLP.
   d. Transfers of the limited partnership interests in the FLP are usually eligible for minority and lack of marketability valuation discounts.

The correct answer is d.
Answer d is a correct statement. Answer a is incorrect because the primary purpose of the FLP is to transfer interests in property utilizing various valuation discounts and for the general partner to retain complete control. Answer b is incorrect because the transfer of property to a partnership is generally a tax-free exchange. Answer c is incorrect because limited partners are barred from participating in the day-to-day operations of the FLP.

14. Which of the following techniques will not help an individual lower his gross estate?
   a. Pay-on-Death Arrangement (POD).
   b. Grantor Retained Annuity Trust (GRAT).
   c. Sale.
   d. Self-Cancelling Installment Note (SCIN).

The correct answer is a.
A POD is a transfer mechanism that transfers a bank account to a beneficiary according to contract law. A POD does not reduce an individual’s gross estate as the full value of the POD bank account is included in the individual’s gross estate. A GRAT, sale, and SCIN may all reduce an individual’s gross estate by removing appreciation and future income from the property transferred.

15. Which of the following does not transfer property at death by operation of law?
   a. Property owned JTWROS.
   b. Property owned tenancy in common.
   c. Intestacy.
   d. A revocable living trust.

The correct answer is b.
Property owned tenancy in common transfers per the will or the state intestacy laws. All of the other options transfer property at death by operation of law.
16. Which of the following does not transfer property at death by contract?

   a. Tenancy by the entirety.
   b. IRAs.
   c. Life insurance.
   d. POD accounts.

The correct answer is a. Tenancy by the entirety transfers property by operation of state titling law. All of the other options transfer property by contract.