DISCUSSION QUESTIONS

1. Why are trusts used in estate planning?
   Trusts are used in estate planning to provide for the management of assets and flexibility in the operation of the estate plan.

2. What is a trust?
   A trust is a structure that vests legal title to assets in one party, the trustee, who manages those assets for the benefit of the beneficiaries of the trust. The beneficiaries hold the beneficial, or equitable, interest in the trust.

3. List the common parties of a trust.
   The grantor, trustee, and beneficiary.

4. Who is the fiduciary of a trust?
   The trustee is the fiduciary of a trust.

5. Explain the legal duties imposed on a fiduciary.
   The law imposes the duty of loyalty and the duty of care on the fiduciary, or trustee. The trustee must be loyal to the beneficiaries of a trust and must make decisions that are in the best interests of the beneficiaries (and consistent with the terms of the trust) even if those decisions result in a loss to the fiduciary. A trustee owes a duty of care to the beneficiaries and therefore should make decisions only after engaging in a diligent investigation of the facts and thoughtful consideration of the impact on the beneficiaries.

6. Describe the two most common types of beneficiaries.
   The income beneficiary is the person or entity who has current rights to income from the trust, or the right to use the trust assets. The remainder beneficiary is the individual or entity who is entitled to receive the assets that remain in the trust on the date of its termination. Other types of beneficiaries would include contingent beneficiaries.
7. **List three reasons the use of a trust is beneficial to an estate plan.**
   A trust can provide property management or creditor protection. A trust can also be used to take a single property interest and split it up into different interests. Property placed in trust is also not included in a decedent’s probate estate and the appreciation of property placed in an irrevocable trust may avoid estate taxes.

8. **What is a spendthrift clause and why is it included in a trust?**
   A spendthrift clause states that the beneficiary of a trust may not anticipate distributions from the trust and may not assign, pledge, hypothecate, or otherwise promise to give distributions from the trust to anyone. If such a promise is made, it is void and may not be enforced against the trust. A spendthrift clause protects the assets of a trust from the claims of the beneficiary’s creditors.

9. **How can the creation of a trust reduce estate taxes?**
   First, the creation of a trust can reduce estate taxes because any appreciation of the property contributed to an irrevocable trust after the date of the contribution belongs to the beneficiaries of the trust and will not be included in the grantor’s estate.
   Second, the creation of a dynasty trust would allow the beneficiary to benefit from the trust’s assets, but at his death, would not include the value of the trust’s assets in his gross estate thereby saving transfer taxes.
   Third, the creation of a grantor trust requires the grantor to pay the income tax on the income from the property transferred to the trust, thereby further reducing the grantor’s gross estate.

10. **What is the effect of the rule against perpetuities?**
    The rule against perpetuities places a limit on the amount of time that property can be held in trust. The RAP states that all interests in trust must vest, if at all, within lives in being plus 21 years.

11. **Under what circumstances will the fair market value of the assets of an irrevocable trust be included in the grantor’s gross estate?**
    The fair market value of the trust’s assets will be included in the grantor’s gross estate if a grantor makes an irrevocable transfer to a trust but retains any of the following interests:
    - The right to receive income from the trust;
    - The right to use the trust’s assets;
    - The ability to exercise voting rights on stock transferred to the trust;
    - A reversionary interest with a value greater than 5% of the trust’s assets; or
    - The right to terminate, alter, amend, or revoke the trust.

12. **What are the most common reasons for using a revocable trust?**
    A revocable trust is most commonly used to avoid probate and to provide for management of a grantor’s assets should he become incapacitated.

13. **How is a testamentary trust created?**
    A testamentary trust is created after the death of the grantor. The decedent’s will instructs the executor of the estate to create and fund the trust.

14. **Explain the differences between an unfunded trust and a funded trust.**
    A funded trust is a trust that has been drafted and has received a transfer of property from the grantor. An unfunded trust has been drafted, but has not received a transfer of property from the grantor.
15. **At the death of the grantor of a revocable trust, what controls the disposition of the trust's property?**

A revocable trust becomes irrevocable at the death of the grantor, and the trust's assets are distributed per the trust document. The grantor's will does not control the disposition of the revocable trust's assets.

16. **Describe a Crummey provision and explain why a trust would contain a Crummey provision.**

A Crummey provision allows the beneficiaries of the trust to withdraw a contribution made to the trust within a certain period of time. A trust would contain a Crummey provision so that any transfer to the trust could qualify for the annual exclusion.

17. **List and explain the three methods used to prevent estate tax consequences from the lapsing of a general power of appointment created by a Crummey power.**

To prevent any estate tax consequences, some trusts will state that the Crummey power is limited to the lesser of the gift tax annual exclusion amount or the greater of 5% or $5,000 of the trust corpus. Another method used to prevent the estate tax consequences is to create a hanging power. A hanging power states that to the extent that a demand beneficiary has a right to withdraw that does not lapse, the non-lapsing portion will hang over to a subsequent year, when it can lapse under the “5-and-5” standard. A third way of dealing with the lapsing issue is to give the demand beneficiary a continuing right to appoint a portion of the trust equal to the non-lapsing amount.

18. **What is the purpose of an Irrevocable Life Insurance Trust (ILIT) and why is it created?**

The purpose of an ILIT is to prevent an insured party from having ownership of the life insurance policy on his life. Only life insurance policies owned by a decedent are included in his gross estate. Since the life insurance policy is owned by the ILIT, the death benefit of the life insurance policy is excluded from the decedent’s gross estate. Recall, however, that if the policy was transferred within 3 years of the decedent's date of death, the death proceeds of the policy will be included in the decedent's gross estate.

19. **Under what circumstances will the death benefit of a life insurance policy owned by an ILIT be included in the insured's gross estate?**

If the decedent transferred the policy to the ILIT, or released a retained interest in the ILIT, within three years of the decedent's date of death, the death benefit of the life insurance policy will be included in the decedent's gross estate. Also, if the ILIT is required to pay the decedent's estate tax, or the executor may request that the ILIT pay the estate tax, the death benefit of the life insurance policy will be included in the decedent's gross estate.

20. **In the ideal estate plan, what amount would be transferred to a testamentary bypass trust?**

A testamentary bypass trust is a trust created at the death of an individual, usually in his will. The decedent's will would direct the executor to fund the bypass trust with assets totaling the lesser of $5,340,000 (for 2014) or the decedent's remaining applicable estate tax credit equivalency.

21. **List the various forms of Grantor Retained Income Trusts (GRITs).**

- Grantor Retained Annuity Trusts (GRAT)
- Grantor Retained Unitrusts (GRUT)
- Qualified Personal Residence Trust (QPRT)
- Tangible Personal Property Trusts (TPPT)
22. **What is the primary reason to use a GRAT for estate planning purposes?**

   A GRAT is an effective tool to transfer future appreciation on an asset to a third party at a reduced gift tax cost. The remainder interest in a GRAT is valued by subtracting the value of the grantor’s retained annuity from the fair market value of the property contributed to the GRAT as of the date of the contribution. As such, the gift tax value of the transfer is the value of the remainder interest.

23. **List the primary difference between a GRAT and a GRUT.**

   A GRUT is a Grantor Retained Unitrust which pays the grantor a fixed percentage of the trust’s assets as valued at the same point each year, whereas the GRAT pays the grantor a fixed dollar amount each year, regardless of the value of the trust’s assets.

24. **How is a GRAT more effective in reducing the grantor’s gross estate than a GRUT?**

   Because the unitrust payment from a GRUT is based on the fair market value of the trust’s assets each year, if the value of the trust’s assets appreciates, the payment to the grantor would increase. A GRAT payment will not change if the underlying value of the GRAT’s property appreciates. Once received, the payment from either a GRAT or GRUT becomes the property of the grantor, and is therefore subject to estate tax at his death; the GRAT payment would keep future appreciation of the trust property out of the grantor’s gross estate.

25. **Discuss the consequences of a grantor dying during the term of a TPPT.**

   Because a TPPT is similar to a GRAT with a contribution of tangible personal property, similar consequences occur when the grantor dies during the term of the trust. With both GRATs and TPPTs, the full fair market value (at the decedent’s date of death) of the property in the either trust is included in the grantor’s gross estate if the grantor dies within the term of the trust.

26. **What is a dynasty trust and what is its primary purpose?**

   A dynasty trust is a trust that is designed to last for a very long period of time. Its primary purpose is to avoid transfer taxation at the death of each generation of a family.

27. **Who is subject to the income tax on the income of a grantor trust?**

   The grantor of a grantor trust is subject to the income tax on the income of the grantor trust.

28. **What is the primary purpose of using a 2503(b) or 2503(c) trust?**

   Using a 2503(b) or 2503(c) trust allows a transfer to a trust for the benefit of a minor to be eligible for the annual gift tax exclusion.

29. **List the requirements of a 2503(b) trust.**

   A 2503(b) trust may hold property in trust for the lifetime of the beneficiary, but must make income distributions to the beneficiary on an annual basis.

30. **Describe a Totten Trust and its benefits.**

   A Totten Trust is a bank account that has a beneficiary clause. A Totten Trust avoids probate but is included in a decedent’s gross estate.
MULTIPLE-CHOICE PROBLEMS

1. Which of the following is not a party to a trust?
   a. Trustee.
   b. Income beneficiary.
   c. Grantor.
   d. Principal.

   The correct answer is d.

   The parties to a trust are the grantor, who creates the trust and contributes the property; the trustee, who manages the trust and holds the legal title to the trust assets; and the beneficiary, who holds the beneficial title to the property. The principal of the trust is the property contributed to the trust; it is not a party to the trust.

2. Which of the following statements concerning trust formation is correct?
   a. The trustee of the trust will receive the trust corpus after paying the income to the income beneficiary.
   b. The remainder beneficiary of a trust receives an annuity payment each year.
   c. The grantor of a trust contributes property to a trust which will be managed by the trustee.
   d. The income beneficiary of a trust always receives the trust property at the termination of the trust.

   The correct answer is c.

   Answer c is a correct statement. Answer a, b, and d are incorrect as the remainder beneficiary of a trust receives the trust corpus and the income interest is paid to the income beneficiary each year.

3. A trustee is subject to which of the following?
   a. Prudent Man Rule.
   b. Trustee’s Ethical Code.
   d. Fiduciary Responsibilities Doctrine.

   The correct answer is a.

   A trust fiduciary must follow the Prudent Man Rule demonstrating a duty of loyalty and duty of care on behalf of the trust’s beneficiaries. The Prudent Man Rule specifically states that the trustee, as fiduciary, must act in the same manner that a prudent person would act if the prudent person was acting for his own benefit after considering all of the facts and circumstances surrounding the decision. None of the other options are existing codes, provisions, or doctrines.
4. Which of the following statements concerning trusts is correct?

a. A trust can have several beneficiaries, including different classes and individuals.

b. When a grantor contributes property to a trust, he must recognize any unrealized capital gain or loss he has in the contributed property.

c. A trust can only have one trustee.

d. The gift of a remainder interest in a trust is a gift of a present interest.

The correct answer is a.

A trust can have several beneficiaries. A trust may have income beneficiaries or remainder beneficiaries, and within each class can have several individuals of each type.

Answer b is incorrect as a grantor does not recognize any unrealized gain in property transferred to a trust.

Answer c is incorrect because a trust can have one or several trustees. Answer d is incorrect because the gift of a remainder interest in a trust is a gift of a future interest, which is not eligible for the annual exclusion.

5. All of the following statements concerning the income beneficiary of a trust are correct, EXCEPT:

a. An income interest in a trust can be given to the beneficiary, while also naming the same individual as the remainder beneficiary of the trust.

b. A decedent will commonly create a testamentary trust that names his wife as the income beneficiary of his property for the rest of her life and his children as the remainder beneficiaries.

c. A dynasty trust only has income beneficiaries. The trust property will never vest with a remainder beneficiary.

d. When the property is paid to the remainder beneficiary at the termination of a trust, if the income beneficiary is a different individual than the remainder beneficiary, the income beneficiary is treated as having made a taxable gift to the remainder beneficiary.

The correct answer is d.

Answer d is a false statement. The income beneficiary is not viewed as making a gift to the remainder beneficiary at the termination of a trust. At the formation of the trust, the grantor of the trust made a taxable gift to the remainder beneficiary equal to the value of the property contributed less the value of the income interest payable to the income beneficiary. All of the other statements are true statements.

6. Your son has been studying trusts in his financial planning class. He has come to you for more information. Of the following statements listed below, which do you tell him?

a. Of the many reasons people create trusts, one reason is to provide for asset management.

b. Testamentary trusts are created during the grantor’s life.

c. The property within a revocable living trust is not included in decedent’s probate or gross estate.

d. The grantor of a trust must include the full fair market value of any property transferred to a trust within three years of his death in his gross estate.
The correct answer is a. Answer a is a true statement. Answer b is incorrect because testamentary trusts are created in a grantor's will. Intervivos trusts are created during the grantor's life. Answer c is incorrect as property within a revocable living trust is not included in a decedent's probate estate, but is included in a decedent's gross estate. Answer d is an incorrect statement. Only gift tax paid on transfers within three years of a decedent's death and or the death benefit of a life insurance policy transferred within three years of an individual's date of death are included in the decedent's gross estate.

7. Which of the following statements concerning trusts, is false?
   a. A trust can provide asset protection for a beneficiary.
   b. A trust can provide the grantor with a yearly payment.
   c. Property held within a trust will avoid probate.
   d. Income within a trust is not taxed until the beneficiary receives a distribution.

The correct answer is d. Answer d is a false statement. A trust will be subject to income tax on any income that is not distributed during the year. The income that is distributed is taxed to the beneficiary. All of the other statements are true statements.

8. A spendthrift clause:
   a. Requires the fiduciary of a trust to make small distributions.
   b. Protects the trust assets from the claims of the beneficiary's creditors.
   c. Eliminates the problems associated with multiple beneficiaries.
   d. Prevents the lapse of a general power of appointment and its subsequent estate tax consequences.

The correct answer is b. Answer b is a correct statement. The remaining answers are false statements.

9. Of the following, which does not reduce a grantor's federal gross estate?
   a. A contribution of highly appreciating property to an irrevocable trust.
   b. A contribution of high income, zero growth property to an irrevocable trust.
   c. The creation of a grantor trust that requires the grantor to pay income tax on the trust's income.
   d. A contribution of depreciable personal property to a revocable living trust.

The correct answer is d. A contribution to a revocable living trust does not reduce a grantor's federal gross estate. All of the other options would reduce a grantor's federal gross estate.
10. Which of the following situations would not cause the inclusion of an irrevocable trust in a grantor’s gross estate?

   a. The grantor has retained the right to receive the income from the irrevocable trust.
   b. The grantor has retained the right to use the assets contributed to the irrevocable trust for the remainder of his life.
   c. The grantor retains an annuity from the irrevocable trust for a term of years less than his life expectancy.
   d. The grantor retains the right to revoke the trust.

The correct answer is c. If the grantor retains an annuity from an irrevocable trust, this right alone will not cause the inclusion of the irrevocable trust in his gross estate. A GRAT is an irrevocable trust in which the grantor retains an annuity from the trust. If the grantor outlives the trust, the assets of the irrevocable trust will not be included in his gross estate. All of the other situations would cause the inclusion of an irrevocable transfer in a grantor’s gross estate.

11. Marcia contributed $600,000 to an irrevocable trust with no retained powers in 2012 and did not retain any powers over the transferred assets. She named her only daughter as the sole income and remainder beneficiary and paid gift tax at the date of the transfer of $25,000. In 2014, Marcia died of lung cancer. The fair market value of the property in the irrevocable trust was $3,000,000 at the date of her death. What amount of the trust assets are included in Marcia’s gross estate?

   a. $0.
   b. $600,000.
   c. $625,000.
   d. $3,000,000.

The correct answer is a. Because the trust was an irrevocable trust and Marcia did not retain any rights to the trust, the value of the trust is not included in Marcia’s gross estate. However, the $25,000 gift tax is included in her gross estate because it was paid for gifts made within three years of her death.

12. Stephanie contributed $450,000 to a revocable living trust in 2007. She named herself as the income beneficiary and her only son as the remainder beneficiary. The term of the trust was equal to Stephanie’s life expectancy. Stephanie died in 2014, when the fair market value of the trust’s assets is $2,000,000. How much is included in Stephanie’s probate estate related to the revocable living trust?

   a. $0.
   b. $345,800.
   c. $450,000.
   d. $2,000,000.

The correct answer is a. The question asks for the amount included in Stephanie’s probate estate. Because a revocable living trust transfers assets per the trust document, $0 of the value of the trust is included in Stephanie’s probate estate. Remember, however, that the full value of a revocable living trust is included in a decedent’s gross estate.
13. Phil contributed $300,000 to an irrevocable trust and did not retain any right to the trust's assets. The income beneficiary of the irrevocable trust was Phil's nephew, and the remainder beneficiary of the irrevocable trust was Phil's niece. At the time of the transfer, Phil paid gift tax of $20,000. Phil died two years later, when the value of the irrevocable trust was $1,200,000. Based solely on these facts, how much is included in Phil's gross estate?

   a. $0.
   b. $20,000.
   c. $300,000.
   d. $1,200,000.

The correct answer is b. The full fair market value of the trust is excluded from Phil's gross estate because the transfer of the trust was irrevocable and Phil did not retain any right to the trust's assets. However, gift tax paid within three years of Phil's death is included in his gross estate. In this case, the gift tax paid within three years of Phil's death was $20,000.

14. All of the following are characteristics of revocable trust except:

   a. The grantor can take the property back from the trust.
   b. The income of the trust is always payable to the grantor.
   c. At the grantor's date of death, the fair market value of the trust's assets are included in his federal gross estate.
   d. At the grantor's date of death, the fair market value of the trust's assets are included in his probate estate.

The correct answer is d. At the grantor's date of death, the fair market value of the revocable trust's assets are not included in the grantor's probate estate. Property within a revocable trust transfers per the trust document. All of the other statements are characteristics of revocable trusts.

15. A trust created in the will of a decedent is a:

   a. Standby trust.
   b. Testamentary trust.
   c. Trust by will.
   d. Decedent’s trust.

The correct answer is b. A testamentary trust is a trust created in a decedent's will. The decedent includes the instructions of the trust's formation and funding in his will. A standby trust is a trust created during a grantor's lifetime that is waiting for assets. The options included as answers c and d do not exist.
16. Justin's grandfather contributed $350,000 to a simple irrevocable trust naming Justin as the income beneficiary and his brother, Ryan, as the remainder beneficiary. At the time of the transfer Justin's grandfather paid $12,000 of gift tax. This year, the trust generated $14,000 of taxable dividend income and $3,000 of capital gains. What amount of taxable income will Justin include on his federal Form 1040 from this trust this year?
   a. $0.
   b. $3,000.
   c. $12,000.
   d. $14,000.

   The correct answer is d.
   Since Justin is the income beneficiary of a simple irrevocable trust, he is taxed on the current year income of the trust. This year, Justin will include $14,000 on his federal Form 1040. Justin is not taxed on the capital gains unless they are distributed to him.

17. Which of the following is not an advantage of using a revocable trust?
   a. Privacy.
   b. Estate tax reduction.
   c. Probate avoidance.
   d. Ability to change the trust.

   The correct answer is b.
   A revocable trust does not reduce estate taxes. Privacy, probate avoidance, and the ability for the grantor to change the trust are all advantages of a revocable trust.

18. A trust created to receive an amount equal to the decedent’s remaining applicable estate tax credit equivalency at the decedent’s date of death is a:
   a. Standby trust.
   b. Pourover trust.
   c. Bypass trust.
   d. Revocable trust.

   The correct answer is c.
   A bypass trust is created, either at death or during the grantor's life, to receive property with a fair market value equal to the decedent's remaining applicable estate tax credit equivalency. The bypass trust is created to ensure that an individual utilizes his full applicable estate tax credit at his death.
19. In 1999, Maria funded a bypass trust with $675,000, the applicable estate tax credit amount at the time. At Maria's death in 2014, her will included a testamentary bypass trust and a residual bequest to her U.S. citizen husband. If Maria's net worth at her death was $5,340,000 how much will be transferred to the bypass trust to maximize its benefits?

   a. $0.
   b. $3,500,000.
   c. $4,665,000.
   d. $5,340,000.

   The correct answer is c.

   A bypass trust is designed to receive an amount equal to the decedent’s remaining estate tax credit equivalency at his death. Since Maria had funded a bypass trust during her life with $675,000, and since that funding the applicable estate tax credit equivalency had risen, Maria’s executor funded the testamentary bypass trust with the difference between the applicable estate tax credit amount at Maria’s death ($5,340,000 for 2014) and the funding amount of the intervivos bypass trust ($675,000). In this case, the amount would be $4,665,000 ($5,340,000 - $675,000).

20. Which of the following statements concerning an Irrevocable Life Insurance Trust (ILIT), is correct?

   a. A contribution to an ILIT that includes a Crummey power is eligible for the gift tax annual exclusion.
   b. Contributions to an ILIT are not taxable gifts until the insured dies and the transfer is deemed complete.
   c. ILITs are designed so the insured retains ownership of the life insurance policy.
   d. The grantor of an ILIT is deemed the owner of the life insurance policy to the extent he remains the insured of the life insurance policy.

   The correct answer is a.

   Answer a is a correct statement. Answer b is incorrect as contributions to an ILIT are taxable gifts, and are not eligible for the annual exclusion without a Crummey provision. Answer c is incorrect because an ILIT is designed to prevent an insured party from having ownership of the life insurance policy on his life. Answer d is an incorrect statement.

21. All of the following statements concerning a power of appointment trust are correct except:

   a. The trust will qualify for the unlimited marital deduction if the surviving spouse is given a general power of appointment over the trust’s assets.
   b. Powers of appointment trusts are irrevocable trusts that can be created either during lifetime or at death.
   c. A general power of appointment trust qualifies the grantor’s contributions for the gift tax annual exclusion if the beneficiary is allowed to take withdrawals at his discretion.
   d. A special power of appointment trust that limits the surviving spouse’s right to an ascertainable standard qualifies the trust for the unlimited marital deduction.

   The correct answer is d.

   A special power of appointment trust that limits the surviving spouse’s right to an ascertainable standard (health, education, maintenance and support) does not qualify the trust for the unlimited marital deduction. All of the other statements are true statements regarding power of appointment trusts.
22. Maureen created a Qualified Personal Residence Trust (QPRT) in 1999. The annuity term of the QPRT is ending this year. If Maureen continues to live in the house after this year, how is Maureen’s estate planning affected?

a. The QPRT is automatically null, and the home reverts to Maureen.
b. Maureen must begin to pay the remainder beneficiary of the QPRT a fair market value rent.
c. Maureen’s probate estate will now include the value of the home at her date of death.
d. Maureen’s gross estate must include the fair market value of the home at her date of death.

The correct answer is b. If Maureen continues to live in the home after this year, she must begin to pay the remainder beneficiary a fair market value rent. If she does not, the IRS may deem the transaction null and void and include the value of the home in Maureen’s gross estate. The property will not automatically revert to Maureen and it will not be included in Maureen’s probate estate, as the property will transfer per the trust document.

23. Of the following statements regarding Tangible Personal Property Trusts (TPPTs), which is true?

a. A TPPT is designed to utilize temporal discounts to transfer tangible personal property at a reduced gift tax cost.
b. Only easy-to-value personal property may be included in a TPPT.
c. Property which is expected to depreciate in value should be transferred to a TPPT.
d. A TPPT is designed to utilize minority and lack of marketability discounts to transfer property at a reduced gift tax cost.

The correct answer is a. Answer a is a correct statement. Like a GRAT or QPRT, a TPPT uses temporal discounts to transfer property, in this case tangible personal property, at a reduced gift tax cost. Answer b is incorrect because any tangible personal property can be contributed to a TPPT. Answer c is incorrect as property which is expected to appreciate should be contributed to the TPPT so that the appreciation occurs in the hands of the beneficiary and not the grantor. Answer d is an incorrect statement.

24. Which of the following statements regarding 2503(b) trusts is correct?

a. The trustee has full discretion to make principal distributions to the beneficiary.
b. All income of a 2503(b) trust must be paid to the beneficiary at least annually.
c. When the beneficiary reaches the age of majority, the principal of a 2503(b) trust must be paid to the beneficiary.
d. No portion of a contribution to a 2503(b) trust qualifies for the annual exclusion.

The correct answer is b. Answer b is a correct statement. Answer a is not correct because the trust document directs the trustee to make distributions. Answer c is not correct because the trust does not have to distribute the principal of the trust to the beneficiary when he reaches the age of majority. The trust is only required to pay the income annually. Answer d is incorrect because the present value of the income interest that the child will receive over the term of the trust is eligible for the annual exclusion.
25. The main difference between a 2503(b) and a 2503(c) trust is:

a. The 2503(b) trust requires the trustee to accumulate income, whereas the 2503(c) trust requires the trustee to distribute all income.

b. The 2503(c) trust only allows distributions for the health, education, maintenance, and support of the beneficiary.

c. The 2503(c) trust must terminate, or the beneficiary must have the right to receive the trust’s assets, when the beneficiary reaches age 21. A 2503(b) trust may hold property for the lifetime of the beneficiary.

d. The trustee of a 2503(b) trust must distribute the principal of the trust within five years of the beneficiary reaching the age of majority. With a 2503(c) trust the trustee must distribute the principal of the trust at the death of the beneficiary.

The correct answer is c.

The main difference between a 2503(b) and 2503(c) trust is that the 2503(b) trust may hold property for the life of the beneficiary, whereas the 2503(c) trust must distribute the property to the beneficiary when he reaches the age of 21. Answer a is incorrect - the characteristics are reversed in each trust. Answers b and d are incorrect statements with no basis of fact.