Keir Digest

with

Assessment Questions for

HS 334

13th Edition

2015

Published by:
KEIR EDUCATIONAL RESOURCES
4785 Emerald Way
Middletown, OH 45044
1-800-795-5347
1-800-859-5347 FAX
Email customerservice@keirsuccess.com
www.keirsuccess.com

TABLE OF CONTENTS

Chapter 1

Forecasting Estate Settlement Costs

Learning Objectives

1. Probate costs include court costs, the fees paid to attorneys to represent the estate, the executor's commission, the tax return preparer's fees, and appraisal fees.

2. The three types of state death tax systems are inheritance taxes, estate taxes, and credit estate taxes. Inheritance taxes are imposed in some states on the right to receive property from a deceased person. Tax rates usually vary according to the relationship between the decedent and the person inheriting.

Estate taxes adopted by states usually impose the tax on the same property items included in the federal gross estate, but the rates are different.

The credit estate tax is a state death tax intended to collect for a state the maximum amount that can be used by the estate as a credit against federal estate taxes. State death taxes are a credit against federal estate taxes only up to a specified limit, and the credit estate tax imposes a tax only up to this limit.

The federal estate tax credit for state death taxes is not allowed for decedents dying after December 31, 2004. However, 16 states currently assess a state death tax equal to the credit allowed prior to the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. EGTRRA phased the state death tax credit out as of 2005 and replaced it with a state tax deduction.

3. The gross estate for federal estate tax purposes is the total of the following items:

(a) Property owned outright at death
(b) Certain interests transferred by gift within 3 years of death
(c) The decedent's retained interests in property he or she transferred while alive
(d) Benefits payable to a survivor from qualified retirement plans, IRAs, and nonqualified annuities purchased by the decedent
(e) Jointly held property
(f) Property over which the decedent held a general power of appointment at death
(g) Life insurance, if the decedent had incidents of ownership in the policy at the time of death
(h) QTIP property in which the decedent held a life interest and which is required to be included in the decedent's estate

4. In forecasting estate settlement costs, a financial services professional will need to estimate values for assets that will be included in the client's gross estate. After determining current values for such assets, the financial services professional will want to project future asset values to arrive at expected estate settlement costs for different possible dates of death. One of the difficulties in forecasting future asset values is estimating the effect of inflation.

The most accurate way to forecast the effect of inflation on asset values is to select an inflation rate for each asset. Different inflation rates can be selected for a closely held business and for the client's residence. The approach, however, is time-consuming, so often a single inflation rate is selected for the entire estate.

The selection of an inflation rate can be difficult because inflation rates have varied greatly in the past. The client and financial services professional will want to choose an inflation rate based on realistic assumptions for the client's current situation. Generally, in forecasting asset values the choice of inflation rate should be made on the basis of the following factors:

(a) The type of assets the client owns
(b) The expected growth rate for each asset
(c) The expected changes in assets during the period of the forecast
(d) The client's income needs before and after retirement and the effect on the growth of the client's estate
(e) The expected inflation rate for the economy

Chapter 1

Forecasting Estate Settlement Costs

1. What is the primary goal in the estate planning process?

(K 1.2)

(A) To make lifetime gifts to reduce estate settlement costs
(B) To distribute the client's wealth according to his or her goals
(C) To provide an accurate forecast of estate settlement costs
(D) To reduce federal estate taxes and state death taxes to a minimum

2. All of the following statements concerning lifetime gifts are correct, EXCEPT:

(K 1.3)

(A) There is seldom any financial advantage to lifetime gifts because the gift tax rates are the same as the estate tax rates.
(B) Lifetime gifts enable the donor to observe the recipients enjoying the gift.
(C) A financial services professional should not recommend lifetime gifts without consideration of the legal costs.
(D) Taxable gifts made during the donor's lifetime since 1976 are added to the donor's taxable estate in computing federal estate taxes.

3. Which of the following statements concerning probate costs is (are) correct?

(K 1.4-1.5)

I The executor's commission is an estate settlement cost but not a probate cost.
II Funeral expenses and estate taxes are costs of probate.

(A) I only (C) Both I and II
(B) II only (D) Neither I nor II

4. Which of the following statements concerning probate costs is correct?

(K 1.4-1.7)

(A) Attorneys' fees are a flat fee for each estate.
(B) An executor's commission is usually an hourly rate that depends upon the issues that need to be resolved.
(C) Appraisal fees can be avoided for a closely held business if there is an effective buy-sell agreement.
(D) Court costs are usually the highest fees involved in the probate of an estate.

5. In 2015, what is the maximum federal estate tax rate and the exemption amount?

(K 1.7)

(A) 30% maximum rate ; $1 million exemption
(B) 35% maximum tax rate; $3 million exemption
(C) 40% maximum tax rate; $5.43 million exemption
(D) 45% maximum tax rate: $3.5 million exemption

6. Which of the following statements concerning the federal gift and estate tax system is correct?

(K 1.7-1.9)

(A) Because the system is unified, the annual exclusion available with the gift tax is also available with the estate tax.
(B) The federal gift tax system is tax-inclusive, while the federal estate tax system is tax-exclusive.
(C) If property included in the gross estate has appreciated since the decedent acquired it, the estate tax is imposed on the appreciation as well as the original acquisition cost.
(D) A decedent who made lifetime taxable gifts paid the same marginal tax rates for the gifts as will be paid for gifts at his or her death because the gift and estate tax system is unified and cumulative.

Chapter 1

Forecasting Estate Settlement Costs

1. B is the answer. A client's goals may not result in the least federal estate taxes or the least estate settlement costs. The primary goal of the estate planning process is to see that the client's wealth is distributed according to the client's goals.

2. A is the answer. The gift tax rates are the same as the estate tax rates, but lifetime gifts are still an effective way to reduce estate settlement costs. Many gifts are not subject to gift taxes due to exclusions, exemptions, deductions, and credits available under the gift tax system. Those gifts which are taxable and which were made after 1976 are added to the donor's gross estate as adjusted taxable gifts in computing federal estate taxes.

3. D is the answer. The executor's commission is a probate cost and an estate settlement cost. Funeral expenses and estate taxes are estate settlement costs but not probate costs.

4. C is the answer. Appraisal fees can be avoided for a closely held business if there is an effective buy-sell agreement. The value of the business is then established by the agreement. Professional fees for the attorneys, appraisers, and tax return preparers are usually larger than the court costs. The executor's commission is usually a percentage of the estate, and the percentage declines as the size of the estate increases. Attorneys' fees may also be paid on a commission scale or on an hourly basis.

5. C is the answer. In 2015, the maximum federal estate and gift tax rate is 40%. The exemption amount is $5.43 million.

6. C is the answer. If property included in the gross estate has appreciated since the decedent acquired it, the estate tax is imposed on the appreciation as well as the original acquisition cost. The property is includible at the date-of-death value, which includes the original cost and appreciation. If the property had been given away, any appreciation after the gift was made would not be subject to federal estate or gift tax. The estate tax calculation requires the addition of the adjusted taxable gifts to the estate because the system is cumulative. As a result, the estate tax will be imposed at higher marginal tax rates because the rates are progressive. The federal gift tax system is tax-exclusive, while the federal estate tax system is tax-inclusive. The annual exclusion is available under the gift tax system but not under the estate tax system.