Bloomberg Tax

ESTATE & GIFT TAX PLANNER™

TUTORIAL & TECHNICAL TAX ISSUES

Version 2019

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Arlington, VA

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Printed in the United States of America

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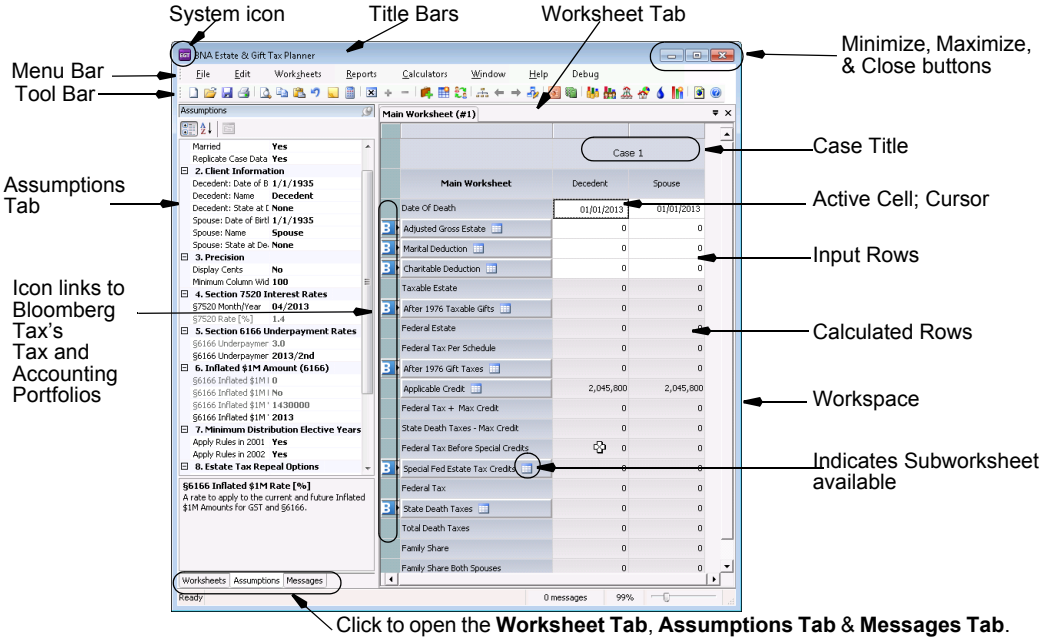
BEFORE YOU START

OPENING THE APPLICATION

Once the application is installed, open the application by selecting, Estate & Gift Tax Planner from the from the **Start>Programs>Bloomberg BNA menu**. Or, double-click on the **Estate & Gift Tax Planner** icon.

Upon opening the application, the first panel of the **Analysis Wizard** appears—the **Plan Scenario** panel. In most of the following scenarios we will accept the default selections—**Married** and **Custom Plan**. After completing the **Analysis Wizard**, the **Main Worksheet** appears in the right pane and the **Assumptions Tab** appears in the left pane.



You can view the **Worksheets** or **Messages** by clicking the appropriate tab at the bottom of the left pane.

NAVIGATING THE WORKSPACE

This section briefly covers using the mouse, the numeric keypad, and the cursor arrow keys to move around the workspace and to enter data.

USING THE MOUSE

You can use the mouse to do a number of tasks within the application, from opening a worksheet, a menu, or a dialog to selecting commands and options. To select something using the mouse, position the mouse pointer on it and press the left mouse button. Some basic ways to use the mouse are:

- To **open a menu**, click the menu name in the menu bar and then press the left mouse button. Unless stated otherwise, any time you read “click” in this tutorial, you would press the left mouse button.
- To **select a command** from a menu once you open it, position the mouse pointer on the command within the list then click on it.
- To **use the toolbar** for quick access to many common application functions, simply click the toolbar button you want to use. Toolbar buttons provide an easy way to open, save, and print client files, add notes to worksheets, use calculator functions, and select worksheets.
- To **move to a particular cell** in a worksheet, move the plus-shaped mouse pointer to the cell then click on it.
- To **move from one open worksheet to another**, if the destination worksheet is at least partially visible, position the mouse pointer anywhere on the destination worksheet, then click on it.
- To **move from an open worksheet to another** when the destination worksheet is hidden, click on the Worksheets menu and click the name of the desired worksheet on the list at the bottom of the menu.
- To **open a subworksheet from a worksheet row** (except a calculated row), double-click (quickly press the left mouse button **twice**) anywhere on the row.

USING THE KEYBOARD

NUMERIC KEYPAD

Since most of data entry is numeric, you may prefer to use the numeric keypad on the right side of the keyboard to enter numbers. The **Num Lock** key turns the numeric keypad on and off. When the numeric keypad is **on**, you may use it as a ten-key calculator. You may find it convenient to leave Num Lock activated all the time and use the numeric keypad as your primary means of data entry.

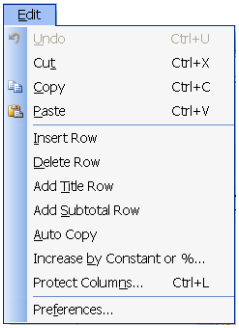
CURSOR CONTROLS

Use the arrow keys and the **Enter** key to control the cursor and move it up, down, left, and right.

SHORTCUT KEYS

The application provides several shortcut keys that allow you to bypass the menu system by pressing one or two keys to run application functions.

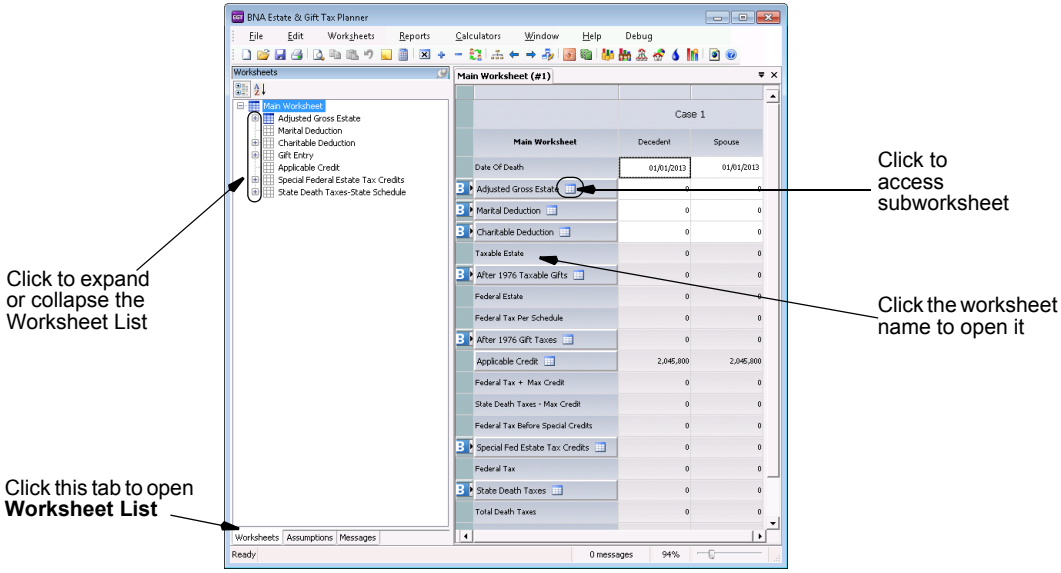
Shortcut keys are listed on the right side of a drop-down menu. You generally **cannot** use the shortcut keys listed on a drop-down menu while the menu is open. Instead, if you prefer to use the keyboard instead of the mouse, you would press the underscored letter of the menu command. In the Edit menu shown below, **Ctrl+C** is the shortcut key combination for **Copy**, and **C** is the letter you would press to activate **copy** from the drop-down menu.



ACCESSING WORKSHEETS

As indicated in the image below, there are three ways to access worksheets:

- If a worksheet icon appears in a row title, click the row title. (If no worksheet icon is present, no subworksheet is available.)
- Click the worksheet name in the **Worksheet List** (in the left pane).



WORKING WITH WORKSHEETS

The highlighted cell on a worksheet is called the **active cell**. The active cell is where the cursor is and where your entries are inserted. You can usually change which cell is active by using the same keys (the down and the up arrow keys) that you'd use to manipulate a blinking cursor bar. You can also activate a cell by clicking on it with the mouse.

Now, move the mouse right and left across the window. Notice that the **mouse pointer** is arrow-shaped when it is **off** the worksheets and changes to a **plus** shape when it is **on** a worksheet.

The arrow-shaped mouse pointer appears on the menus, the menu bar, and scroll bars. You use this pointer to point and select items, or to drag windows to new locations on the screen.

The plus-shaped mouse pointer appears when the pointer is positioned on any worksheet cell or row title. You use this pointer to click and select a cell or to drag to select a range of cells.

WORKSHEET STATUS

OPEN & ACTIVE

Worksheets that are open and have calculations.

ACTIVE

Worksheets that are closed but have calculations.

INACTIVE

Worksheets that are closed and do not have calculations.

LEAVING AND CLOSING WORKSHEETS

Client data is entered in cells on **open** worksheets. The **Main Worksheet** is open when you start the application. When you've finished entering data on a worksheet, you can leave one worksheet and go to another using any of a variety of methods.

LEAVING THE WORKSHEET OPEN

If you have opened several worksheets and want to switch between open worksheets, click anywhere on the destination worksheet. Or, click **Worksheets** on the menu bar and select another open worksheet from the list at the bottom of the menu. Or, if you are opening a new subworksheet of the current worksheet, double-click on the row for that subworksheet.

To leave a subworksheet and return to its parent worksheet, click on the destination worksheet's tab at the top of the right pane. By default, the worksheet you are leaving will remain open.

CLOSING THE WORKSHEET

If you want the current worksheet to close when you leave it, click on the worksheet's **Close** button ☒. The worksheet is still active (that is, the application still posts to the worksheet's calculated rows) but it's no longer visible within the application's workspace.

USING MENUS

The application uses a menu system to access the tax planning worksheets and various application functions. The major menus are accessed through the menu bar at the top of the window.

In this Tutorial, we will explain many of the options on the menu bar and their corresponding shortcut keys. For details on using all the menu commands, see the application's Help.

USING THE HELP SYSTEM

The application has a full-featured Help system that allows you to access information on a variety of subjects—from help for a particular row item to help for a specific worksheet, to operational help on the various application commands, options, and features.

To access Help, select **BNA Estate & Gift Tax Planner Help** on the Help menu. (Alternatively, you can click **Search** or **Index** on the Help menu.)

Most dialogs have Help buttons which, when selected, will take you to a Help window tailored to that dialog. You can also press F1 to access Help while in a dialog.

HELP FOR THE CURRENT ROW

When the cursor is on an input row of a worksheet, you can press F1 to get the definition of that row.

OTHER HELP FEATURES

You can leave the Help system open and return to the application by clicking anywhere on the application workspace or by using the short-cut keys **Alt**+**Tab**. Leaving the Help system open allows quicker access the next time you request help.

To close the Help window, click the **Close** button ☒ in the upper-right corner of the window. You can also press **Alt**+F4 or **Esc** to close the Help message.

Note. For information concerning Windows operations, please refer to your Microsoft® Windows manuals.

SAMPLE SCENARIOS

This section takes you step-by-step through several different tax planning scenarios to illustrate how to use the basic features of the Bloomberg Tax's Estate & Gift Tax Planner. The scenarios are as follows:

SCENARIO 1

A two-case married decedent plan showing the effects of assuming different years of death for a couple with reciprocal Wills. The second part of the scenario shows what happens if the order of deaths is reversed.

SCENARIO 2

A married decedent plan for retirement distributions.

SCENARIO 3

A married decedent plan calculating charitable deductions and taxes when nonresiduary bequests are used in a QTIP trust.

SCENARIO 4

A two-part single decedent plan showing how to use the §6166 **non**-interrelated interest calculations and §303 planning.

SCENARIO 5

A one-part single decedent plan showing how to use the §6166 interrelated interest calculations and the special §6166 election under the Taxpayer Relief Act of 1997.

SCENARIO 6

A three-case scenario that illustrates the use of the **Charitable Income Tax** feature.

After working through the scenarios you'll be generally familiar enough with operating the application to use it easily for real-life situations. Please note, however, that the scenarios refer to **specific** situations and do **not** illustrate how to use all of the application's worksheets. Refer to the sections following the tutorial for help with specific information not covered in the scenarios.

Note. The scenarios in this Tutorial were created with program version 2011.1. If you run the scenarios with a later version of the application, your results may differ slightly from those shown here because of inflation adjustments and other subsequent changes.

The scenarios in this chapter do not cover special federal credit calculations, interrelated marital/charitable calculation options, state tax calculations, or gift and generation-skipping transfers.

SCENARIO 1: TWO-CASE MARRIED DECEDENT PLAN

USING DIFFERENT ASSUMPTIONS AND REVERSED DEATH ORDER

This scenario involves a couple with reciprocal Wills, Charles and Debra West. Both Wills fully utilize the zero federal tax option, providing a formula gift to the spouse in an amount just sufficient to reduce the federal estate tax to zero. The balance of the estate will be held in trust for the surviving spouse during life, with the remainder passing to the children on the surviving spouse's death. Such a trust is commonly referred to as a "credit shelter trust."

You wish to see planning figures for two assumptions. First, using the facts below, assume Charles dies on 1/15/2008 and Debra survives him by three years; second, assume Charles dies on 1/15/2011 with three years of survivorship by his Spouse (Debra dies on 1/15/2014), but takes into account the effects of inflation on the value of the estates of both spouses and the family share from the planning date of 1/1/2008 to the dates of death.

You then wish to reverse the order of deaths, using the same set of assumptions.

This scenario illustrates the use of subworksheets and how to print and save client data.

Note. The application can also be used to determine the tax consequences of generation-skipping transfers and to compare the results of transferring property to the grandchildren's generation under the estate tax system and the GST system. The application handles both direct skip transfers and transfers to GST trusts, including transfers from QTIP trusts. The GST rows and worksheets are activated by selecting **Yes** in the **Plan Assumptions: Include GST** field on the **Assumptions Tab** (see "Running the Calculations" below). Refer to Help for complete details about the generation-skipping tax calculations and the GST worksheets.

FACTS

Charles and Debra West's estates include the following assets and liabilities.

	Charles	Debra
Home (jointly held)	$200,000	$200,000
Mortgages, Notes, and Cash	300,000	150,000
Stocks and Bonds	2,000,000	700,000
Debts and Losses	100,000	30,000

Liquid assets in the estate are assumed to grow at 5% per year; nonliquid assets are assumed to grow at the rate of 3% per year.

Each spouse makes a specific bequest of $100,000 to charity.

Funeral and administration expenses are expected to equal approximately 5% of the gross estate in both cases.

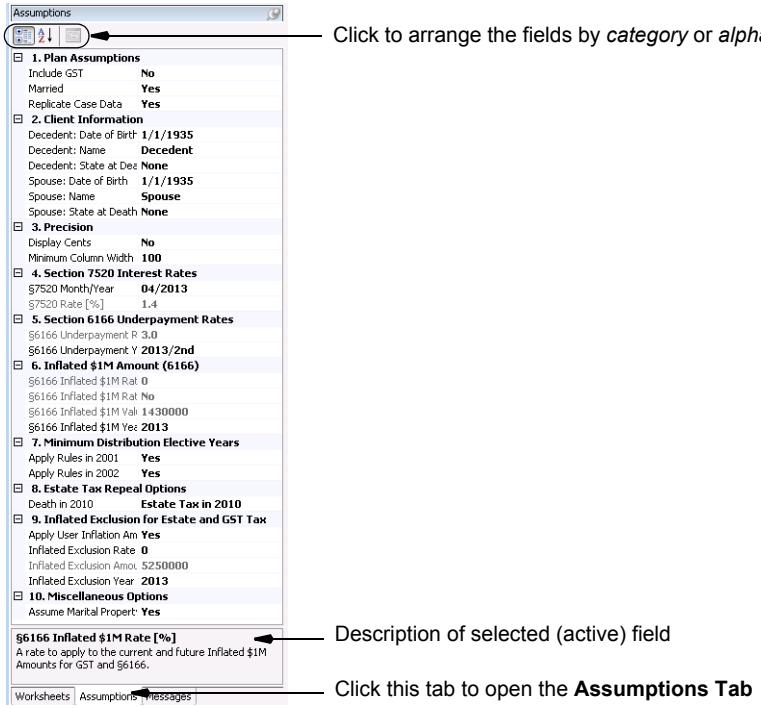
RUNNING THE CALCULATIONS

The instructions on the following pages take you step-by-step through the process of entering the Wests' tax data to plan the future of their estate.

Upon opening the application, the first panel of the **Analysis Wizard** appears—the **Plan Scenario** panel. Accept the default selections on this panel—**Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

Before completing the **Main Worksheet** in the right pane, we need to specify some basic information about the Wests' case on the **Assumptions Tab** in the left pane.

1. If the **Assumptions Tab** is not already visible in the left pane, open it now. (To do this, click the **Assumptions** tab at the bottom of the left pane.)

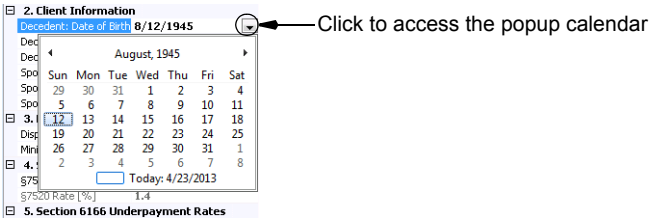


Notice that the fields are arranged by **category** (ten Assumptions Tab categories) and contain default information. To change the default information, click the desired field.

We will accept the default entries in the first section because the Wests will **not** be making any generation-skipping transfers, they are married, and we will choose to replicate the case data.

According to the facts of the case, Debra survives Charles by three years, so we will enter Charles's information in the **Decedent** fields and Debra's information in the **Spouse** fields.

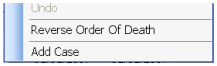
2. In the **Decedent: Date of Birth** field, enter **8/12/1945**. (When entering dates, you must use a format of mm/dd/yyyy, mm-dd-yyyy or mmddyyyy. Alternatively, you can click the drop-down arrow to access the popup calendar, from which you can select the date.)



3. In the **Decedent: Name** field, type Charles.

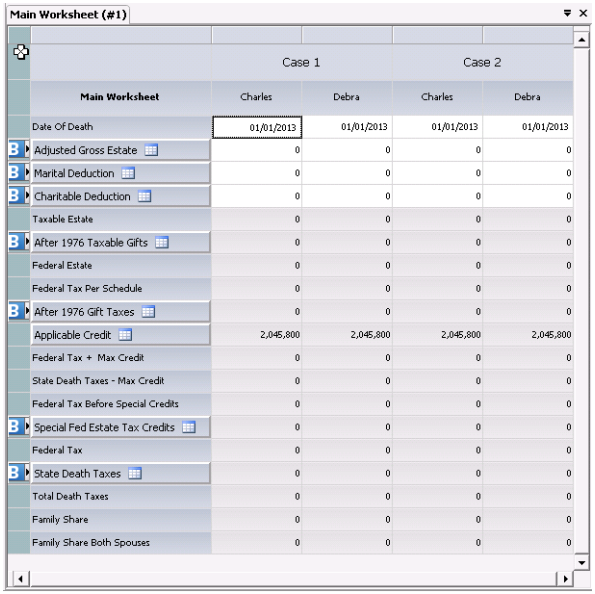
4. In the **Decedent: State of Death** field, select **None**. (Selecting **None** means the application will calculate the state tax as “the maximum credit for state tax paid” amount.)
5. In the corresponding **Spouse** fields, enter the following information:
   a. Date of Birth: **5/2/1949**
   b. Name: **Debra**
   c. State of Death: **None**

   We will accept the remaining default entries on the **Assumptions Tab**. However, note that the **Main Worksheet** in the right pane has only one case. We will be analyzing two cases in our scenario.
6. Right-click anywhere in the right pane. A popup menu appears containing a few worksheet options:



7. Click **Add Case** on the popup menu. A second case, identical to the first, appears.

Note. The **Add Case** option, along with many other worksheet options, is available on the Worksheets menu.



Main Worksheet (#1)

	Case 1		Case 2	
Main Worksheet	Charles	Debra	Charles	Debra
Date Of Death	01/01/2013	01/01/2013	01/01/2013	01/01/2013
Adjusted Gross Estate	0	0	0	0
Marital Deduction	0	0	0	0
Charitable Deduction	0	0	0	0
Taxable Estate	0	0	0	0
After 1976 Taxable Gifts	0	0	0	0
Federal Estate	0	0	0	0
Federal Tax Per Schedule	0	0	0	0
After 1976 Gift Taxes	0	0	0	0
Applicable Credit	2,045,800	2,045,800	2,045,800	2,045,800
Federal Tax + Max Credit	0	0	0	0
State Death Taxes - Max Credit	0	0	0	0
Federal Tax Before Special Credits	0	0	0	0
Special Fed Estate Tax Credits	0	0	0	0
Federal Tax	0	0	0	0
State Death Taxes	0	0	0	0
Total Death Taxes	0	0	0	0
Family Share	0	0	0	0
Family Share Both Spouses	0	0	0	0

The **Main Worksheet** now shows two cases consisting of two columns each: “**Case 1: Charles and Debra”** and “**Case 2: Charles and Debra**”.

CALCULATION 1

For both spouses the **Date of Death** row defaults to the current year. According to the facts of this scenario, we must change these dates.

1. In the first column (Case 1: Charles) of the “Date of Death” row, enter **01152008** (for January 15, 2008) and press **Enter**.

   Note. The date of death for the first column in a case must be earlier than or equal to the year of death in the second column of the case. If you enter a date in this row that does not meet this condition, the application issues a message and automatically changes the date of death entry in the second column to match the entry in the first column.

   To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title in the list.

2. In the second column (Case 1: Debra) of the same row, enter **01152011** and press **Enter**. (When we later reverse the order of deaths, Debra will be assumed to die in 2008 and Charles in 2011).

3. In the third column (Case 2: Charles) of the same row, enter **01152011** and press **Enter**.

4. In the fourth column (Case 2: Debra) of the same row, enter **01152014** and press **Enter**. The **Main Worksheet** looks like this:

Click to access Bloomberg Tax’s Tax and Accounting Portfolio

Main Worksheet (#1)

Main Worksheet	Case 1 Decedent	Case 1 Spouse	Case 2 Decedent	Case 2 Spouse
Date Of Death	01/15/2008	01/15/2011	01/15/2011	01/15/2014
Adjusted Gross Estate	0	0	0	0
Marital Deduction	0	0	0	0
Charitable Deduction	0	0	0	0
Taxable Estate	0	0	0	0
After 1976 Taxable Gifts	0	0	0	0
Federal Estate	0	0	0	0
Federal Tax Per Schedule	0	0	0	0
After 1976 Gift Taxes	0	0	0	0
Applicable Credit	780,800	1,730,800	1,730,800	2,045,800
Federal Tax + Max Credit	0	0	0	0
State Death Taxes - Max Credit	0	0	0	0
Federal Tax Before Special Credits	0	0	0	0
Special Fed Estate Tax Credits	0	0	0	0
Federal Tax	0	0	0	0
State Death Taxes	0	0	0	0
Total Death Taxes	0	0	0	0
Family Share	0	0	0	0
Family Share Both Spouses	0	0	0	0

Indicates subworksheet is available; click worksheet title to open subworksheet

Note. On many worksheet rows, you will find the icon. This indicates that there is a link to one of the Bloomberg Tax’s Tax and Accounting Portfolios.

5. We want to open the **Gross Estate** subworksheet.
   a. Click the “Adjusted Gross Estate” row title. The **Adjusted Gross Estate** worksheet opens.
   b. Click the “Separate Gross Estate” row title. The **Gross Estate** subworksheet opens.

GROSS ESTATE WORKSHEET

The **Gross Estate** subworksheet can be used to enter the details of the gross estate before adjustments (Schedules A through I) instead of entering the gross estate in summary form on the **Adjusted Gross Estate** worksheet.

The **Gross Estate** subworksheet **must** be used if, like the Wests, the decedent differentiates between liquid and other assets, or wishes to specify rates of asset appreciation between the planning date and the assumed date of death. The **Gross Estate** subworksheet must also be used if you need to determine whether items contained in the estate qualify for special treatment, i.e., §303 stocks or §6166 interests. Use the **Gross Estate** subworksheet also for IRAs and qualified employer plans.

1. In the first column (Case 1: Charles) of the second row (“Schedule B – Stocks & Bonds”), enter **2,000,000** and press **Ctrl+A** (Auto Copy) for Charles’s non-liquid stocks and bonds. This automatically enters the amount in the decedent’s column for both cases. (We will be entering a growth factor later in this worksheet to inflate the amounts in Case 2.)
2. In the second column (Case 1: Debra) of the same row, enter Debra’s **$700,000** of non-liquid stocks and bonds and press **Ctrl+A** to automatically enter the same amount in Case 2.
3. In the first column (Case 1: Charles) of the “Schedule C – Mortgages, Notes & Cash–Liquid” row, enter **300,000** for Charles’s liquid mortgages, notes, and cash, and press **Ctrl+A** to repeat the amount in Case 2.
4. In the second column (Case 1: Debra) of the same row, enter Debra’s **$150,000** of liquid mortgages, notes, and cash, and press **Ctrl+A**.
5. In the first column (Case 1: Charles) of the “Schedule E – Joint Property With Spouse” row, enter **200,000** as the decedent’s 50% share of the joint property, and press **Ctrl+A** to carry the same amount to Case 2. Note that the application automatically enters the Spouse’s 50% share of the joint property in the Spouse’s column of both cases. The worksheet looks like this:

Main Worksheet (#1) | Adjusted Gross Estate (#3) | **Gross Estate (#14)**

	Case 1		Case 2	
Gross Estate	Decedent	Spouse	Decedent	Spouse
Schedule A - Real Estate	0	0	0	0
Schedule B - Stocks & Bonds	2,000,000	700,000	2,000,000	700,000
Schedule B - Stocks & Bonds-Liquid	300,000	150,000	300,000	150,000
Schedule C - Mortgages, Notes & Cash	0	0	0	0
Schedule C - Mortgages, Notes & Cash-Liquid	0	0	0	0
Schedule D - Life Insurance-Liquid	0	0	0	0
Schedule E - Joint Property With Spouse	200,000	200,000	200,000	200,000
Schedule E - Joint Property With Spouse-Liquid	0	0	0	0
Schedule E - Joint Property Other	0	0	0	0
Schedule E - Joint Property Other-Liquid	0	0	0	0
Schedule F - Other Miscellaneous Property	0	0	0	0
Schedule F - Other Miscellaneous Property-Liquid	0	0	0	0
Schedule G - Lifetime Transfers	0	0	0	0
Schedule H - Powers Of Appointment	0	0	0	0
Schedule H - Powers Of Appointment-Liquid	0	0	0	0
Schedule I - Annuities	0	0	0	0
Qualified Employer Plans And IRAs	0	0	0	0
Private Annuities	0	0	0	0
SCINs (Installment Notes)	0	0	0	0
Discounts And Miscellaneous Property	0	0	0	0
Insurance Proceeds-Liquid	0	0	0	0
Phantom Assets	0	0	0	0
Pre-Death Appreciation	0	0	0	0
Decrease For Future Gifts	0	0	0	0
Gross Estate	2,500,000	1,050,000	2,500,000	1,050,000
Planning Date	01/15/2008	01/15/2011	01/15/2011	01/15/2014
Future Value Percentage Per Year For Liquid Property	0.00000	0.00000	0.00000	0.00000
Future Value Percentage Per Year For	0.00000	0.00000	0.00000	0.00000

The application has calculated the Wests' total gross estate ($2,500,000 for Charles and $1,050,000 for Debra).

Note. The "Planning Date" row allows you to enter a date from which the application will calculate the appreciation of assets until the decedent's assumed date of death. The application provides a default **Planning Date** that matches the date of death (exception that for future deaths the default is January 1 of the program release year). As this example assumed death in 2008, enter "**1/1/2008**" as the Planning Date in all 4 columns.

To calculate the pre-death appreciation, the application needs an appreciation rate on one or more of the next three rows. You can specify different appreciation rates for three different types of assets: **liquid property**, **non-liquid property**, and **special growth assets**. If you enter a percentage in the spouse's column as well, the application will also appreciate the spouse's separate property from the **Planning Date** until the spouse's **Date of Death**.

6. In the **both** columns of Case 1 on the "Future Value Percentage Per Year For Liquid Property" row, enter **5** followed by **Ctrl+A** as the annual appreciation rate for liquid property. The application automatically inflates the liquid property amounts entered on this worksheet by 5% annually from the Planning Date to the date of death.

7. The Wests' estate also includes non-liquid property. In both columns of Case 1 of the "Future Value Percentage Per Year For Non-Liquid Property" row, enter **3** followed by **Ctrl+A**.

   The lower portion of the **Gross Estate** worksheet looks like this:

Pre-Death Appreciation	3,058	108,539	254,665	227,257
Decrease For Future Gifts	0	0	0	0
Gross Estate	2,503,058	1,158,539	2,754,665	1,277,257
Planning Date	01/01/2008	01/01/2008	01/01/2008	01/01/2008
Future Value Percentage Per Year For Liquid Property	5.00000	5.00000	5.00000	5.00000
Future Value Percentage Per Year For Non-Liquid Property	3.00000	3.00000	3.00000	3.00000
Future Value Percentage Per Year For Special Growth Assets	0.00000	0.00000	0.00000	0.00000
Life Insurance Proceeds From Spouse	0	0	0	0
Irrevocable Insurance Trust	0	0	0	0
Add To Family Shares Y/N	☐	☐	☐	☐
Liquid Assets in Marital Deduction	0	0	0	0
Adjustments To Liquidity Report	0	0	0	0
Section 303 Planning	0	0	0	0

   Note that Charles's Gross Estate increases from $2,503,058 in 2008 to $2,754,655 in 2011, and Debra's **Gross Estate** increases from its 2012 base of $1,050,000 to $1,158,539 in 2011 and $1,277,257 in 2014.

ADJUSTED GROSS ESTATE WORKSHEET

1. Click the **Adjusted Gross Estate** tab at the top of the right pane to return the focus to the **Adjusted Gross Estate** worksheet.
2. Enter funeral and administrative expenses as a percentage of the gross estate rather than as a dollar amount. To do this, in both columns of Case 1 of the "Plus Administration Expenses—% of Gross Estate" row, enter **5 Ctrl+A**.
3. In the first column (Case 1: Charles) of the "Schedules K & L Debts And Losses" row, enter **100,000** followed by **Ctrl+A**. In the second column (Case 1: Debra) of the same row, enter 30,000 **Ctrl+A**.

Main Worksheet (#1) | **Adjusted Gross Estate (#3)**

	Case 1		Case 2	
Adjusted Gross Estate	Decedent	Spouse	Decedent	Spouse
Separate Gross Estate	2,503,058	1,158,539	2,754,665	1,277,257
Marital Deduction From Deceased Spouse	0	200,227	0	218,793
Future Value Increase in Marital Deduction And Surviving Spouses Gross Estate	0	0	0	0
Gross Estate	2,503,058	1,358,766	2,754,665	1,496,050
Funeral And Administration Expenses in Dollars	0	0	0	0
Plus Administration Expenses - % Of Gross Estate	5	5	5	5
Section 6166 Intermelated Interest Deduction	0	0	0	0
Total Funeral And Administration Expenses	125,153	67,938	137,733	74,803
Income Tax-Elected Administration Expenses	0	0	0	0
Schedules K & L Debts And Losses	100,000	30,000	100,000	30,000
Family Business Deduction	0	0	0	0
Increased Estate Tax	0	0	0	0
State Death Tax Paid	0	0	0	0
Debts And Expenses	225,153	97,938	237,733	104,803
Adjusted Gross Estate	2,277,905	1,260,828	2,516,932	1,391,248
Future Value Percentage - Family Share Decedent 1	0.00000	0.00000	0.00000	0.00000

The future value rows at the bottom of this worksheet allow you to enter appreciation rates for the family share and marital deduction amounts, neither of which is affected by the growth rates entered on the **Gross Estate** worksheet. For this part of the scenario, we shall leave these rows as zero and return to them later.

4. Return the focus to the **Main Worksheet**.
5. Click the **Marital Deduction** row title to open the **Marital Deduction** subworksheet.

MARITAL DEDUCTION WORKSHEET

No marital gifts other than the zero federal tax formula gift are specified in the Wills.

1. In all four columns of the “Zero Federal Tax Option” row, select ZFT1. (The Wests live in a Florida-type state that imposes a state tax equal to the maximum federal credit for state death taxes; there is no difference between using ZFT1 and ZFT2, in this case, because no state tax will be payable.)

   The application automatically carries the amount of joint marital property entered on the **Gross Estate** worksheet to the “Joint Property with Spouse” row on the **Marital Deduction** worksheet in the pre-deceasing spouse’s (Charles’s) column only. The original amount is increased by the percentage entered on the **Gross Estate** worksheet to reflect annual growth between the Planning Date and the assumed date of death (3%).

Main Worksheet (#1) | Marital Deduction (#4)

	Case 1		Case 2	
Marital Deduction	Decedent	Spouse	Decedent	Spouse
Specified Marital Bequests	0	0	0	0
Joint Property with Spouse	200,227	0	218,793	0
Plans/IRAs To Spouse	0	0	0	0
Zero Federal Tax Option	ZFT1	ZFT1	ZFT1	ZFT1
Total Bequests Not Generation-Skipping Transfers	0	0	0	0
Bequests Subject To Tax	0	0	0	0
Phantom Assets	0	0	0	0
Interrelated Residue Calculation	None	None	None	None
Fund Before Taxes	0	0	0	0
Deductible Percentage Of Fund	0.00000	0.00000	0.00000	0.00000
Total Bequests Not GSTs	0	0	0	0
Bequests Subject To Tax	0	0	0	0
Other Property To Pay Tax	0	0	0	0
Computed Marital Bequests	302,831	0	0	0
Total Marital Bequests	503,058	0	218,793	0
Spousal Joint Property & Plan/IRA	200,227	0	218,793	0
Adjustments To QTIP Trusts	0	0	0	0
QTIP Trust	302,831	0	0	0

2. The application has automatically calculated the “Total Marital Bequests” row for Charles in both cases ($503,058 in 2008 and $218,793 in 2011), but not for Debra. This will change when the order of deaths is reversed.

   Return the focus to the **Main Worksheet**. Notice that these amounts have posted to the “Marital Deduction” row.

MAIN WORKSHEET

In all four columns of the “Charitable Deduction” row, enter **$100,000**, representing Charles’s and Debra’s specified charitable bequests. (The previously calculated marital deductions will be reduced by an equal amount because of the zero federal tax selection.) The **Main Worksheet** now looks like this:

Main Worksheet (#1) | Adjusted Gross Estate (#3) | Gross Estate (#14) | Marital Deduction (#4)

	Case 1		Case 2	
Main Worksheet	Decedent	Spouse	Decedent	Spouse
Date Of Death	01/15/2008	01/15/2011	01/15/2011	01/15/2014
Adjusted Gross Estate	2,503,058	1,561,597	2,754,665	1,496,050
Marital Deduction	403,058	0	218,793	0
Charitable Deduction	100,000	100,000	100,000	100,000
Taxable Estate	2,000,000	1,461,597	2,435,872	1,396,050
After 1976 Taxable Gifts	0	0	0	0
Federal Estate	2,000,000	1,461,597	2,435,872	1,396,050
Federal Tax Per Schedule	780,800	492,359	833,355	504,220
After 1976 Gift Taxes	0	0	0	0
Applicable Credit	780,800	1,730,800	1,730,800	2,045,800
Federal Tax + Max Credit	0	0	0	0
State Death Taxes - Max Credit	0	0	0	0
Federal Tax Before Special Credits	0	0	0	0
Special Fed Estate Tax Credits	0	0	0	0
Federal Tax	0	0	0	0
State Death Taxes	0	0	0	0
Total Death Taxes	0	0	0	0
Family Share	2,000,000	1,461,597	2,435,872	1,396,050
Family Share Both Spouses	0	3,461,597	0	3,831,922

The application has automatically calculated the amount of the taxable estate. The “Family Share” row of the **Main Worksheet** shows that in Case 1 the family will receive (at date of death values) $2,000,000 on Charles’s death in 2008 and an additional $1,461,597 on Debra’s death three years later. If death occurs in 2011 and 2014, the family will receive $2,435,872 from the estate on Charles’s death and $1,396,050 on Debra’s death.

Note that under current tax law, Debra’s estate generates a total estate tax (“Total Death Taxes” row) of $0, assuming death in 2011, and $0 if death occurs in 2014.

REVERSING THE ORDER OF DEATH

Now, suppose Debra dies first, and Charles survives her by three years.

1. Right-click on the right pane (anywhere on the **Main Worksheet**). A popup menu appears with a few worksheet options.
2. Click **Reverse Order of Death.**

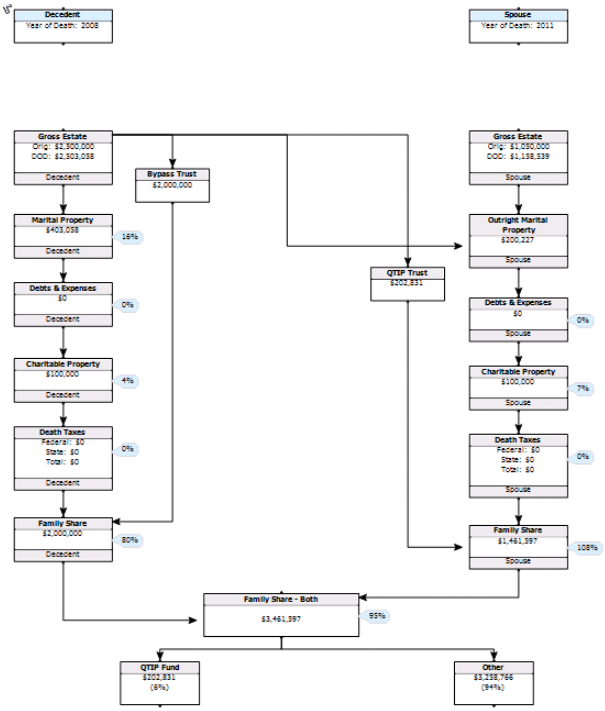
   This recalculates the figures based on the assumption that Debra predeceases Charles. The new results show (on the “Family Share” row) that in Case 1 the family will receive $751,075 plus $2,854,892 and in Case 2 the family will receive $839,746 and $3,151,470. The **Main Worksheet** now looks like this:

Main Worksheet (#1) | Adjusted Gross Estate (#3) | Gross Estate (#14) | Marital Deduction (#4)

Main Worksheet	Case 1 Decedent	Case 1 Decedent	Case 2 Decedent	Case 2 Decedent
Date Of Death	01/15/2008	01/15/2011	01/15/2011	01/15/2014
Adjusted Gross Estate	1,051,302	2,954,892	1,158,539	3,251,470
Marital Deduction	200,227	0	218,793	0
Charitable Deduction	100,000	100,000	100,000	100,000
Taxable Estate	751,075	2,854,892	839,746	3,151,470
After 1976 Taxable Gifts	0	0	0	0
Federal Estate	751,075	2,854,892	839,746	3,151,470
Federal Tax Per Schedule	248,719	980,012	274,711	1,206,388
After 1976 Gift Taxes	0	0	0	0
Applicable Credit	780,800	1,730,800	1,730,800	2,045,800
Federal Tax + Max Credit	0	0	0	0
State Death Taxes - Max Credit	0	0	0	0
Federal Tax Before Special Credits	0	0	0	0
Special Fed Estate Tax Credits	0	0	0	0
Federal Tax	0	0	0	0
State Death Taxes	0	0	0	0
Total Death Taxes	0	0	0	0
Family Share	751,075	2,854,892	839,746	3,151,470
Family Share Both Spouses	0	3,605,967	0	3,991,216

GRAPHICAL FLOWCHART OF GROSS ESTATE

1. Now, return the order of deaths to their original order (click **Reverse Order Of Death** on the Worksheets menu).
2. To see a graphical flowchart summarizing the disposition of the gross estate on a case-by-case basis, click the Flowchart button on the toolbar.



Note that the flowchart includes appreciation on marital property and percentages.

After viewing the flowchart, you can select **Print** from the File menu to print it. You can also view the flowchart for Case 2 by selecting **Flowchart > Next** on the **Reports** menu (or by right-clicking on the flowchart).

3. When you finish viewing the flowchart, click the **Close** button ☒ to return to the **Main Worksheet**.

CALCULATION 2

Now let's consider the effect of inflating the marital deduction amount and the family share between the deaths of the two spouses, using a rate of 5%, compounded annually.

1. Click the **Adjusted Gross Estate** tab at the top of the right pane to return the focus to the **Adjusted Gross Estate** worksheet.
2. To increase the value of the family share from Charles's estate by 5% between the deaths, in the "Future Value Percentage – Family Share Decedent 1" row, enter **5 Ctrl+A** for both columns of Case 1.

   The future value will appear in the Decedent's columns of the next row as $2,315,250 and $2,819,826. No change will occur in the Spouse's column; her percentage is stored for use when the order of deaths is reversed and she becomes the first decedent.
3. Now increase, by the same percentage, the value of the marital deduction portion of Debra's gross estate during the three years of her survivorship. With the cursor in the first column (Case 1: Charles) of the **"**Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate" row, enter **5 Ctrl+A**.

   This entry affects the calculation for the third row "Future Value Increase in Marital Deduction And Surviving Spouse's Gross Estate" and any subsequent row that is based on it. The figure in the third row is the amount by which the sum of the Spouse's separate estate and the Decedent's marital deduction will increase when adjusted for inflation over the three-year period. (Debra's separate gross estate has already been increased by the growth percentages entered earlier on the **Gross Estate** worksheet and does not increase further by the percentage entered here.)
4. In the second column (Case 1: Debra) of the **"**Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate" row, enter **5 Ctrl+A**. This entry will have no effect until the spouses' order of deaths is reversed. The **Adjusted Gross Estate** worksheet looks like this:

Main Worksheet (#1) | **Adjusted Gross Estate (#3)** | Gross Estate (#14) | Marital Deduction (#4)

	Case 1		Case 2	
Adjusted Gross Estate	Decedent	Spouse	Decedent	Spouse
Separate Gross Estate	2,503,058	1,158,539	2,754,665	1,277,257
Marital Deduction From Deceased Spouse	0	403,058	0	218,793
Future Value Increase in Marital Deduction And Surviving Spouses Gross Estate	0	63,532	0	34,487
Gross Estate	2,503,058	1,625,129	2,754,665	1,530,537
Funeral And Administration Expenses in Dollars	0	0	0	0
Plus Administration Expenses - % Of Gross Estate	0	0	0	0
Section 6166 Interrelated Interest Deduction	0	0	0	0
Total Funeral And Administration Expenses	0	0	0	0
Income Tax-Elected Administration Expenses	0	0	0	0
Schedules K & L Debts And Losses	0	0	0	0
Family Business Deduction	0	0	0	0
Increased Estate Tax	0	0	0	0
State Death Tax Paid	0	0	0	0
Debts And Expenses	0	0	0	0
Adjusted Gross Estate	2,503,058	1,625,129	2,754,665	1,530,537
Future Value Percentage - Family Share Decedent 1	5.00000	5.00000	5.00000	5.00000
Future Value Family Share Decedent 1 in Dollars	2,315,250	0	2,819,826	0
Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate	5.00000	5.00000	5.00000	5.00000
Future Value Family Share Decedent 2 in Dollars	0	1,525,129	0	1,430,537
Future Value Family Share Both Spouses	0	3,840,379	0	4,250,363

You have complete freedom to use different rates of inflation for the family shares and the surviving spouse's shares for each spouse. Different investment strategies for each of the shares may therefore be reflected in the calculations. Different estimates of survivorship by the spouses are handled by changing their years of death.

5. Return the focus to the **Main Worksheet**.

Main Worksheet (#1) | Adjusted Gross Estate (#3) | Gross Estate (#14) | Marital Deduction (#4)

Main Worksheet	Decedent	Spouse	Decedent	Spouse
Date Of Death	01/15/2008	01/15/2011	01/15/2011	01/15/2014
Adjusted Gross Estate	2,503,058	1,625,129	2,754,665	1,530,537
Marital Deduction	403,058	0	218,793	0
Charitable Deduction	100,000	100,000	100,000	100,000
Taxable Estate	2,000,000	1,525,129	2,435,872	1,430,537
After 1976 Taxable Gifts	0	0	0	0
Federal Estate	2,000,000	1,525,129	2,435,872	1,430,537
Federal Tax Per Schedule	780,800	514,595	833,355	518,015
After 1976 Gift Taxes	0	0	0	0
Applicable Credit	780,800	1,730,800	1,730,800	2,045,800
Federal Tax + Max Credit	0	0	0	0
State Death Taxes - Max Credit	0	0	0	0
Federal Tax Before Special Credits	0	0	0	0
Special Fed Estate Tax Credits	0	0	0	0
Federal Tax	0	0	0	0
State Death Taxes	0	0	0	0
Total Death Taxes	0	0	0	0
Family Share	2,315,250	1,525,129	2,819,826	1,430,537
Family Share Both Spouses	0	3,840,379	0	4,250,363

Note that the "Family Share" and "Family Share Both Spouses" rows on the **Main Worksheet** are future values based on the percentage entered on the "Future Value Percentage – Family Share Decedent 1" row on the **Adjusted Gross Estate** worksheet, not date of death values.

SAVING CLIENT DATA ON DISK

Now save the information for Charles and Debra on disk so that it is available for future review.

1. Click the **Save** button on the toolbar, or select **Save Client File As** on the File menu to open the **Save As** dialog.

   Note. The **Save Client File** command is a "quick save" feature—saving the file without prompts under the same name that you previously specified for the file. However, if you select the **Save Client File** command while a previously unsaved file is open, the application automatically treats your choice as **Save Client File As**.

2. In the **File Name** field, type the file name (for example, `West.etp`), then click **Save**. (The application automatically adds the extension "`.etp`" to the file name if you do not include it.)

   The **Save File As** dialog closes and the focus returns to the previous worksheet.

   After the Wests' client file is saved, the name of the file is added to the Client File Loaded line and is listed in the Files list box.

   If you had re-opened the above dialog to see the changes, click the **Cancel** button to close this window and return to where you were when you called up the File menu.

PRINTING THE RESULTS

Now assume that you would like a printed copy of the output for your files or to give to your client. The method described below formats the output or worksheet into a formal report and prints it out directly on your printer.

Note. You can choose to have the formatted report converted to a text file for subsequent editing with your word processing application (see "Creating Text File" in Help).

PRINTING A FORMATTED REPORT

1. Make sure your printer is online. Click the **Print** button on the toolbar or select **Print** from the File menu. The **Print** dialog opens.

   Before printing reports of your own, you may want to change printer settings or enter header and footer lines (see "Printing" in Help).

2. To print more than the active worksheet, click the **Select Worksheets** button on the Print dialog. The **Select Documents** dialog opens. Click on the items you want to print. Your selection(s) will have a check mark in front of them.

3. When all the items you want printed are selected, click **OK** to return to the **Print** dialog. Now click **Preview** to open the **Print Preview** window and view your selected worksheets one-at-a-time. You can change many aspects of the printed

reports and review your changes while this window is open. Click the **Print** button to return to the **Print** dialog.

4. Now click **Print** to send the selected worksheets to the printer. After printing, the application will return you to the **Print Preview** window. Click **Close** to return to the **Main Worksheet**.

CLEARING WORKSHEETS

In order to begin a new scenario, you must open a new client file. Click the **New** button on the toolbar or, from the File menu, select **New Client File**. Click **Finish** on the **Plan Scenario** dialog. This brings up a fresh **Main Worksheet**, with all of the data and assumptions from the previous, saved, scenario cleared away.

SCENARIO 2: RETIREMENT DISTRIBUTIONS

TWO-CASE MARRIED DECEDENT PLAN

This scenario quantifies the benefit of making the spousal rollover election at the death of the predeceasing spouse. Because the distribution years are after 2001, the new minimum distribution rules (promulgated 1/2001) are followed. Case 2 is identical to Case 1 except the spousal rollover election is made in Case 2.

FACTS

David and Delores Chavez want to know the timing and amount of the required minimum distributions to be made from David's qualified plans, valued at $1,000,000, as of 1/1/2003. In order to defer income tax on the qualified plans to the maximum extent possible, they also want to know if they can do anything to reduce the required amount of the distributions.

	Decedent	Spouse
Date of Death	1/1/2008	1/1/2014
Date of Birth	3/5/1935	11/30/1936
Plans/IRAs (at Planning Date)	$1,000,000	
Planning Date	1/1/2008	
Fund Growth Rate	10%	
RBD	2005	
Plan Value on 1/1/2010	$1,464,100	

RUNNING THE CALCULATIONS

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default selections—**Married** and **Custom Plan**, and then click **Finish** to close the

Analysis Wizard. The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

2. Accept the default entries in the first section—**Plan Assumptions**—on the **Assumptions Tab**.

   In the second section—**Client Information**—on the **Assumptions Tab**, enter the following information:

Decedent: Date of Birth	3/5/1935
Decedent: Name	David
Decedent: State of Death	California
Spouse: Date of Birth	11/30/1936
Spouse: Name	Delores
Spouse: State of Death	California

   Accept all the remaining default entries on the **Assumptions Tab**.

3. To add a second case, click **Add Case** on the Worksheets menu. Case 2 appears on the **Main Worksheet**.
4. Enter a date of death of **01/01/2008** in both cases for David (in the “Date of Death” row).

   In the second column (Case 1: Delores) of the same row, enter **01/01/2014**. Enter the same date in the fourth column (Case 2: Delores).

5. Click the “Adjusted Gross Estate” row title. Then, on the **Adjusted Gross Estate** worksheet, click the “Separate Gross Estate” row title to open the **Gross Estate** worksheet.
6. Click the “Qualified Employer Plans And IRAs” row title to open the **Qualified Employer Plans/IRAs** worksheet.
7. In the first column (Case 1: David) of the “Qualified Emplyer Plan #1” row, enter **1,000,000**, then press **Ctrl+A** to automatically enter the same amount in the third column (Case 2: David).
8. In the first column (Case 1: David) of the “Fund Growth Rate” row, enter **10**, then press **Ctrl+A** to automatically carry that entry to the third column (Case 2: David).
9. In the third column (Case 2: David) of the “Spousal Rollover Election?” row, click the check box to select the spousal rollover election.
10. In both columns for Case 1 of the “Number of Years To Calculate” row, enter **10** and press **Ctrl+A** to replicate the data into Case 2 for both columns.
11. In the first column (Case 1: David) of the “Single or Joint Life?” row, select **Joint**. Also, in the third column (Case 2: David) of the same row, select **Joint**.

The **Qualified Employer Plans/IRAs** worksheet looks like this:

	Case 1		Case 2	
Qualified Employer Plans/IRAs	David	Delores	David	Delores
Qualified Employer Plan #1	1,000,000	0	1,000,000	0
Qualified Employer Plan #2	0	0	0	0
Qualified Employer Plan #3	0	0	0	0
IRA 1	0	0	0	0
IRA 2	0	0	0	0
Roth IRAs	0	0	0	0
Total Retirement Plan/IRAs	1,000,000	0	1,000,000	0
Fund Growth Rate	10	0	10	0
Spousal Rollover Election?	☐	☐	☑	☐
Adjustment To Spousal Plans/IRAs	0	0	0	0
Spousal Plan/IRAs	0	0	1,198,564	1,269,895
Total Plan/IRAsValue At Death	1,000,000	0	1,000,000	1,269,895
Decedent's Birth Date	03/05/1935	11/30/1936	03/05/1935	11/30/1936
Nonspouse Beneficiary Birth Date	mm/dd/yyyy	mm/dd/yyyy	mm/dd/yyyy	mm/dd/yyyy
Number Of Years To Calculate	10	10	10	10
Single Or Joint Life?	Joint	Single	Joint	Single
Recalculate Life Expectancy?	Yes	Yes	Yes	Yes
Qualified Retirement Year	yyyy	yyyy	yyyy	yyyy
Defer 1st Year Distribution?	☐	☐	☐	☐
Future Contributions & Adjustments	0	0	0	0
RBD (Required Begin Date)	2005	2007	2005	2007
Minimum Distribution Amount At RBD	36,496	0	36,496	0

12. Select **Retirement Distributions** on the Reports menu to open the **Retirement Minimum Distributions Schedule**. (This is a multi-page report.)

    The decedent's output report in Case 1 appears. (The Spouse's Distribution Schedule in Case 1 is not pictured because it has no figures on it.)

Date: 3/31/2008
Time: 12:12 PM

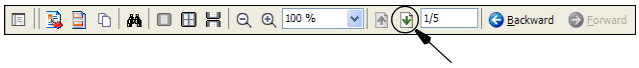
Retirement Minimum Distributions Schedule
Married - Case 1 (David)

Year	Begin Amount	Life Expectancy	Growth	Distribution	End Amount
2004	1,000,000	27.6	0	0	1,000,000
2005	1,000,000	27.4	100,000	36,496	1,063,504
2006	1,063,504	26.5	106,350	40,132	1,129,722
2007	1,129,722	25.6	112,972	44,130	1,198,564
2008	1,198,564	24.7	119,856	48,525	1,269,895
2009	1,269,895	14.8	126,990	85,804	1,311,081
2010	1,311,081	14.1	131,108	92,984	1,349,205
2011	1,349,205	13.4	134,921	100,687	1,383,439
2012	1,383,439	12.7	138,344	108,932	1,412,851
2013	1,412,851	12.1	141,285	116,765	1,437,371

Due to the spousal election made in Case 2 (see step 9 above), the required distributions are considerably lower in Case 2. This is because the applicable life expectancy in Case 1 switches to the single life expectancy of the beneficiary after David's (Decedent's) death.

The spousal rollover election was made in Case 2, so the applicable life expectancy is the factor based on the beneficiary's age. Because this life expectancy is higher than in Case 1, the required distribution is lower than in Case 1, as displayed below.

13. On the report tool bar, click the **Next Page** button **twice** to view to the third page of the report (Case 2, David).



Click to view the next page in the report

Date: 3/31/2008
Time: 12:12 PM

Married - Case 2 (David)

Year	Begin Amount	Life Expectancy	Growth	Distribution	End Amount
2004	1,000,000	27.6	0	0	1,000,000
2005	1,000,000	27.4	100,000	36,496	1,063,504
2006	1,063,504	26.5	106,350	40,132	1,129,722
2007	1,129,722	25.6	112,972	44,130	1,198,564
2008	1,198,564	24.7	119,856	48,525	1,269,895
2009	1,269,895	0	0	0	0

This is the end of this scenario. Before entering information for the next scenario, you should clear the information from the current scenario.

14. Click the **New** icon on the toolbar or select **New Client File** on the File menu.
15. Select **No** in response to the **Do you want to save the changes to the New File?** message.
16. On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default selections—**Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**. The **Main Worksheet** appears in the right pane and the **Assumptions Tab** appears in the left pane.

SCENARIO 3: ESTATE TAX CHARITABLE DEDUCTIONS

ONE-CASE MARRIED DECEDENT PLAN

This scenario illustrates the use of the Charitable Deduction worksheets to calculate the charitable deductions and taxes when nonresiduary bequests are employed.

FACTS

Hector and Maureen Good have no descendants. They wish to take care of their collateral relatives and give the balance on the deaths of the relatives to different charities. For purposes of this scenario, Hector is assumed to die in 2003, predeceasing Maureen who dies in 2005.

Hector wishes to give $600,000 to a testamentary Pooled Income Fund for his sister and her spouse (aged 67 and 70 at Hector's death in 2003). He also wishes to establish two $500,000 Charitable Remainder trusts for his brother: an Annuity Trust (for a certain return to the brother) and a Unitrust (as a guard against inflation). The

brother will be 65 at Hector's death. Hector gives the maximum marital deduction (ZFT) to Maureen as a QTIP gift.

Maureen wishes, on her death, to give another $600,000 to the Pooled Income Fund for Hector's sister and her spouse and two $300,000 Charitable Remainder trusts for her nephew, of which one is an Annuity Trust (for a certain return to the nephew) and the other is a Unitrust (as a guard against inflation). The nephew is 50 at Maureen's death in 2005.

Hector's gross estate is $4,500,000 and Maureen's is $2,000,000. The estimate of debts and expenses is 5% in each case. Payments are made annually. The highest return rate for the Pooled Income Fund is 6% in all years.

RUNNING THE CALCULATIONS

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default selections—**Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**. The **Main Worksheet** appears in the right pane and the **Assumptions Tab** appears in the left pane.

2. Accept the default entries in the first section—**Plan Assumptions**—on the **Assumptions Tab**.

Include GST	No
Married	Yes
Replicate Case Date	Yes

   In the second section—**Client Information**—on the **Assumptions Tab**, enter the following information:

Decedent: Date of Birth	1/1/1936
Decedent: Name	Hector
Decedent: State at Death	None
Spouse: Date of Birth	1/1/1936
Spouse: Name	Maureen
Spouse: State at Death	None

   Accept all the remaining default entries on the **Assumptions Tab**.

3. On the **Main Worksheet**, in the first column (Hector) of the "Date of Death" row, enter **9/1/2003** and press **Enter**. In the second column (Maureen) of the same row, enter **9/1/2005** and press **Enter**.

4. Click the "Adjusted Gross Estate" row title. On the **Adjusted Gross Estate** worksheet, click the "Separate Gross Estate" row title to open the **Gross Estate** worksheet.

In the first column (Hector) of the “Schedule C – Mortgages, Notes & Cash–Liquid” row, enter **4,500,000** and press **Enter.** In the second column (Maureen) of the same row, enter **2,000,000** and press **Enter**.

Using the tabs at the top of the worksheets (right pane), return the focus to the **Adjusted Gross Estate** worksheet.

5. In **both** columns of the “Plus Administration Expenses — % Of Gross Estate” row, enter **5**, pressing **Enter** after each entry.

6. Return the focus to the **Main Worksheet**. Click the “Marital Deduction” row title to open the **Marital Deduction** worksheet.

   In the first column (Hector) column of the “Zero Federal Tax Option” row, select the ZFT1 option and press **Tab** to accept the entry.

7. Return the focus to the **Main Worksheet**. Click the “Charitable Deduction” row title to open the **Charitable Deduction** worksheet. Click the “Nonresiduary Trust Bequests” row title to open the **Nonresiduary Trust Bequests** worksheet. In **both** columns of the “Type of Fund 1” row, select **Pooled Income Fund**.

   Note. You must use the same trust selection in **both** columns for Funds #1 through #3 because the first selection determines the type of Fund.

8. In **both** columns of the “Nonresiduary Trust Amount 1” row, enter **600,000** (to reflect the value of the Decedent’s and Spouse’s investments in the Pooled Income Fund), pressing **Enter** after each entry.

9. Click the “Fund #1” row title to open the **Nonresiduary Fund #1** worksheet, where you can enter the details of the Pooled Income Fund.

   In the first column (Hector) of the “First Age” row, enter **67** and press **Enter.** In the second column (Maureen) of the same row, enter **69** and press **Enter**.

10. In the first column (Hector) of the “Second Age (Two-Life Calculation)” row, enter **70** and press **Enter**. In the second column (Maureen) of the same row, enter **72** and press **Enter**.

11. In **both** columns of the “Highest Return Rate 3 Yrs Prior” row, enter **6**, pressing **Enter** after each entry.

    The application automatically calculates a factor of 0.3457 and 0.37545 for Hector (Decedent) and Maureen (Spouse), respectively, and applies this factor to the trust amount entered previously.

    The calculated “Pooled Inc Fund Deduction” appears at the bottom of the worksheet.

Nonresiduary Fund #1	Hector	Maureen
First Age	67	69
Second Age (Two-Life Calculation)	70	72
Highest Return Rate 3 Yrs Prior	6.00000	6.00000
Factor	0.34570	0.37545
Value Of Remainder	0	0
Pooled Inc Fund Deduction	207,420	225,270

12. Return the focus to the **Nonresiduary Trust Bequests** worksheet. The deductions are posted to the appropriate columns on the “Fund #1” row.

13. In **both** columns of the “Type of Fund 2” row, select **Remainder Unitrust.**

14. In the first column (Hector) of the “Nonresiduary Trust Amount 2” row, enter **500,000** and press **Enter.** In the second column (Maureen) of the same row, enter **300,000** and press **Enter.** The worksheet looks like this:

Nonresiduary Trust Bequests	Hector	Maureen
Type Of Fund 1	Pooled Income	Pooled Income
Fund #1	207,420	225,270
Nonresiduary Trust Amount 1	600,000	600,000
Type Of Fund 2	Remainder Unit	Remainder Unit
Fund #2	0	0
Nonresiduary Trust Amount 2	500,000	300,000
Type Of Fund 3	None	None
Fund #3	0	0
Nonresiduary Trust Amount 3	0	0

15. Click the “Fund #2” row title to open the **Nonresiduary Fund #2** worksheet.

16. Complete the entries for the “First Age”, “Section 7520 Interest Rate”, “% Payout”, “Payment Frequency”, and “# Months Before Payment” rows, as shown below.

Nonresiduary Fund #2	Hector	Maureen
First Age	65	50
Second Age (Two-Life Calculation)	0	0
Or Term of Years (1 to 20)	0	0
Sec. 7520 Interest Rate	7.20000	7.20000
% Payout	6.00000	6.00000
Payment Frequency	Annually	Annually
# Months Before Payment	12	12
Adjusted Payout Rate	5.59700	5.59700
Remainder Factor	0.42072	0.23830
Value of Life Estate	289,640	228,510
Rem Unitrust Deduction	210,360	71,490

Note. The application carries the last known §7520 Interest Rate from the §7520 Interest Rates on the **Assumptions Tab** to this worksheet. However, in this scenario, you will override the rate by entering **7.2** in both columns as the assumed §7520 Interest Rate.

The application then calculates the table payout rates, the remainder factors, the value of the life estate, and the remainder Unitrust deduction for Hector (Decedent) and Maureen (Spouse).

17. Return the focus to the **Nonresiduary Trust Bequests** worksheet. Note that the deductions have posted to the “Fund #2” row.

18. In **both** columns of the “Type of Fund 3” row, select **Remainder Annuity**.

19. In the first column (Hector) of the “Nonresiduary Trust Amount 3” row, enter **500,000** and press **Enter.** In the second column (Maureen) of the same row, enter **300,000** and press **Enter**.

20. Click the “Fund #3” row title to open the **Nonresiduary Fund #3** worksheet.

21. Complete the entries for the “First Age”, “Section 7520 Interest Rate”, “Dollar Payout”, and “Payment Frequency” rows for the remainder annuity trust, as shown below.

Nonresiduary Fund #3	Hector	Maureen
First Age	65	50
Second Age (Two-Life Calculation)	0	0
Or Term Of Years (1 To 20)	0	0
Section 7520 Interest Rate	7.20000	7.20000
Dollar Payout	30,000	18,000
Payment Frequency	Annually	Annually
Pay At Beginning Or End Of Period	End	End
Remainder Factor	0.36257	0.18805
Annuity Factor	8.85320	11.27710
Adjustment Factor	1.00000	1.00000
Adjusted Annuity Factor	8.85320	11.27710
Present Value Of Annuity	265,596	202,988
Remainder Annuity Deduction	234,404	97,012

Note. The application carries the last known §7520 Interest Rate from the §7520 Interest Rates on the **Assumptions Tab**. However, in this scenario, you will override the rate by entering **7.2** in both columns as the assumed §7520 Interest Rate.

The amounts on the “Dollar Payout” row are 6% of the “Nonresiduary Trust Amount” on the **Nonresiduary Trust Bequests** worksheet. The application calculates and displays these results.

22. Return the focus to the **Nonresiduary Trust Bequests** worksheet. Note that the deductions have posted to the “Fund #3” row.

    The worksheet now shows the deduction amounts for all three funds.

Nonresiduary Trust Bequests	Hector	Maureen
Type Of Fund 1	Pooled Income	Pooled Income
Fund #1	207,420	225,270
Nonresiduary Trust Amount 1	600,000	600,000
Type Of Fund 2	Remainder Unit	Remainder Unit
Fund #2	210,360	71,490
Nonresiduary Trust Amount 2	500,000	300,000
Type Of Fund 3	Remainder Ann	Remainder Ann
Fund #3	234,404	97,012
Nonresiduary Trust Amount 3	500,000	300,000

23. Return the focus to the **Charitable Deduction** worksheet. The totals of the “Nonresiduary Trust Bequests” rows for Funds 1, 2 and 3 for each estate—$652,184 for Hector (Decedent) and $393,772 for Maureen (Spouse)—appear on the “Nonresiduary Trust Bequests” row of this worksheet. Note that the amounts are also carried to the “Total Charitable Bequests” row.

24. Return the focus to the **Main Worksheet**. The “Family Share” in the first column (Hector)’s estate is $1,000,000, which is the total amount of Hector’s investment in the three funds less the charitable deduction ($652,184). In other words, the $1,000,000 is the present value of the non-deductible family portion of the three trusts. In the Spouse’s column, Maureen’s investment in the three different trusts results in a “Charitable Deduction” of $393,772 and a “Family Share” of $2,833,889.

Main Worksheet	Hector	Maureen
Date Of Death	09/01/2003	09/01/2005
Adjusted Gross Estate	4,275,000	4,391,675
Marital Deduction	2,622,816	0
Charitable Deduction	652,184	393,772
Taxable Estate	1,000,000	3,997,903
After 1976 Taxable Gifts	0	0
Federal Estate	1,000,000	3,997,903
Federal Tax Per Schedule	345,800	1,719,814
After 1976 Gift Taxes	0	0
Unified Credit	345,800	555,800
Federal Tax + Max Credit	0	1,164,014
State Death Taxes - Max Credit	0	0
Federal Tax Before Special Credits	0	1,164,014
Special Fed Estate Tax Credits	0	0
Federal Tax	0	1,164,014
State Death Taxes	0	0
Total Death Taxes	0	1,164,014
Family Share	1,000,000	2,833,889
Family Share Both Spouses	0	3,833,889

This is the end of this scenario. Before entering information for the next scenario, you should clear the information from the current scenario.

25. Click the **New** icon on the toolbar or select **New Client File** on the File menu.
26. Select **No** in response to the **Do you want to save the changes to the New File?** message.
27. On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), change the **Marital Status** to **Single** by clicking the **Single** button. Accept the default scenario selection—**Custom Plan**, and then click **Finish** to close the **Analysis Wizard**. The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

SCENARIO 4: SECTION 6166 (NON-INTERRELATED) & SECTION 303

ONE-CASE SINGLE DECEDENT PLAN

This scenario illustrates how to perform the non-interrelated Section 6166 interest calculation. The second part of the scenario shows how to use the **Section 303 Planning** worksheet.

PART 1 SECTION 6166 NON-INTERRELATED INTEREST CALCULATION

FACTS

Sue Planner, owner of Business Planners, Inc., is assumed to die on January 15, 2015, leaving a Gross Estate (including Business Planners, Inc.) of $9,000,000. Business Planners, Inc. is valued at $3,000,000. Her Executor wishes to know what advantages may be gained under the provisions of IRC §6166 and/or §303.

Sue's estate includes the following assets and liabilities:

Real Estate	$5,000,000
Stocks and Bonds	3,500,000
Mortgages, Notes, and Cash	500,000
Funeral and Administration Expenses	200,000
Debts and Losses	250,000

RUNNING THE CALCULATIONS

Note. Since Sue's date of death is after 1998, the year that the Tax Relief Act of 1997 §6166 changes took effect, you **must** enter adjustment amounts for the inflation of the §6166 $1 million preferred interest amount **prior to** running the calculations. Otherwise, your calculation results will not match those shown in this scenario.

After opening a new client file, follow these steps:

1. In the first section of the **Assumptions Tab**, enter the following information.

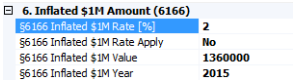
Include GST	No
Married	No
Replicate Case Date	No

2. In the second section of the **Assumptions Tab**, enter the following information.

Date of Birth	1/1/1935
Name	Sue
State of Death	California

3. In section 6 of the **Assumptions Tab** (the **Inflated $1M Amount (6166)** section), the **§6166 Inflated $1M Year** field displays the current year by default and the **§6166 Inflated $1M Value** field displays the exemption for that year.

   Click the **§6166 Inflated $1M Year** field and select 2015. Then, click the **§6166 Inflated $1M Rate [%]** field and enter **2** for the percentage rate of change. The sixth section of the **Assumptions Tab** should now look like this:



6. Inflated $1M Amount (6166)	
§6166 Inflated $1M Rate [%]	2
§6166 Inflated $1M Rate Apply	No
§6166 Inflated $1M Value	1360000
§6166 Inflated $1M Year	2015

4. Now change the default of **No** in the **§6166 Inflated $1M Rate Apply** field to **Yes**. This increases the §6166 amount by an increment of 2% of the original $1 million (pre-1999) amount for each year after 2000.

5. On the **Main Worksheet**, enter **1/15/2015** as Sue's date of death and press **Enter**.

6. On the **Main Worksheet**, click the "Adjusted Gross Estate" row title to open the **Adjusted Gross Estate** worksheet.

Then, on the **Adjusted Gross Estate** worksheet, click the “Separate Gross Estate” row title to open the **Gross Estate** worksheet.

7. On the “Schedule A – Real Estate” row, enter **5,000,000** and press **Enter**.
8. To create a custom worksheet for Business Planners’ stock, right click the entry field on the “Schedule B – Stocks & Bonds” row, and then left click the **Add Custom Worksheet** item on the context menu. The custom worksheet looks like this:

	Case 1
Schedule B - Stocks & Bonds	Sue
New	0
Total	0

Click the **New** title, and typing over the word **New**, enter the company name, **Business Planners, Inc.**, and then press **Enter**. In the next column (Sue), enter **3,000,000** and press **Enter**. The custom worksheet looks like this:

	Case 1
Schedule B - Stocks & Bonds	Sue
Business Planners, Inc.	3,000,000
Total	3,000,000

Click the **Gross Estate** tab to return the focus to the **Gross Estate** worksheet.

9. On the “Schedule B – Stocks & Bonds–Liquid” row, enter **500,000** and press **Enter**.
10. On the “Schedule C – Mortgages, Notes & Cash” row, enter **250,000** (for Sue’s non-liquid Schedule C assets) and press **Enter**.
11. On the “Schedule C – Mortgages Notes & Cash–Liquid” row, enter **250,000** (for Sue’s liquid Schedule C assets) and press **Enter**. The top portion of the worksheet looks like this:

	Case 1
Gross Estate	Sue
Schedule A - Real Estate	5,000,000
Schedule B - Stocks & Bonds	3,000,000
Schedule B - Stocks & Bonds-Liquid	500,000
Schedule C - Mortgages, Notes & Cash	250,000
Schedule C - Mortgages, Notes & Cash-Liquid	250,000

12. Click the Adjusted Gross Estate tab to return the focus to the **Adjusted Gross Estate** worksheet. Note that the application has calculated $9,000,000 for the Gross Estate.
13. On the “Funeral And Administration Expenses in Dollars” row, enter **200,000** and press **Enter**.
14. On the “Schedules K & L Debts And Losses” row, enter **250,000** and press **Enter**. Note that the application has calculated Sue’s adjusted gross estate as **$8,550,000**. This is the amount the application will use when testing for qualification under §§6166 and 303.

15. Click the “Section 6166 Interrelated Interest Deduction” row title (near the top of this worksheet) to open the **6166 Interrelated Interest Deduction** worksheet.

SECTION 6166 INTERRELATED INTEREST DEDUCTION WORKSHEET

We will use this subworksheet to determine whether Sue’s closely-held business qualifies for treatment under IRC §6166 (i.e., whether the business comprises at least 35% of the adjusted gross estate).

If the business qualifies, the application will display a schedule of payments for any deferred tax and interest, based on stored interest rates and the number of installments elected by the executor of Sue’s estate.

Complete the worksheet as follows:

1. On the “Value Of Business” row, enter **3,000,000** and press **Enter**.

   Based on the amounts already entered on other worksheets, the application calculates that 35% of the Adjusted Gross Estate is $2,992,500 and that, therefore, the business qualifies for §6166 treatment.

   Note that the application automatically enters a due date of **10/15/2015** on the “Federal Estate Taxes Due Date” row.

2. On the “Number Of Installments (2–10)” row, enter **10** to indicate the executor’s election and press **Enter**. Press **Enter** again to skip the “Years to Calculate (0 To14)” row, since it does not apply here.

3. Since we are performing a calculation for a year in which no interrelated deduction is allowed, on the “Type Of Deferral” row, select **Non-Interrelated 6166** and press **Tab** to accept the selection. The application applies the reduced interest rules of the Taxpayer Relief Act of 1997 to deaths after 1997. The top portion of the worksheet looks like this:

	Case 1
6166 Interrelated Interest Ded	Sue
Value Of Business	3,000,000
Thirty Five % Of Adjusted Gross Estate	2,992,500
Federal Estate Tax	1,242,500
Tax Deferrable On Business	435,965
Tax Not Deferrable	806,535
Two %/ Four % Amount Of Deferred Tax	435,965
Non-Two %/ Four % Amount Deferred Tax	0
Federal Estate Taxes Due Date	10/15/2015
Number Of Installments (2-10)	10
Years To Calculate (0 To 14)	0
Type Of Deferral	Non-interrelatec

4. On the **Reports** menu, select **Sec. 6166 Summary**. The **6166 Summary** report shows the calculated payment schedule for all years.

Date: 4/26/2011
Time: 4:06 PM

Sue

6166 Summary

	Case 1
Total Tax Paid	1,242,500
Total Interest Paid	83,665
Total Payments Present Value	1,326,165
Year 1 Payment	8,812
Year 2 Payment	8,802
Year 3 Payment	8,807
Year 4 Payment	8,807
Year 5 Payment	8,812
Year 6 Payment	7,921
Year 7 Payment	7,045
Year 8 Payment	6,165
Year 9 Payment	5,287
Year 10 Payment	4,401
Year 11 Payment	3,523
Year 12 Payment	2,642
Year 13 Payment	1,762
Year 14 Payment	880
Principal Payment 5th to 14th Year	43,597

The amount on the “Total Payments Present Value” row is reduced to the present value, using the rate entered on the “Future Value Percentage Per Year For Special Growth Assets” row near the bottom of the **Gross Estate** worksheet. For this scenario, we’re using the application’s default rate of zero.

PART 2 SECTION 303 PLANNING

We will now use the **Section 303 Planning** subworksheet to determine whether the stock in Sue’s closely held business qualifies for treatment under IRC §303. If it is determined that the stock qualifies, the application calculates the value of the stock that can be protected from the dividend tax and displays the amount on the last row of the worksheet.

1. Click the **Gross Estate** tab to return the focus to the **Gross Estate** worksheet.
2. Click the “Section 303 Planning” row title at the bottom of the worksheet. The **Section 303 Planning** worksheet opens.

SECTION 303 PLANNING WORKSHEET

3. On the “Value of Stock” row, enter **3,000,000** (as the value of Business Planner’s stock) and press **Enter**. Note that a “1” appears on the “Qualify-1 Not Qualify-2” row, indicating that the corporation’s stock qualifies under IRC §303.

	Case 1
Sec. 303 Planning	Sue
Adjusted Gross Estate	8,550,000
35% Thereof	2,992,500
Value Of Stock	3,000,000
Qualify 1 Not Qualify 2	1
Funeral And Administrative Expenses	200,000
Federal Estate Taxes	1,242,500
Generation-Skipping Taxes	0
State Death Taxes	0
Certain Interest on State And Federal Death Taxes	0
Maximum Protected Redemption	1,442,500

If the transfer of §303 stock had resulted in a generation-skipping tax or payments of interest deductions at the time of and as a result of the decedent's death, such amounts would be entered on the "Generation-Skipping Taxes" and the "Certain Interest on State And Federal Death Taxes" rows of the worksheet.

4. Return the focus to the **Gross Estate** worksheet. Since the stock qualifies for §303 treatment, the Value of Stock is displayed on the last row, "Section 303 Planning", for convenience.

This is the end of this scenario. Before entering information for the next scenario, you should clear the information from the current scenario.

1. Click the **New** icon on the toolbar or select **New Client File** on the File menu.
2. Select **No** in response to the **Do you want to save the changes to the New File?** message.
3. On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), change the **Marital Status** to **Single** by clicking the **Single** button.

   Accept the default scenario selection—**Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

   The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

SCENARIO 5: SECTION 6166 INTERRELATED DEDUCTION

ONE-CASE SINGLE DECEDENT PLAN

This scenario illustrates the use of the **Section 6166 Interrelated Deduction** worksheet to perform the interrelated §6166 calculation that existed prior to the Tax Relief Act of 1997 (1997 TRA).

SECTION 6166 INTERRELATED INTEREST

FACTS

Tom Entrepreneur, a widower, wholly owned Entrep Corporation, valued at $3,000,000. He died on January 15, 1995, leaving a Gross Estate (including Entrep Corp.) of $9,000,000. His Executor wishes to know what advantages may be gained under the provisions of IRC §6166.

Tom's estate includes the following assets and liabilities:

Real Estate	$4,000,000
Closely Held Corporate Stock	3,000,000
Liquid Stocks and Bonds	1,000,000
Mortgages, Notes, and Cash	1,000,000
Funeral and Administration Expenses	500,000
Debts and Losses	200,000

RUNNING THE CALCULATIONS

After opening a new client file, follow these steps:

1. In the first two sections of the **Assumptions Tab** (**Plan Assumptions** and **Client Information**), enter the following information.

Include GST	No
Married	No
Replicate Case Date	No
Date of Birth	1/1/1935
Name	Tom
State of Death	California

2. Return the focus to the **Main Worksheet**. On the "Date of Death" row, enter **1/15/1995** and press **Enter**.
3. Click the "Adjusted Gross Estate" row title to open the **Adjusted Gross Estate** worksheet.

   Click the "Separate Gross Estate" row title to open the **Gross Estate** worksheet.
4. On the "Schedule A – Real Estate" row, enter **4,000,000** and press **Enter**.
5. To create a custom worksheet for Entrep Corporation's stock, click the entry field on the "Schedule B – Stocks & Bonds" row, and then click the **Add Custom Worksheet** button on the tool bar. The **Schedule B – Stocks & Bonds** custom worksheet appears.
6. Click the **New title**, and typing over the word **New**, enter the company name, **Entrep Corporation**, and then press **Enter**. In the next column (Tom), enter **3,000,000** and press **Enter**. The custom worksheet looks like this:

	Case 1
Schedule B - Stocks & Bonds	Tom
Entrep Corporation	3,000,000
Total	3,000,000

Return the focus to the **Gross Estate** worksheet.

7. On the “Schedule B – Stocks & Bonds–Liquid” row, enter **1,000,000** and press **Enter**.
8. On the “Schedule C – Mortgages, Notes & Cash” row, enter **500,000** (for Tom’s non-liquid Schedule C assets) and press **Enter**.
9. On the “Schedule C – Mortgages, Notes & Cash–Liquid” row, enter **500,000** (for Tom’s liquid Schedule C assets) and press **Enter**. The top portion of the worksheet looks like this:

Gross Estate	Tom
Schedule A - Real Estate	4,000,000
Schedule B - Stocks & Bonds	3,000,000
Schedule B - Stocks & Bonds-Liquid	1,000,000
Schedule C - Mortgages, Notes & Cash	500,000
Schedule C - Mortgages, Notes & Cash-Liquid	500,000
Schedule D - Life Insurance-Liquid	0
Schedule E - Joint Property With Spouse	0

10. Return the focus to the **Adjusted Gross Estate** worksheet. Note that the application has calculated $9,000,000 for the Gross Estate.
11. On the “Funeral And Administration Expenses in Dollars” row, enter **500,000** and press **Enter**.
12. On the “Schedules K & L Debts And Losses” row, enter **200,000** and press **Enter**. Note that the application has calculated Tom’s adjusted gross estate as $8,300,000. This is the amount the application will use when testing for qualification under §6166.
13. Click the “Section 6166 Interrelated Interest Deduction” row title to open the **6166 Interrelated Interest Deduction** worksheet.

SECTION 6166 INTERRELATED INTEREST DEDUCTION WORKSHEET

We will use this subworksheet to determine whether Tom’s closely held business qualifies for treatment under IRC §6166 (i.e., whether the business comprises at least 35% of the adjusted gross estate) and, if so, to calculate the amount of interest that Tom’s executor can deduct as an administration expense on his estate tax return.

If the business qualifies, the application will also display a schedule of payments for the deferred tax and interest, based on stored interest rates and the number of installments elected by the executor of Tom’s estate.

1. On the “Value Of Business” row, enter **3,000,000** and press **Enter**. Based on the amounts already entered on other worksheets, the application calculates that 35% of the Adjusted Gross Estate is $2,905,000 and that, therefore, the business qualifies for §6166 treatment.

Note that the application automatically displays the 10/15/1995 due date (nine months after death) on the “Federal Estate Taxes Due Date” row.

2. On the “Number Of Installments (2–10)” row, enter **10** to indicate the executor’s election and press **Enter**.
3. On the “Years To Calculate (0 to 14)” row, enter **14** and press **Enter**.
4. On the “Type Of Deferral” row, select 6166 and press **Tab**.

   The application calculates the Total Interest Deduction and posts it to the “Section 6166 Interrelated Interest Deduction” row on the **Adjusted Gross Estate** worksheet.

   The application also calculates the deferrable and non-deferrable portions of Tom’s estate tax liability and displays the amounts on the “Tax Deferrable On Business” and “Tax Not Deferrable” rows towards the top of the **Adjusted Gross Estate** worksheet. The application also enters **1,836,877** in the “Non-Deferred Tax After 6166” row.

Note. If you changed the **Section 6166 Underpayment Rates** or **Inflated $1M Amounts (6166)** on the **Assumptions Tab** to reflect interest rates published after release of the application, the amounts shown below may differ from the amounts displayed on-screen.

The **6166 Interrelated Interest Deduction** worksheet now looks like this:

6166 Interrelated Interest Ded	Tom
Value Of Business	3,000,000
Thirty Five % Of Adjusted Gross Estate	2,905,000
Federal Estate Tax	3,197,400
Tax Deferrable On Business	1,155,687
Tax Not Deferrable	2,041,713
Two %/ Four % Amount Of Deferred Tax	153,000
Non-Two %/ Four % Amount Deferred Tax	1,002,687
Federal Estate Taxes Due Date	10/15/1995
Number Of Installments (2-10)	10
Years To Calculate (0 To 14)	14
Type Of Deferral	6166
TRA Election Date	12/01/1998
Ignore Interest in Marital Deduction Or Charitable Deduction? (Y/N)	☐
Adjustment To Federal Estate Tax For 6166	0
Non-Deferred Tax After 6166	1,837,388
1st And 2nd Payment Years	336,607
3rd To 5th Payment Years	215,317
6th To 8th Payment Years	130,637
9th To 11th Payment Years	63,194
12th To 14th Payment Years	31,008
Total Interest Deduction	776,763
Amount Of 4% Payment 1st Year	6,247
Balance Of Interest Payment 1	249,290
Principal Payment By Due Date	0
Delinquent Payment 1	0
Date Of Delinquent Payment 1	mm/dd/yyyy
Actual Payment Of Interest	274,561
Accrued Interest	255,537
Interest Overpaid	19,024
Tax Payments And Credits	0
Balance Of Deferred Estate Tax	2,877,419
Amount Of 4% Payment 2nd Year	1,926
Balance Of Interest Payment 2	79,144
Payment Of Nondeferred Balance	1,970,151
Additional Principal Payment	0
Date Of Delinquent Payment 2	mm/dd/yyyy

The amount on the “Tax Not Deferrable” row ($2,041,713) is the amount that must be paid by the due date of the estate tax return. Of this amount, however, only $1,800,000 was actually paid by the due date of the return, i.e., $241,713 short.

5. On the “Principal Payment By Due Date” row, enter **1,800,000** and press **Enter**.

   The application has calculated an amount of $211,689 on the “Payment Of Nondeferred Balance” row towards the bottom of the worksheet, i.e., less than the amount unpaid by the due date of the return. When less than the required amount is paid, the application computes the balance after deducting the last year’s interest and displays it on this row.

   The amount in the “Non-Deferred Tax After 6166” row has also changed accordingly. If the full amount of non-deferrable tax had been paid by the due date, this row would be zero. (The application assumes that the $211,689 nondeferred tax balance is actually paid by the estate by the end of the first year.)

   The worksheet now looks like this:

6166 Interrelated Interest Ded	Tom
Value Of Business	3,000,000
Thirty Five % Of Adjusted Gross Estate	2,905,000
Federal Estate Tax	3,197,400
Tax Deferrable On Business	1,155,687
Tax Not Deferrable	2,041,713
Two %/ Four % Amount Of Deferred Tax	153,000
Non-Two %/ Four % Amount Deferred Tax	1,002,687
Federal Estate Taxes Due Date	10/15/1995
Number Of Installments (2-10)	10
Years To Calculate (0 To 14)	14
Type Of Deferral	6166
TRA Election Date	mm/dd/yyyy
Ignore Interest in Marital Deduction Or Charitable Deduction? (Y/N)	☐
Adjustment To Federal Estate Tax For 6166	0
Non-Deferred Tax After 6166	1,880,420
1st And 2nd Payment Years	176,525
3rd To 5th Payment Years	212,237
6th To 8th Payment Years	130,353
9th To 11th Payment Years	63,909
12th To 14th Payment Years	30,962
Total Interest Deduction	613,986
Amount Of 4% Payment 1st Year	6,247
Balance Of Interest Payment 1	90,752
Principal Payment By Due Date	1,800,000
Delinquent Payment 1	0
Date Of Delinquent Payment 1	mm/dd/yyyy
Actual Payment Of Interest	115,810
Accrued Interest	97,000
Interest Overpaid	18,810
Tax Payments And Credits	1,800,000
Balance Of Deferred Estate Tax	1,144,809
Amount Of 4% Payment 2nd Year	4,984
Balance Of Interest Payment 2	74,542
Payment Of Nondeferred Balance	211,689
Additional Principal Payment	0
Date Of Delinquent Payment 2	mm/dd/yyyy
Actual Payment Of Interest	96,451
Accrued Interest	79,526
Interest Overpaid	16,925
Tax Payments And Credits	2,030,499
Balance Of Deferred Estate Tax	914,310

   Details of the calculations can be seen on the four **Payment Years** worksheets.

   You can also enter any other number from 1 through 14 on the “Years To Calculate (0 to 14)” row and obtain the deduction after the year selected. Remember, however, that the federal interest rates for future years are not available; the last

quarterly rate displayed on the **Assumptions Tab** is assumed to be the rate for all later years. As interest rates for future quarters become available, you can enter them on the **Assumptions Tab**.

This is the end of the tutorial. You are now ready to use the application to run cases of your own and experiment with some of the additional features of the application that we did not cover here.

SCENARIO 6: INCOME TAX SAVINGS FROM CHARITABLE TRUSTS

This scenario illustrates the use of the **Charitable Income Tax** feature.

LIFETIME CHARITABLE DEDUCTION

FACTS

Penelope Plum is contemplating making a substantial contribution to her favorite charity, the Winemaker's Charitable Association. For tax purposes the charity is classified as a “50% charity.” She also wishes to generate from this transaction an income stream for her life, and to make this charitable gift in 2008.

Based on the relevant facts shown below, the present value of the lifetime annuity is $673,638. This amount is actuarially calculated as $60,000 annual annuity times life annuity factor of 11.2273 for age 60 with §7520 rate of 5.6 (from IRS Pub. 1457 “Actuarial Values–Table S”). The gift of the remainder interest to the charity is therefore valued at $326,362 ($1,000,000 amount transferred less $673,638 value of retained annuity).

The amount of the gift tax charitable deduction is also $326,362. The amount of the income tax charitable deduction for the year of transfer (2008) is also $326,362, as the amount is well below the “50% of AGI” ceiling, which in this case is $1,000,000.

The planned gift will have the following impact on the gross estate. The gross estate is reduced by the amount given to charity ($326,362). In addition, the estate is increased by the federal income tax savings accruing as a result of the charitable gift. In this case the marginal income tax rate is the top federal rate, 35%, so the income tax savings is $114,227 ($326,362 x 35%). (Massachusetts does not allow the charitable deduction for income tax purposes, so there is no state income tax benefit.)

The net impact on the gross estate is thus a decrease of $212,135 (net adjustment resulting from decrease for the $326,362 charitable gift and increase for the $114,227 tax savings).

Charitable Gift Data

Type of Fund:	Charitable Remainder Annuity Trust
Amount of Fund:	$1,000,000
Payout Amount:	$60,000
Payout Frequency:	Annually

Payout Timing:	Paid at end of period
Date of transfer:	July 1, 2008
Donor's Age at Tfr Date:	60
Sec. 7520 Rate:	5.6

Income Tax Data

Adjusted Gross Income:	$2,000,000
Fed Marginal Income Tax Rate:	35%
State Marginal Income Tax Rate:	10%

RUNNING THE CALCULATIONS

1. Create new file for a single decedent. Click **File > New Client File > Single**. Then, click **Finish**. The **Main Worksheet** opens in the right pane.
2. In the **Assumptions Tab**, enter **Penelope** in the Name field.
3. On the **Main Worksheet**, on the “Date of Death” row, enter **01/01/2028** and press **Enter**.
4. Click the “Adjusted Gross Estate” row title. Then, on the **Adjusted Gross Estate** worksheet, click the “Separate Gross Estate” row title. The **Gross Estate** worksheet opens. On the first row (“Sch. A – Real Estate”), enter **4,000,000** and press **Enter**.
5. Return the focus to the **Main Worksheet**. Click the “State Death Taxes” row title to open the **State Death Taxes—State Schedule** worksheet. On the first row (“State”), select **Massachusetts** and then press **Tab**.
6. Now, let’s add two more cases. To do this, right-click anywhere in the right pane and click **Add Case** on the pop-up menu. Repeat this action (right-click and click **Add Case**). You will see 3 cases with identical data.
7. Change the text in the **Case Titles** as follows:
   a. Click in the Case 1 cell and type No Char Gift
   b. Click in the Case 2 cell and type Char Gift at Death
   c. Click in the Case 3 cell and type Lifetime Char Gift
8. Enter the testamentary charitable gift information as follows:
   a. On the **Main Worksheet**, click the “Charitable Deduction” row title to open the **Charitable Deduction** worksheet, and then click the “Nonresiduary Trust Bequests” row title.
   b. On the **Nonresiduary Trust Bequests** worksheet, click on the first row (“Type of Fund 1”) and in any case, select the first choice (“Remainder Annuity”) and then press **Tab**. This will cause “Remainder Annuity” to be selected for all cases.

c. On the “Nonresiduary Trust Amount 1” row for Case 2 (Char Gift at Death), enter **1,000,000** and press **Enter**.

d. Click the “Fund #1” row title to open the **Nonresiduary Fund #1** worksheet.

e. In Case 2 (the “Char Gift at Death” column), enter the following data, pressing **Enter** after each entry:

First Age	60
Sec. 7520 Interest Rate	5.6
Dollar Payout	60,000

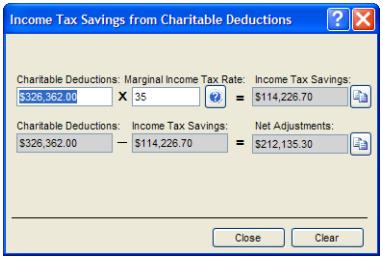
We will leave the “Payment Frequency” row set to the default of **Annually** and the “Pay at Beginning or End of Period” row set to the default of **End**. The worksheet looks like this:

	No Char Gift	Char Gift at Death	Lifetime Char Gift
Nonresiduary Fund #1	Penelope	Penelope	Penelope
First Age	0	60	0
Second Age (Two-Life Calculation)	0	0	0
Or Term Of Years (1 To 20)	0	0	0
Section 7520 Interest Rate	3.40000	5.60000	3.40000
Dollar Payout	0	60,000	0
Payment Frequency	Annually	Annually	Annually
Pay At Beginning Or End Of Period	End	End	End
Remainder Factor	0.00000	0.37127	0.00000
Annuity Factor	0.00000	11.22730	0.00000
Adjustment Factor	0.00000	1.00000	0.00000
Adjusted Annuity Factor	0.00000	11.22730	0.00000
Present Value Of Annuity	0	673,638	0
Remainder Annuity Deduction	0	326,362	0

Note that the charitable deduction (for estate tax purposes) in the amount of $326,362 is displayed on the bottom row in Case 2 (“Remainder Annuity Deduction”).

9. Now, let’s compute the Net Adjustment to Gross Estate. On the Menu bar, click **Calculators** and then click **Income Tax Savings from Charitable Deduction** to open the **Income Tax Savings from Charitable Deduction** dialog.

10. In the **Charitable Deductions** field, enter **326,362** and press **Enter**. Then, in the **Marginal Income Tax Rate** field, enter **35** and press **Enter**.



Note that the program calculates and displays on the **Net Adjustments** field $212,135.30.

11. Copy this value to the clipboard. To do this, click the **Copy** icon next to the **Net Adjustments** field. Click **OK** to close the confirmation message. Then, click **Close** to close the **Income Tax Savings from Charitable Deduction** dialog.

12. Now, let's enter the adjustment.

    a. Return the focus to the **Main Worksheet**. Click the "After 1976 Gift Taxes" row title to open the **Gift Entry** worksheet. Then, click the "Adjs & Excluded Gifts" row title to open the **Adjustments & Excluded Gifts** worksheet.

    b. In Case 3 only, paste the value that we copied to the clipboard into the "Charitable Gifts and Other Adjustments" row. (To do this, click the desired cell and then press **Ctrl+V**, then press **Enter**.)

    Note that the value ($212,135) is pasted into the cell as a positive number. The **Gross Estate** in Case 3 will be reduced by this amount, i.e., the net of the decrease of 326,362 for the charitable gift, and the increase of 114,227 for the income tax savings resulting from the gift.

13. Return the focus to the **Main Worksheet**. The results for this charitable gift strategy, as a lifetime gift, are shown in Case 3 below:

	No Char Gift	Char Gift at Death	Lifetime Char Gift
Main Worksheet	Penelope	Penelope	Penelope
Date Of Death	01/01/2028	01/01/2028	01/01/2028
Adjusted Gross Estate	4,000,000	4,000,000	3,787,865
Marital Deduction	0	0	0
Charitable Deduction	0	326,362	0
Taxable Estate	4,000,000	3,673,638	3,787,865
After 1976 Taxable Gifts	0	0	0
Federal Estate	4,000,000	3,673,638	3,787,865
Federal Tax Per Schedule	1,840,800	1,661,301	1,724,126
After 1976 Gift Taxes	0	0	0
Unified Credit	345,800	345,800	345,800
Federal Tax + Max Credit	1,495,000	1,315,501	1,378,326
State Death Taxes - Max Credit	280,400	246,458	258,338
Federal Tax Before Special Credits	1,214,600	1,069,043	1,119,988
Special Fed Estate Tax Credits	0	0	0
Federal Tax	1,214,600	1,069,043	1,119,988
State Death Taxes	280,400	246,458	258,338
Total Death Taxes	1,495,000	1,315,501	1,378,326
Family Share	2,505,000	2,358,137	2,409,539
Family Share Both Spouses	0	0	0

This is the end of the scenario.

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TECHNICAL TAX ISSUES

INTERRELATED CALCULATIONS

Three of the interrelated calculations in the application use formula options to show the federal and state death tax consequences of formula clauses commonly used in Wills. These formula options can be divided into three classes:

- Zero Federal Tax (ZFT1 and ZFT2)
- Interrelated Residue—Marital Deduction (IRM1 and IRM2)
- Interrelated Residue—Charitable Deduction (IRC1 and IRC2)

These options are mutually exclusive. If more than one is entered, the last one entered will cancel out the others.

A fourth interrelated calculation computes the interest on deferred payments of the federal estate tax that is deductible as an administration expense for businesses qualifying under §6166 or §6161, and for delinquent payments.

ZERO FEDERAL TAX

The Zero Federal Tax option (ZFT1 and ZFT2) computes the minimum amount that must be added to other marital bequests to reduce the client's federal estate tax liability to zero, or if that is not possible, to the lowest possible amount.

This option shows the effect of using the following type of formula clause in the Will:

> "I give to my Spouse out of all the rest of my estate the smallest (fraction) (amount) thereof that will reduce the federal estate tax on my estate to the lowest possible amount after using the unified credit and the maximum credit for state death taxes (to the extent that use of such death tax credit does not increase state death taxes payable)."

This Will provision would not, however, take advantage of the state death tax credit in states that impose taxes whether or not a federal tax is payable. In these states, the parenthetical phrase "to the extent that use of such (state) death tax credit does not increase state death taxes payable" should be omitted, at least for deaths before 2002, when the phaseout of the state death tax credit began. The ZFT option assumes such omission for years before 2002, and "backs off" or reduces the marital deduction to take advantage of the state death tax credit even though state taxes are increased.

Note. For years after 2001 the credit for state death tax paid is phased out, and the application does not reduce the marital deduction to take advantage of the state death tax credit. If you wish to apply the old assumption that "backs off" the marital deduction, turn off ZFT and enter on the "Specified Marital Bequests" row (at top of **Marital Deduction** worksheet) the marital deduction after manually reducing it just enough to generate a tax on the "Federal Tax" row on the **Main Worksheet**. Then increase the marital deduction slightly, until the Federal Tax again becomes 0. The procedure is applicable only for decedents in one of the 11 "schedule tax" states, only for years 2002 through 2004, and only where zero federal tax is possible (e.g., where "Bequests not GSTs" do not exceed the available exemption amount).

ZFT CALCULATION

The two ZFT options differ in their treatment of state taxes on amounts given to taxable beneficiaries other than the surviving spouse (the amount entered as "Total Bequests Not Generation-Skipping Transfers" minus the amount entered as "Bequests Subject to Tax" on the **Marital Deduction** worksheet).

- If ZFT1 is used, such amounts will pass free of both federal and state tax, and, to the extent such amounts plus taxes thereon exceed the credit shelter equivalent, such excess will be charged against the "Bequests Subject to Tax" and the surviving spouse's share.
- Under the ZFT2 option, only the state tax will be paid out of these bequests. A portion of the state tax will still be borne by "Total Bequests Not Generation-Skipping Transfers" (not subject to tax). This distinction has particular relevance in inheritance tax states where the state tax is normally payable by the recipient rather than out of the estate.

"Total Bequests Not Generation-Skipping Tranfers" are amounts included in the gross estate that have been given during life or which are given on death to others, and thus cannot be given to the surviving spouse to increase the marital deduction and reduce the federal tax. For example, the decedent may have created a trust during life in which he retains the income for life, with the remainder passing to his descendants as he appoints by Will. The date of death value of the trust is includible in the decedent's gross estate, but cannot be given to the surviving spouse. You should enter the value of such a trust on the **Marital Deduction** worksheet in the "Total Bequests Not Generation-Skipping Transfers" row. Similarly, you should enter preresiduary gifts (i.e. specific bequests) to taxable persons free of tax here, because the property is unavailable for the surviving spouse.

Note. Generation-skipping transfers (direct skip transfers and transfers to GST trusts) should not be included in the amount entered on the "Total Bequests Not Generation-Skipping Transfers" row. Instead, you should enter them on the appropriate rows of the generation skipping worksheets (**GST Taxes Payable on Death** or **GST Trusts** worksheets for transfers on death). The application then includes such transfers (and the DST taxes thereon) in limiting the "Fund Before Taxes".)

If no amount is entered in row 6 “Bequests Subject to Tax”, the application assumes that the amount entered on row 5 “Total Bequests Not Generation-Skipping Transfers”, is given free of federal and state taxes (ZFT1) or free of federal tax only (ZFT2). However, if the taxes on a $1,000,000 inter vivos trust were charged against that trust and not against the estate, the $1,000,000 amount should be entered on row 6 “Bequests Subject to Tax” in addition to entering it in the “Total Bequests Not Generation-Skipping Transfers” row.

The amount on the “Phantom Assets” row represents the federal gift taxes on bequests made by the decedent or the decedent’s spouse within three years of the decedent’s death. This amount is entered on the “Phantom Assets” row of the **Gross Estate** worksheet. The entry may also include any non-deductible estate administration expenses and claims against the estate. The value of these “assets” and “non-deductible” items is taxable, but because they are not available for bequests to the surviving spouse, they may not be used to reduce taxes. The same is true of administration expenses deducted on the income tax return. These, however, are handled separately on the **Adjusted Gross Estate** worksheet.

When the election is made to deduct some or all of the estate’s administration expenses for income tax rather than estate tax purposes, the amount subject to the election is no longer available as an estate tax deduction. It will, therefore, be subject to tax unless it is sheltered elsewhere. When a Zero Federal Tax computation is selected, the deduction lost by making the election is normally gained back through an increased marital deduction equal to the elected amount, with the “Family Share” being reduced in the same amount. If the elected amount, plus “Total Bequests Not Generation-Skipping Transfers”, “Phantom Assets”, and the higher of “State Death Taxes–Max Credit” or “State Death Taxes–State Schedule”, exceeds the unified credit’s exemption equivalent, the federal tax on the excess must be paid partially by “Bequests Subject to Tax” and partially by the marital share, thereby reducing the marital deduction and further increasing taxes, etc. The application makes this circular computation automatically.

The first scenario illustrated the Zero Federal Tax computation in the case of the West family.

In that case, it was possible to reduce the Federal estate tax to zero. Where the estate is large and state taxes are substantial, this may not be possible, particularly if the state law does not provide for an unlimited marital deduction as the federal law does.

When you select a Zero Federal Tax option, the first three rows on the **Marital Deduction** worksheet shows the value of any property given to the spouse other than through the formula marital deduction clause. The “Computed Marital Bequests” row is the amount calculated by the application under the formula clause. The “Total Marital Bequests” row of the **Marital Deduction** worksheet shows the total of these four rows and carries this total to the “Marital Deduction” row on the **Main Worksheet**.

Under the ZFT option, the federal tax shown on the **Main Worksheet** will either be zero or an amount which, when added to the “Family Share” and the higher of “State Death Taxes–Max Credit” and “State Death Taxes–State Schedule”, will equal “Taxable Estate”.

INTERRELATED RESIDUE CALCULATIONS

CHARITABLE AND MARITAL DEDUCTIONS

An interrelated residue calculation is used when the size of a deduction is dependent on a tax and the amount of the tax is dependent on the size of the deduction. For instance, if a Will leaves 50% of the estate after taxes to the spouse, the amount of the marital deduction and the amount of federal and state death taxes are interdependent. The "Interrelated Residue Marital Deduction options" (IRM1 and IRM2) provide an easy method of calculating the marital deduction under these circumstances. Where the percentage bequest after taxes is to charity, the "Interrelated Residue Charitable Deduction options" (IRC1 and IRC2) are used in the same manner.

Note that these options are inconsistent with the Zero Federal Tax option. If the objective is to reduce the federal tax to the lowest possible amount, even to zero, by bequests to the surviving spouse, there will be no residue to split between taxable and exempt beneficiaries after taxes. If more than one option is entered, the last entry cancels any inconsistent option previously selected.

The interrelated options are available on the "Interrelated Residue Calculation" and "Residuary Interrelated Trusts" rows of the **Marital Deduction** and **Charitable Deduction** subworksheets, respectively. The **odd-numbered** options, i.e., IRM1 and IRC1, deal with situations in which both the federal and state death taxes are payable before applying the percentage that goes to the surviving spouse or charity. The **even-numbered** options deal with cases in which only the federal tax is charged against the fund in which the beneficiary has an interest.

Under all options, you **must** enter the size of the "Fund Before Taxes" and the "Deductible Percentage of Fund". The latter is the percentage of the fund after taxes that, according to the governing instrument, is payable to the exempt beneficiary. In the case of a split-interest charitable trust, the "Deductible Percentage of Fund" is the figure, expressed as a percentage, given in the Treasury's tables (or derived from them) for the charity's fractional interest in the entire fund; the application calculates this automatically.

If the decedent's estate includes any split-interest charitable trusts, the subworksheets accessed from the "Deductible Percentage of Fund" row of the **Charitable Deduction** worksheet can be used to enter information for up to three separate residuary funds of different types (Remainder Annuity, Lead Annuity, Remainder Unitrust, Lead Unitrust, Pooled Income). The application then calculates the total deductible percentage for all funds and posts the percentage back to the **Charitable Deduction** worksheet. See the discussion under **Split-Interest Trusts** on page 57 for more details of these worksheets.

"Total Bequests Not Generation-Skipping Transfers" are testamentary gifts to taxable persons **outside of the fund**. (Include any lifetime gifts included in the decedent's gross estate under the "transferor control" provisions, e.g., IRC §2036.) The "Bequests Subject to Tax" are bequests to persons ***outside of the fund*** that are charged with payment of their share of taxes.

In situations where the residue is charged with payment of taxes but proves to be insufficient, the ultimate burden of taxes may be borne by a different fund in which the

surviving spouse or charity has an interest. In these cases, the residue should be entered on the “Other Property to Pay Tax” row.

EXAMPLE 1

The following three-case Single Decedent example illustrates the use of these options:

CASE 1

Case 1 is based on Example B of IRS Publication 904. The facts are:

- In 1992, an individual died leaving a gross estate of $720,000.
- Debts and expenses of the estate were $15,000.
- Non-charitable bequests (“Total Bequests Not GSTs” row on the **Charitable Bequests** worksheet) totaled $8,000.
- One-tenth of the residue passes to a charity (“Deductible Percentage of Fund” row on the **Charitable Bequests** worksheet).
- All death taxes were to be paid as a general charge against the residue.
- In 1979, the decedent made a gift of a future interest valued at $200,000 (“After 1976 Taxable Gifts” row of the **Main Worksheet**). The gross gift tax was $54,800, and the decedent applied $38,000 of the unified credit against the gift tax. The gift tax paid on the gift was $16,800.

Enter this information under Case 1, as shown below.

CASE 2

Mary French’s separate property less debts and expenses is valued at $3,000,000. She has a general power to appoint a $2,000,000 marital deduction trust created by her late spouse, which passes, in default of appointment, to the Decedent’s descendants, **per stirpes**. Her adjusted gross estate is thus $5,000,000. Mary, who has no descendants, wishes to leave tax-paid bequests totaling $500,000 to friends. Of the residue of her estate ($3,000,000 of separate property minus the $500,000 of bequests—$2,500,000) she plans to leave 50% to charity and 50% to her descendants, **per stirpes**, after taxes. She does not wish to exercise her general power, and desires that taxes on the trust fund be paid out of it. Mary, a New York resident, wishes to know what her beneficiaries will receive if she dies in 1992. Enter the information for Mary under Case 2, as shown below.

- The fund before taxes is $2,500,000, namely Mary’s separate property less the $500,000 in bequests.
- The $2,000,000 trust must be entered on the “Bequests Subject to Tax” row because the taxes on the trust fund are to be paid out of it.
- In Mary’s case, you will also need to call up the **State Death Taxes** subworksheet and enter NY as the State.

The results show the following:

Fund before tax:	$2,500,000
Less taxes:	1,765,585
Add back taxes allocated to trust [($2,000,000 ÷ $4,213,791) × $1,765,585]:	838,003
Fund after taxes:	1,572,418
× 50% (Charitable contribution):	786,209
Proof:	
Disposition of estate	
Family (including bequests):	$2,448,206
Charity:	786,209
Taxes:	1,765,585
Total:	$5,000,000

CASE 3

John Archer's inter vivos revocable trust is payable 1/3 to charity and 2/3 to his children on his death. It is valued at $3,000,000. John's Will directs that all taxes on any property includible in his gross estate be paid out of his testamentary estate. Therefore, under the Will, the fund is not charged with payment of any taxes and no interrelated computation would be required. However, due to an unanticipated decline in estate value, the residue may prove insufficient to pay the taxes and the fund may have to pay some taxes despite the contrary provision in the Will. For example, assume that between the time the Will was drawn and John's death in 1992, the trust substantially increased in value but his own estate declined severely. The residue of John's estate is $500,000. Enter the information for John under Case 3, as shown below.

The results show the following:

Total taxes:	$904,454
Less: Chargeable initially to residue:	500,000
Balance chargeable against trust:	404,454
Trust fund before taxes:	$3,000,000
Less taxes:	404,454
Fund after taxes:	2,595,546
Charitable Deduction 1/3:	$865,182
Family Share 2/3:	1,730,364

ADJUSTED GROSS ESTATE WORKSHEET (INPUT)

Adjusted Gross Estate	Single Client	Single Client	Single Client
Separate Gross Estate	720,000	5,000,000	3,500,000
Marital Deduction From Deceased Spouse	0	0	0
Future Value Increase in Marital Deduction And Surviving Spouses Gross Estate	0	0	0
Gross Estate	720,000	5,000,000	3,500,000
Funeral And Administration Expenses in Dollars	15,000	0	0
Plus Administration Expenses - % Of Gross Estate	0	0	0
Section 6166 Interrelated Interest Deduction	0	0	0
Total Funeral And Administration Expenses	15,000	0	0
Income Tax-Elected Administration Expenses	0	0	0
Schedules K & L Debts And Losses	0	0	0
Family Business Deduction	0	0	0
Increased Estate Tax	0	0	0
State Death Tax Paid	0	0	0
Debts And Expenses	15,000	0	0
Adjusted Gross Estate	705,000	5,000,000	3,500,000
Future Value Percentage - Family Share Decedent 1	0	0	0
Future Value Family Share Decedent 1 in Dollars	0	0	0
Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate	0	0	0
Future Value Family Share Decedent 2 in Dollars	0	0	0
Future Value Family Share Both Spouses	0	0	0

CHARITABLE DEDUCTION WORKSHEET (INPUT)

Charitable Deduction	Single Client	Single Client	Single Client
Specified Charitable Bequests	0	0	0
Nonresiduary Trust Bequests	0	0	0
Residuary Interrelated Trusts	IRC1	IRC1	IRC1
Fund Before Taxes	697,000	2,500,000	3,000,000
Deductible Percentage Of Fund	10.00000	50.00000	33.33333
Total Bequests Not GSTs	8,000	2,000,000	0
Bequests Subject To Tax	0	2,000,000	0
Other Property To Pay Tax	0	0	500,000
Interrelated Charitable Bequests	62,211	786,209	865,182
Total Charitable Bequests	62,211	786,209	865,182
Value Of Fund after Taxes	622,112	1,572,418	2,595,546
Any Size Fund	0	0	0
Any Size Fund Future Value Percentage	0	0	0
Fund Term in Years	0	0	0
Annual Payout Percentage	0	0	0
Type Of Fund	Annuity	Annuity	Annuity
Fund Amount At Termination	0	0	0
Total Fund Payout For the Period	0	0	0

GIFT ENTRY WORKSHEET (INPUT)

	Case 1	Case 2	Case 3
Gift Entry	Single Client	Single Client	Single Client
Pre-1977 Taxable Gifts	0	0	0
Year Of Gift	1979	yyyy	yyyy
Taxable Gifts (Non-DSTs)	200,000	0	0
Year Of Gift	yyyy	yyyy	yyyy
Taxable Gifts (Non-DSTs)	0	0	0
Year Of Gift	yyyy	yyyy	yyyy
Taxable Gifts (Non-DSTs)	0	0	0
Discounts And Other Gifts	0	0	0
Direct Skip Gifts (DSTs)	0	0	0
GRIT Gifts	0	0	0
GRAT Gifts	0	0	0
GRUT Gifts	0	0	0
Future Gifts	0	0	0
Adjs & Excluded Gifts	0	0	0
Total Taxable Post-1976 Gifts	200,000	0	0
Gift Tax	16,800	0	0
GST Tax On DST Transfers	0	0	0
Gift Exemption Used	200,000	0	0

MAIN WORKSHEET

Main Worksheet	Single Client	Single Client	Single Client
Date Of Death	01/01/1992	01/01/1992	01/01/1992
Adjusted Gross Estate	705,000	5,000,000	3,500,000
Marital Deduction	0	0	0
Charitable Deduction	62,211	786,209	865,182
Taxable Estate	642,789	4,213,791	2,634,818
After 1976 Taxable Gifts	200,000	0	0
Federal Estate	842,789	4,213,791	2,634,818
Federal Tax Per Schedule	284,488	1,958,385	1,097,254
After 1976 Gift Taxes	16,800	0	0
Unified Credit	192,800	192,800	192,800
Federal Tax + Max Credit	74,888	1,765,585	904,454
State Death Taxes - Max Credit	15,712	303,545	149,864
Federal Tax Before Special Credits	59,176	1,462,040	754,590
Special Fed Estate Tax Credits	0	0	0
Federal Tax	59,176	1,462,040	754,590
State Death Taxes	15,712	303,545	149,864
Total Death Taxes	74,888	1,765,585	904,454
Family Share	567,901	2,448,206	1,730,364
Family Share Both Spouses	0	0	0

COMBINED INTERRELATED MARITAL/CHARITABLE CALCULATION

Sometimes the estate involves a combined interrelated marital and charitable calculation, i.e., the residue (after taxes) is split between both marital and charitable beneficiaries. For example, assume a $800,000 residuary (before taxes) and a taxable estate of $1,800,000 with death in 1997. The Will specifies that 40% of the residuary after taxes goes to charity while 50% of the residuary passes to the spouse and the remaining 10% passes to other family members. Family members also receive a specified bequest of $1,000,000, none of which bears any tax burden. The total deductible percentage of the fund is 90% (the sum of the marital and charitable percentages). Therefore, you would enter **"90"** on the "Deductible Percentage of Fund" row.

The calculated deduction is $452,202 (but only if you are using a maximum credit state), which you should then apportion between the marital and charitable shares as follows. At this point, now that the interrelated total deduction has been calculated, you should clear your IRC entries to avoid a duplicate deduction.

1. On the "Specified Charitable Bequests" row of the **Charitable Deduction** worksheet**,** click **Math Calculator** on the Calculators menu to open the **Calculator** dialog.

2. Enter:

   452202 X 4 = / 9 =

   and then click **OK** on the **Calculator** dialog.

   Note. Note that you can click on the buttons of the **Calculator** dialog to enter the operands **"X"** and **"/"**.

   The charitable portion is calculated as $200,979.

3. Likewise, on the "Specified Marital Bequests" row of the **Marital Deduction** worksheet, click **Math Calculator** on the Calculators menu to open the **Calculator** dialog.

4. Enter:

   452202 X 5 = / 9 =

   and then click **OK** on the **Calculator** dialog. The marital portion of $251,223 appears.

SPLIT-INTEREST TRUSTS

Like any other bequest, a split-interest charitable trust (i.e., a trust with both taxable and charitable beneficiaries) may be of a specific amount (nonresiduary trust) or it may be a portion of residue (residuary trust). The **Charitable Deduction** worksheet allows you to enter up to three nonresiduary split-interest trusts of specific amounts and up to three residuary split-interest trusts. The application handles five different trust types:

- remainder and lead annuities,
- remainder and lead unitrusts, and
- pooled income funds.

Charitable remainder trusts and pooled income funds have taxable beneficiaries as income beneficiaries. Lead charitable trusts have charities as income beneficiaries.

The application handles calculations for one and two lives or a term of years. Different payment schedules can be selected:

- Annuity trusts—Payment at beginning or end of the period
- Unitrusts—First payment 1 to 12 months after valuation

All interest rates from 2.2% to 26.0% are included.

The application also handles automatically the two tests for qualification of charitable remainder trusts added by the 1997 TRA: the “10% test” (transfers after 7/28/1997) and the “50% test” (deaths after 6/18/1997). If the trust fails either of these tests, the charitable deduction is shown as “0” and an application message is displayed.

- The “10% test” fails if the percentage on the “Remainder Factor” row of the trust worksheet is less than 10%.
- The “50% test” fails if the Payout is greater than 50%.

For more information, including relief and reformation rules for trusts that fail the 10% test, see the Conference Agreement for §883 of Senate Amendment, 1997 TRA.

CHARITABLE REMAINDER TRUSTS

Charitable remainder trusts are defined in IRC §664 and have special tax attributes. They are income tax exempt (IRC §664(c)) and are not subject to the grantor trust rules contained in IRC §671 et seq. The grantor obtains an income tax charitable deduction for the value of the remainder interest in the year when the trust was established (IRC §664(e)). The deduction for estate or gift tax purposes is the same amount as the income tax deduction. A living grantor can arrange tax-free re-investment of the grantor’s assets to increase the amount of income received.

Income is taxed to the income beneficiary as follows: first, all the ordinary income for the current year and the undistributed ordinary income for prior years; then, all of the capital gain for the current year and the undistributed capital gain for prior years; then all of the tax-exempt income for the current year and all of the undistributed tax-exempt income for prior years; and finally, a distribution of trust corpus (IRC §664(b)).

POOLED INCOME FUNDS

Pooled income funds are defined in IRC §642(c)(5) and the charitable deduction is allowed by IRC §170(f)(2)(A) and Reg. §1.642(c)–6(d). Income the beneficiary receives is taxed as ordinary income. By investing in a pooled income fund, a living grantor can increase the amount of income received.

For an income tax deduction, the grantor of a charitable lead trust must be taxed on the income of the trust, i.e., treated as the owner of the trust. This normally occurs if the grantor possesses the reversionary interest, or if the value of the reversionary interest of the grantor or his spouse exceeds 5%. See IRC §673.

SPLIT-INTEREST CHARITABLE TRUSTS AND GST TRANSFERS

When used in combination with GST transfers, the consequences of split-interest charitable trusts vary, depending on the type of trust selected. GST trusts normally have children as income beneficiaries with the remainder passing to grandchildren, but they can also be established to provide income to the surviving spouse with the remainder passing directly to grandchildren. Only split-interest lead trusts can be a part of a GST trust, i.e., income to charity, then income to children, and then remainder to grandchildren. (See the “Gift Tax and GST Tax” section below for a discussion and examples of CLA (Charitable Lead Annuity) trusts and charitable lead unitrusts.) Lead trusts have the additional advantage of increasing the GST exemption.

Charitable remainder trusts and pooled income funds that are established for a grandchild as income beneficiary are not considered direct skips because the charitable remainderman (assigned to the grantor’s generation) is not a skip person and has an interest in the trust. See IRC §§2613(a)(2), 2651(e)(3) and 2652(c)(1)(C). Distributions to the grandchild are taxable distributions (IRC §2611(b)). When the trust terminates, it is not a taxable termination because the charitable remainderman is not a skip person (IRC §2612(a)(1)(A)).

With a charitable lead trust, the GST consequences are:

- If the trust continues and children are entitled to income, a taxable termination occurs at the death of a child if the grandchildren are the remaindermen. Payments made to grandchildren during the child’s life are considered taxable distributions.
- If the trust continues and children are not entitled to income, payments made to grandchildren are taxable distributions. This results in a tax-saving because the GST tax is paid on the distribution, not on the value of the trust.
- If the trust does not continue and the trust corpus is paid to skip persons, a taxable termination occurs if the charitable income beneficiary is named (i.e., because an interest as defined in IRC §2652(c)(1)(A) has terminated). If the trust terms (and

state law) permit income from the lead trust to be paid to any charity at the discretion of the trustees (the will or other governing instrument not having named any particular charity as income beneficiary), a taxable distribution occurs because no interest has been terminated.

On the **Charitable Deduction** worksheet, the “Value Of Fund After Taxes” row is the initial value of the split-interest trust at the decedent’s death. This fund passes to taxable persons at the end of the charitable lead trust.

The seven rows beginning with “Any Size Fund” (illustrated below) are not integrated with the application’s other calculations and are provided as a convenience only.

Any Size Fund	0	0
Any Size Fund Future Value Percentage	0	0
Fund Term in Years	0	0
Annual Payout Percentage	0	0
Type Of Fund	Annuity	Annuity
Fund Amount At Termination	0	0
Total Fund Payout For the Period	0	0

These rows permit computations for an “Any Size Fund” and are useful when comparing the benefits to family or charity **with and without** intervention of a charitable split-interest trust. This enables you to see the total benefit to the family at the end of the trust term from direct bequests received at death plus the deferred bequests through a charitable lead trust.

Note. The application does not apply the Rev. Ruling 77–454 exhaustion test to charitable trusts. The §7520 regulations issued in December 1995 appear to take the position that §77–454 applies to charitable lead trusts, but it appears the rule (which is mathematically complex but has little impact on the deduction) ultimately may not be won by the IRS. You should limit the charitable deduction manually if it falls within the 77–454 test and you believe the 77–454 should be applied. Generally, the 77–454 limit applies if the payout rate exceeds the §7520 rate and the trust term exceeds 10 years.

EXAMPLE 2 RESIDUARY CHARITABLE BEQUESTS

FACTS

Horatio Jones, a widower without descendants, has a sister aged 67 in 2001 and an estate of $3,000,000. After his sister is taken care of, he wishes to leave the residue of his estate after taxes in a charitable remainder unitrust benefiting his college. Monthly payments will be necessary for his sister. He wishes to know what the tax and substantive results would be if he died in either 2004 or 2009, assuming a payout rate of 6% of the combined principal and income parts of the fund.

ENTER THE ASSUMPTIONS

1. Click the **New** button on the toolbar to open a new client file.
2. On the **Plan Scenario** panel of the Analysis Wizard, select **Single** and **Custom Plan**, and then click **Finish**.
3. On the **Assumptions Tab** in the left pane, enter the following:

Include GST	No
Married	No
Replicate Case Date	Yes
Name	Horatio

MAIN WORKSHEET ENTRIES

1. Click **Add Case** on the Worksheets menu.
2. On the “Date of Death” row of the **Main Worksheet**, enter **2004** in Case 1 and 2009 in Case 2.
3. Click the “Adjusted Gross Estate” row title to open the **Adjusted Gross Estate** subworksheet.

ADJUSTED GROSS ESTATE WORKSHEET

1. On the “Separate Gross Estate” row, enter **3,000,000 Ctrl+A** to enter **$3,000,000** for both cases.
2. Click the “Charitable Deduction” row title on the **Main Worksheet** to open the **Charitable Deduction** worksheet.

CHARITABLE DEDUCTION WORKSHEET

1. On the third row, “Residuary Interrelated Trusts”, select IRC1 for both cases.
2. In the “Fund Before Taxes” row, enter **3,000,000** for **both** cases.

Note. To have the application calculate the maximum amount available for the fund, enter an excessively high number, e.g., 10,000,000, and the application will automatically reduce it to the maximum available.

Charitable Deduction	Horatio	Horatio
Specified Charitable Bequests	0	0
Nonresiduary Trust Bequests	0	0
Residuary Interrelated Trusts	IRC1	IRC1
Fund Before Taxes	3,000,000	3,000,000
Deductible Percentage Of Fund	0.00000	0.00000
Total Bequests Not GSTs	0	0
Bequests Subject To Tax	0	0
Other Property To Pay Tax	0	0
Interrelated Charitable Bequests	0	0
Total Charitable Bequests	0	0
Value Of Fund after Taxes	0	0
Any Size Fund	0	0
Any Size Fund Future Value Percentage	0	0
Fund Term in Years	0	0
Annual Payout Percentage	0	0
Type Of Fund	Annuity	Annuity
Fund Amount At Termination	0	0
Total Fund Payout For the Period	0	0

3. Click the “Deductible Percentage of Fund” row title to open the **Deductible % of Residuary Fund** worksheet, which provides entries for up to three residuary funds.

DEDUCTIBLE % OF RESIDUARY FUND WORKSHEET

1. On the “Type of Fund” row for Fund #1, select “Remainder Unitrust” in both cases as the type of fund for Horatio’s bequest to his college.

   Note. Immediately after you select the Type of Fund, the application issues a message to alert you that the aggregate total (entered in step 2, below) must equal 100%. This message is issued because more than one residuary fund is involved and at this point the Residuary Trust % field is 0. To see the message, click the **Messages** tab on the bottom of the left pane, and then click the message in the list. The message appears at the bottom of the **Messages List**.

2. In the “Residuary Trust % 1” row, enter **100** as the percentage for this fund in **both** cases (since it is Horatio’s only fund), pressing **Enter** after each entry. The **Deductible % of Residuary Fund** worksheet looks like this:

	Case 1	Case 2
Deductible % of Residuary Fund	Horatio	Horatio
Type Of Fund 1	Remainder Unitrust	Remainder Unitrust
Fund #1	0.00000	0.00000
Residuary Trust % 1	100.00000	100.00000
Allocable Share Of Deductible % 1	0.00000	0.00000
Value Of Fund After Taxes 1	0	0
Type Of Fund 2	None	None
Fund #2	0.00000	0.00000
Residuary Trust % 2	0.00000	0.00000
Allocable Share Of Deductible % 2	0.00000	0.00000
Value Of Fund After Taxes 2	0	0
Type Of Fund 3	None	None
Fund #3	0.00000	0.00000
Residuary Trust %	0.00000	0.00000
Allocable Share Of Deductible % 3	0.00000	0.00000
Value Of Fund After Taxes 3	0	0
Total Deductible Percent Of Fund	0.00000	0.00000

3. Click the “Fund #1” row title to open the **Residuary Fund #1** worksheet, where you will enter the details of this residuary fund.

RESIDUARY FUND #1 WORKSHEET

1. In the “First Age” row of the first column (Case 1), enter **70** as the sister’s age in 2004, and press **Enter**. In the same row of the second column (Case 2), enter **75** (when the year of death is five years later) and press **Enter**.

2. The “Sec 7520 Interest Rate” row displays in both cases the last known §7520 Interest Rate from the **Section 7520 Interest Rates** on the **Assumptions Tab**.

   In this example, override the rate in both cases and enter **6.2** as the assumed “Sec 7520 Interest Rate”, pressing **Enter** after each entry.

3. In **both** cases, enter the following, pressing **Enter** after each entry:

% Payout:	6
Payment Frequency:	Monthly
# Months Before Payment:	1

The application then calculates the “Adjusted Payout Rate”, “% Value of Life Estate”, and “Deductible % Rem Unitrust” rows. The worksheet looks like this:

	Case 1	Case 2
Residuary Fund #1	Horatio	Horatio
First Age	70	75
Second Age (Two-Life Calculation)	0	0
Or Term of Years (1 to 20)	0	0
Sec. 7520 Interest Rate	6.20000	6.20000
% Payout	6	6
Payment Frequency	Monthly	Monthly
# Months Before Payment	1	1
Adjusted Payout Rate	5.80900	5.80900
Adjusted Annuity Factor	0.00000	0.00000
% Value of Life Estate	51.80300	44.17000
Deductible % Rem Unitrust	48.19700	55.83000

DEDUCTIBLE % OF RESIDUARY FUND WORKSHEET

On the **Deductible % of Residuary Fund** worksheet, you can see the value of the fund after taxes in Case 1 ($2,968,918) and the percentage share (48.197) of the charitable deduction allocated to Fund #1.

Since there is only one fund in this case, the percentage on the “Total Deductible Percent of Fund” row is the same as the percentage on the “Deductible % Rem Unitrust” row on the **Residuary Fund #1** worksheet (48.197%). The application posts these values to the **Charitable Deduction** worksheet.

The **Deductible % of Residuary Fund** worksheet will look like this:

	Case 1	Case 2
Deductible % of Residuary Fund	Horatio	Horatio
Type Of Fund 1	Remainder Unitrust	Remainder Unitrust
Fund #1	48.19700	55.83000
Residuary Trust % 1	100.00000	100.00000
Allocable Share Of Deductible % 1	48.19700	55.83000
Value Of Fund After Taxes 1	2,968,918	3,000,000
Type Of Fund 2	None	None
Fund #2	0.00000	0.00000
Residuary Trust % 2	0.00000	0.00000
Allocable Share Of Deductible % 2	0.00000	0.00000
Value Of Fund After Taxes 2	0	0
Type Of Fund 3	None	None
Fund #3	0.00000	0.00000
Residuary Trust %	0.00000	0.00000
Allocable Share Of Deductible % 3	0.00000	0.00000
Value Of Fund After Taxes 3	0	0
Total Deductible Percent Of Fund	48.19700	55.83000

Return the focus to the **Charitable Deduction** worksheet.

CHARITABLE DEDUCTION WORKSHEET

A comparison of Cases 1 and 2 shows the effect of age on the tax deduction.

	Case 1	Case 2
Charitable Deduction	Horatio	Horatio
Specified Charitable Bequests	0	0
Nonresiduary Trust Bequests	0	0
Residuary Interrelated Trusts	IRC1	IRC1
Fund Before Taxes	3,000,000	3,000,000
Deductible Percentage Of Fund	48.19700	55.83000
Total Bequests Not GSTs	0	0
Bequests Subject To Tax	0	0
Other Property To Pay Tax	0	0
Interrelated Charitable Bequests	1,430,929	1,674,900
Total Charitable Bequests	1,430,929	1,674,900
Value Of Fund after Taxes	2,968,918	3,000,000
Any Size Fund	0	0
Any Size Fund Future Value Percentage	0	0
Fund Term in Years	0	0
Annual Payout Percentage	0	0
Type Of Fund	Annuity	Annuity
Fund Amount At Termination	0	0
Total Fund Payout For the Period	0	0

As shown in the “Interrelated Charitable Bequests” row, the charitable remainder deduction is higher in Case 2 because the life beneficiary (Horatio’s sister) is older at the time the trust is created (i.e., at Horatio’s death).

The fund after taxes in Case 2 (the “Value Of Fund After Taxes” row) is larger as a result of the increased charitable deduction, although this may not compensate for the fewer years that Horatio’s sister could enjoy the decedent’s gifts.

Horatio Jones might wish to consider increasing the 6% payout rate in Case 2.

SECTION 6166 INTERRELATED INTEREST DEDUCTION

The **6166 Interrelated Interest Deduction** worksheet calculates the interest that is deductible as an administration expense (for deaths before 1998) when payment of estate taxes is deferred under IRC §6166. If the decedent’s estate includes a closely held business that represents more than 35% of the Adjusted Gross Estate, it qualifies for the §6166 treatment. The Taxpayer Relief Act of 1997 (1997 TRA) rules are effective for deaths after 1997 (see below). The application also handles the special §6166 “holding company” calculation and the §6161 calculation, as well as delinquent payments that do not qualify for §6166 or §6161.

The application applies the qualification test and, if the business qualifies, calculates the payments and deductible amount. Deferment of estate taxes under §6166 can often be used to handle liquidity problems that may arise as a result of a relatively large closely held business in the decedent’s estate. Under §6166, payment of the estate tax on the qualifying business can be postponed for 5 years, and the tax is payable thereafter in “equal installments” of up to 10 installments.

POST-2000 DEATHS

The 2% ceiling changes each year as a result of the EGTRRA legislation of 2001. Listed below is the 2% ceiling amount for deaths after 2000, calculated as the federal tax on the sum of the GST exemption and the estate tax exemption (which are identical after 2003), less the unified credit for that year:

Year	Ceiling Amount
2001	$441,000

Year	Ceiling Amount
2002	$484,000
2003	$493,800
2004	$532,200
2005	$539,900
2006	$552,000
2007	$562,500
2008	$576,000
2009	$598,500
2010	$469,000[1]
2011	$476,000
2012	$486,500
2013 and thereafter	$572,000[1]

1 Assumes that the "Continue 2009 Law in Later Years" option is selected (**Assumptions Tab**); if the "No Override of Sunset" option is selected, then the amount is 0 for 2010 and $572,200 for 2011 and later.

2007 EXAMPLE

Tax on $3,250,000 ($1,250,000 + $2,000,000 2007 exemption) = $1,343,300 less unified credit – 780,800 = ceiling of $562,500

2008 EXAMPLE

Tax on $3,280,000 ($1,280,000 + $2,000,000 2008 exemption) = $1,356,800 less unified credit – 780,800 = ceiling of $576,000

2009 EXAMPLE

Tax on $4,780,000 ($1,280,000 + $3,500,000 2009 exemption) = $2,031,800 less unified credit – 1,455,800 = ceiling of $576,000

DEATHS FROM 1998–2000

For deaths after 1997, the 1997 TRA makes three major changes:

- interest is no longer deductible,
- the "4%" rate is reduced to 2%, and
- the non-4% rate is reduced to 0.45 of the annual §6166 rate.

Because the §6166 calculation is non-interrelated after 1997, select **Non-interrelated 6166** on the "Type of Deferral" row of the **6166 Interrelated Deduction** worksheet.

In addition to reducing the rate from 4% to 2%, the 1997 TRA also increased the amount subject to the 2% ceiling in two ways:

- First, the $1,000,000 is inflated annually, starting in 1999 (enter inflated amounts for the 2% ceiling on the **Assumptions Tab**).

- Second, the ceiling is no longer found by simply calculating the tentative tax on $1,000,000 and then subtracting the unified credit (which always yielded the same amount for the 4% ceiling: $153,000).

Under 1997 TRA, the 2% ceiling is derived by calculating the tentative tax on $1,000,000 plus the exemption amount for that year, then subtracting the unified credit. For deaths in 1998, the ceiling on the 2% amount is a fixed number. If the decedent dies in 1998 and the exemption amount is $1,000,000, the ceiling is $410,000.

Tax on $1,625,000 ($1,000,000 + $625,000 1998 exemption)	$612,050
***less* unified credit**	-202,050
= ceiling	$410,000

For deaths after 1998, the formula is the same, but the $1,000,000 is inflated annually starting in 1999. For example, if the decedent dies in 2000 (when the inflated exemption amount is $1,030,000) the ceiling is $427,500:

Tax on $1,705,000 ($1,030,000 + $675,000 2000 exemption)	$648,050
***less* unified credit**	-220,550
= ceiling	$427,500

The application displays the annual payment amounts on the non-interrelated **Sec. 6166 Summary** report. (Access this on the **Reports** menu.)

In the non-interrelated calculation, the application assumes that the taxpayer pays the full nondeferred balance with the estate tax return, and the application carries as a calculated amount to the “Principal Payment By Due Date” row the amount appearing on the “Tax Not Deferrable” row near the top of the **6166 Interrelated Interest Deduction** worksheet.

PRE-1998 DEATHS

For pre-1998 deaths, estates that have previously elected §6166 may continue using the prior rules for the duration of the deferral period. Because every payment of interest reduces the estate tax, the later “equal installments” are smaller than the earlier ones. When the date of death is after 1997, the application applies the new rules under the 1997 TRA: interest deduction is no longer allowed and interest rates are reduced. A low 4% interest rate on the first $153,000 of tax is usually available. The regular interest rate on deficiencies (published by the IRS) is applicable to the deferment over $153,000.

For deaths before 1998, where 6166 deferral is already in effect for an estate, the estate can make a special one-time election to use the rules under the new law, i.e., lower interest but no deduction.

According to Rev. Rul. 80–250, 1980–2 CB 278, interest on estate tax is not deductible until after it accrues (i.e., estimates of interest to be paid are not deductible). Therefore,

amended estate tax returns must be filed, often annually, to secure the benefit of the deduction.

The accrual of the interest reduces the estate tax. Interest paid in the early years is overpaid on the reduced estate taxes, and the overpaid interest is treated as a credit against the next payment due. Any estimate ought to consider the discount of the deferred payment of the interest payable five or ten years after death. Under §6166, the deduction for interest payments is valued as if the interest is paid immediately after death.

Once you enter the facts of the estate (including the value of the qualified business and the due date of the federal estate tax return) and choose the number of equal installments of tax to be paid and the number of years to be computed, the interrelated calculation will compute the deduction for post-death federal interest and the resulting death taxes.

SPECIAL TRA ELECTION

If you do not make an entry on the "TRA Election Date" row, the §6166 calculation is the same as before the 1997 TRA. If you enter a date on the "TRA Election Date" row, the application applies the reduced interest rates (2% and 0.45 of old rate for nonqualified interest). The reduced rates are applied starting with the next payment due after the election date entered (i.e., the period ending on the next payment date and starting from the last payment date before the election). Similarly, starting with the interest on the next payment, the application will stop deducting any further interest (i.e., the 6166 interest deduction will be frozen at its current level, and is irrelevant to the interest calculation for the duration of the 6166 period).

If you enter the "TRA Election Date," the application reduces the "Years To Calculate (0 to 14)" entry to the number of payments before the election date. For example, if "14" is entered on the "Years To Calculate (0 to 14)" row and the Estate Tax Due Date is 10/15/1996, the application would reduce the "Years To Calculate (0 to 14) row to "2" and display a message:

> "The application has reduced the entry on the "Years To Calculate (0 to 14)" row to conform it to your entry on the "TRA Election Date" row. The interrelated calculation will be performed for payments before the TRA Election Date; any subsequent payments are displayed on the **Section 6166 Summary** screen."

The election is allowed on a one-time basis, and must be made before January 1, 1999. If the election is made, the amount of tax qualified for the 2% rate remains the same as under prior law ($153,000 less the portion used before the election); it is not inflated and is not increased by the exemption amount for the year of death per IRC §6601(j)(2).

If the election is made, the application displays the annual payment amounts as follows: the first years of the 6166 period (i.e., interrelated part) appear on the interrelated worksheets and **Section 6166 Summary** worksheet, as usual. However, starting with the first payment after the election date (i.e., the non-interrelated part), the application displays the annual payments on the non-interrelated **Section 6166 Summary** output worksheet.

For your convenience, although the interrelated and non-interrelated calculation each have their own summary worksheet, the Section 6166 Summary for the post-election years (i.e., non-interrelated) will also display on the "pre-election" years the annual payment calculated on the **Section 6166** interrelated worksheet. (If the interrelated payment consists of interest plus principal, the application combines the principal and interest paid as one total payment on the applicable payment row of the non-interrelated summary worksheet.)

CALCULATING SECTION 6166 COMPOUND INTEREST FACTORS

This section illustrates the simple and complex formulas that can be used to calculate the §6166 interest factor.

EXAMPLE 3 SECTION 6166 INTEREST FACTOR, SIMPLE FORMULA

When the following conditions are met:

- the interest rate does not change during the annual payment period, and
- the payment period does not span February of a leap year

you can use a simple formula (shown below) to calculate both the 2% and non-2% portions of the §6166 interest factor:

Interest portion = {[(1 + (Interest Rate ÷ 365)] ^ 365} – 1

So, to solve for the 2% interest portion, use this formula:

2% Interest Portion = {[(1 + (2% rate ÷ 365)] ^ 365} – 1

To calculate the non-2% interest portion, use the above formula except that the applicable §6166 interest rate is first multiplied by 45%, then compounded as shown in this formula:

Non-2% Interest Portion = {[1 + (non-2% rate × 45% ÷ 365)] ^ 365} – 1

FACTS

Estate Tax Due Date:	7/4/2001	
2% Amount of Deferred Tax:	$427,500	
"Non-2%" Amount of Deferred Tax:	$1,221,509	
Section 6166 Interest Rate:	7%	(assumed for year)

Because years 1 and 2 (payment due dates of 7/4/2002 and 7/4/2003, respectively) do not span leap years and assume a constant interest rate (7%), the compound interest calculation for these two years can be handled using the above formula for the 2% and non-2% (in this case, 7%) interest portions:

2% Interest Portion {[1 + (2% ÷ 365)] ^ 365} – 1:	2.020078%
Non-2% Interest Portion {[1 + (7% × 45%) ÷ 365)] ^ 365} – 1:	3.199997%

Now multiply the interest rates times the 2% and non-2% amounts of deferred tax, $427,500 and $1,221,509, respectively, to yield the total interest payment of $48,488 for years 1 and 2:

2% Interest Portion (2.020078% × 427,500):	$8,636
Non-2% Interest Portion (3.199997% × 1,221,509):	$39,088
Total Interest:	$47,724

EXAMPLE 4 SECTION 6166 INTEREST FACTOR, COMPLEX FORMULA

Because the year 3 payment spans a leap day (due date is 7/4/2004), we must use a more complex formula to calculate the compound interest of year 3.

This more complex formula consists of three steps:

1. Identify the number of days and daily interest rate in each period
2. Calculate compound interest rate for each quarter in the payment period
3. After the compound interest rates for each quarter are determined, aggregate them into a single interest rate for the one-year payment period

These steps must be performed for both the 2% and non-2% interest calculation (45% × applicable §6166 rate). The multiplication by 45% for the "non-2%" interest occurs before the compounding and aggregation.

FACTS

We'll assume the same facts used in Example 3, but use the complex formula to calculate the interest payment of $47,789.

1. **Find the number of days for each quarterly period.** The start date for Payment 3 is 7/4/03, so the first period for the Year 3 payment is 7/5/03 through 9/30/03, which consists of 88 days (9/30 is the end of the third quarter in the calendar year). The dates and number of days in each period are:

Period	Date Range	# of Days	
1	7/5/03–9/30/03	88	
2	10/1/03–12/31/03	92	
3	1/1/04–3/31/04	91	(1st quarter of 2004, includes a leap day)
4	4/1/04–6/31/04	91	
5	7/1/04–7/4/05	4	

2. **Calculate the compound interest rates** for each of the five periods.

   The formula for the 2% rate is:

   Period **n** = {[1 + (Interest Rate ÷ 365)] ^ Days in Period} – 1

   The formula for the non-2% rate is:

   Period **n** = {[1 + (Interest Rate × 45%) ÷ 365]^ Days in Period} – 1

The calculations for this example:

2% Interest

Period 1	{[1 + (2% ÷ 365)] ^ 88} – 1
Period 2	{[1 + (2% ÷ 365)] ^ 92} – 1
Period 3	{[1 + (2% ÷ 365)] ^ 91} – 1
Period 4	{[1 + (2% ÷ 365)] ^ 91} – 1
Period 5	{[1 + (2% ÷ 365)] ^ 4} – 1

Non-2% Interest

Period 1	{[1 + (7% × 45%) ÷ 365] ^ 88} – 1
Period 2	{[1 + (7% × 45%) ÷ 365] ^ 92} – 1
Period 3	{[1 + (7% × 45%) ÷ 365] ^ 91} – 1
Period 4	{[1 + (7% × 45%) ÷ 365] ^ 91} – 1
Period 5	{[1 + (7% × 45%) ÷ 365] ^ 4} – 1

3. Using the compound interest rates that were solved for in step 2, **aggregate the quarters** for the 2% and non-2% interest rates. In the below formula, “CompInt1” refers to the compound interest for period 1, “CompInt2” refers to the compound interest for period 2, etc. The formula:

T1 =	(1 + CompInt1) × CompInt2
T2 =	T1 + CompInt1
T3 =	(1 + T2) × CompInt3
T4 =	T2 + T3
T5 =	(1 + T4) × CompInt4
T6 =	T4 + T5
T7 =	(1 + T6) × CompInt5
T8 =	T6 + T7

To solve for the **2% interest factor in Year 3,** plug the 2% compound interest rates into the formula. The 2% interest factor equals **0.020228**.

To get the final result, we multiply this factor by the deferred tax:

0.020228 × $427,500 = $8,647

To solve for the **non-2% interest in Year 3**, plug the non-2% compound interest rates into the formula. The applicable §6166 rate (T8) equals **0.072707**.

As in Example 3, we multiply the applicable §6166 rate by 45%:

Non-2% Factor = 0.320437

To get the final result, we multiply this factor by the deferred tax:

0.320437 × 1,221,509 deferred tax = $39,142

For the total Year 3 Payment, add the 2% and non-2% aggregate sums:

$8,647 + $39,142 = $47,789

SECTION 6166 INTERRELATED INTEREST DEDUCTION WORKSHEET

If the business qualifies, the **Section 6166 Interrelated Interest Deduction** worksheet, accessed from the "6166 Interrelated Interest" row on the **Adjusted Gross Estate** worksheet, will calculate the payments of principal and interest. Although IRC §6166(a)(3) provides that the executor can choose any date that is not more than five years after the normal due date for payment of the tax, the application always chooses the maximum deferral of five years for simplicity. The **Section 6166 Interrelated Interest Deduction** worksheet and payment subworksheets make the following assumption:

> All payments of interest and principal will be paid on their due dates, i.e., on the first day of the "following year." The interest for the first year is paid on the first day of the second year (when the payment is actually due). The first principal payment is paid on the first day of the sixth year (when the principal payment is actually due).

If you select 10 payments of principal, this assumption allows you to calculate the §6166 interrelated interest deduction over as many as 14 years.

When you select fewer than the maximum 14 years of computation (for example, if you select 1 year by entering **"1"** in the "Years To Calculate (0 to 14)" row on the **Section 6166 Interrelated Interest Deduction** worksheet), the result after one year will be displayed. This result will change when you select a different number of years because payments in later years increase the overpayment of interest for the first year. If an additional principal payment is entered at the start of the second year, the result is computed for the remaining years.

The §6166 calculation may require 20 seconds or more to complete since it involves hundreds of interrelated calculations. To avoid this recalculation while changing entries elsewhere in the application, you can enter **"0"** on the "Years To Calculate (0 to 14)" row, and then enter the desired number after all other entries are complete.

The ability to compute year-to-year (rather than for the entire period) is useful to recreate the situation after, say, two or eight years of computation. The flexibility of the application allows you to revise your original plans at a later date to pay more, but not less, than the amount stated by law.

SECTION 6161 CALCULATION

To select the §6161 calculation, enter **"2"** on the "Type Of Deferral" row of the **Section 6166 Interrelated Interest Deduction** worksheet. When the 6161 calculation is selected, the application calculates the underpayment interest accruing for a period of up to 10 years from the initial payment due date. During the deferral period, interest is paid annually as usual and deducted each year, creating an interrelated calculation.

The following special rules apply to the §6161 calculation:

- the 4% interest rate is disallowed and the entry on the "Years To Calculate (0 to 14)" row is limited to 10 (instead of 14);

- the entire amount of the estate tax is deferred, rather than a specific percentage as required by §6166;
- the application assumes that the deferral is for a number of whole years from 1 to 10, commencing one year after the initial due date, and that all annual interest payments are made as scheduled.

SECTION 6166 HOLDING COMPANY CALCULATION

POST-1997 DEATHS

To select the special §6166 "holding company" calculation, enter **"3"** on the "Type Of Deferral" row. The benefits of §6166 are more restricted for holding companies:

- both the 4% interest rate and the 5-year deferral are disallowed;
- the deferrable portion of tax may still be paid in 10 annual installments but the first installment is due with the initial estate tax return, so the actual deferral period is only 9 years rather than 10.

These restrictions apply to two sets of entities:

- holding companies (§6166(b)(8)(A)(iii))
- partnerships and non-readily-tradable stock (§6166(b)(7)(A)(iii))

The application applies the 1997 TRA reduced interest rate for deaths after 1997, for all §6166 situations, including holding companies. If "Holding Company" is selected and the Date of Death is prior to 1998, however, the application does not handle the 1997 TRA election to use the new rules, i.e., no entry is allowed on the "TRA Election Date" row.

PRE-1998 DEATHS

The application handles the holding company calculation on a year-by-year basis; the application calculates the correct principal balance at the end of any year selected, and you enter the payment amount on the "Principal Payment By Due Date" row.

For example, assuming that 10 installments are desired, make your entries as follows:

FIRST INSTALLMENT

1. Enter the basic 6166 amounts on the following rows of the **Section 6166 Interrelated Interest Deduction** worksheet:
   - Value of Business
   - Federal Estate Taxes Due Date
   - Principal Payment by Due Date
   - etc.

2. Enter **"0"** on the "Years To Calculate (0 to 14)" row and select **6166 Holding Companies** on the "Type Of Deferral" row.

3. Next, divide the amount on the "Tax Deferrable On Business" row (the fourth row on the worksheet) by the years remaining in the term (10) and add the result to the amount already entered on the "Principal Payment By Due Date" row. (You can use the Math Calculator—accessible on the Calculators menu—to perform the calculations in this step.)

   This is the amount of the first installment, i.e., the amount due nine months after death (with the initial estate tax return and nondeferred tax).

SECOND (AND SUBSEQUENT) INSTALLMENTS

The second installment is handled as follows.

1. Change "Years To Calculate (0 to 14)" to "1".

2. Divide the amount on the "Balance Of Deferred Estate Tax" row by 9 and enter the result on the "Additional Principal Payment" row. This is the second installment amount, i.e., due one year after the initial return is filed.

This process is then repeated for the number of installment years selected, using the "Balance of Deferred Estate Tax" and "Additional Principal Payment" rows for the years in question.

DELINQUENT PAYMENTS INTEREST DEDUCTION

Select **Delinquent** on the "Type Of Deferral" row. If there is one delinquent payment, enter **"1"** on the "Years To Calculate (0 to 14)" row. If there are two delinquent payments, enter **"2"** on the "Years To Calculate (0 to 14)" row. This selection assumes that the estate did **not** qualify for §6161 or §6166 deferral, but made late payments after the due date. The application performs the interrelated calculation to find the interest accrued as of the date(s) paid and carries this amount to the "Total Interest Deduction" row.

1. Enter the amount of tax paid by the due date on the "Principal Payment By Due Date" row.

2. Enter the number of years to calculate (no more than 2).

3. Enter the amount and date of the first delinquent payment on the "Delinquent Payment 1" and "Date of Delinquent Payment 1" rows, respectively.

4. If there is a second delinquent payment, enter the amount and date on the "Additional Principal Payment [2nd Year]" and the "Date Of Delinquent Payment 2" rows, respectively.

Note. If you select the **Delinquent** calculation, any amount or date may be entered, but the application limits the number of late payments to two.

GIFT TAX AND GST TAX

OVERVIEW

This section discusses how to use the Bloomberg Tax Estate & Gift Tax Planner to compute federal gift taxes on gifts made after 1976 and to determine the tax consequences of generation-skipping transfers under the provisions of the Tax Reform Act of 1986.

The Gift Tax calculation handles gifts of any value made in any year after 1976, including past and future gifts, and gifts subject to a valuation discount. The application calculates the amount of gift tax payable and the unified credit used. For 1989 and subsequent years, the application also handles computations involving GRITs (Grantor Retained Income Trusts), GRATs (Grantor Retained Annuity Trusts), and GRUTs (Grantor Retained Unitrusts).

The Generation-Skipping calculation computes the results of transferring property to the grandchildren under both the estate tax system and the GST system. The results are displayed so that the estate planner can easily compare the strategies and select the most appropriate plan for the client. The application handles both direct skip transfers and transfers to GST trusts, including QTIP trusts and dynasty trusts. The GST transfers may be made either inter vivos or on death.

Note. Detailed descriptions of each input and output item on the Gift and GST worksheets can be found in Help messages for these rows. Please refer there for further clarification. The $1 million GST exemption is inflated annually starting in 1999; the application refers to this amount as the “Inflated $1M Amount (GST & 6166)”.

The first section discusses the gift tax calculations and includes an example to illustrate how the application works. The second section—“Generation-Skipping Tax”—handles direct skip transfers and transfers to GST trusts, both inter vivos and on death. The GST section also includes several examples.

GIFT TAX

All gift entries are handled through the main **Gift Entry** worksheet and its subworksheets. The **Gift Entry** worksheet can be accessed from both the “After 1976 Taxable Gifts” and “After 1976 Gift Taxes” rows on the **Main Worksheet**. The gift worksheets in the application provide for the following categories of gifts made after 1976:

- Non-DST Gifts
- Discount & Other Gifts
- Direct Skip Transfers (DSTs)
- GRIT Gifts
- GRAT Gifts
- GRUT Gifts

- Future Gifts
- Adjustments and Excluded Gifts

REPORTS

Gift taxes on the gifts entered are calculated and displayed on the **Post-1985 Gift Taxes** and **Pre-1986 Gift Taxes** reports, accessible on the **Reports** menu. These reports provide the details for each gift year across all categories of gifts, including the amount of unified credit used for the year.

GIFT ENTRIES

Up to three non-DST gifts can be entered directly on the main **Gift Entry Worksheet**. Two subworksheets allow entry of up to 15 additional non-DST gifts, including three "discount gifts." Two other subworksheets accommodate entries for up to nine lifetime DST gifts. Three separate worksheets handle entries for GRIT, GRAT, and GRUT gifts (up to two of each type are allowed). All gift entries are grouped according to the year in which the gifts were made.

FUTURE GIFTS

The **Future Gifts** worksheet is for entering gifts that will be made in future years, i.e., after the planning date on the **Gross Estate** worksheet. Such gifts are from a living person's estate and the application automatically subtracts them and the gift taxes thereon from the gross estate. The tax results could be compared with the status quo to see if the gifts would be desirable. Up to three future gifts may be entered, including one "discount" future gift. Future gifts, GRITs, GRATs, and GRUTs are discussed below.

ADJUSTMENTS AND EXCLUDED GIFTS

The last of the gift worksheets—**Adjustments & Excluded Gifts** worksheet—is for entering any adjustments to the amount of gifts entered or the amount of gift tax calculated thereon. It is also used for entering excluded gifts on which no tax is payable but which must be excluded from the decedent's gross estate. This worksheet also allows entry of the specific exemption used for gifts made from 9/76 to 12/76. The last two rows provide an option to carry gifts to the family share, using the growth rate entered on the last row.

DISCOUNT GIFTS

Gifts subject to valuation discounts are handled on the **Discount & Other Gifts** worksheet and in the bottom section of the **Future Gifts** worksheet (discounts are not handled for DST transfers). Up to three prior gifts and one future gift may be entered as "discount" gifts. The application applies the discount percentage entered to the gift amount and carries the result for gift tax purposes. However, for purposes of showing the "Family Share" (at the bottom of the **Main Worksheet**), the application includes the gift at its gross value (i.e., the amount entered, before reduction for the discount).

FAMILY SHARE

To have gifts included in the "Family Share", enter **Yes** to the "Add Gifts To Family Share? Y/N" row on the **Adjustments and Excluded Gifts** worksheet.

EXAMPLE 1

The following example shows how to use the **Gift Entry** worksheets to enter taxable gifts and have the application calculate the total amount of gift taxes for the estate after applying the unified credit for each year.

FACTS

John Jones dies on 10/29/1992 having $5,000,000 of separate property and it is estimated that Mary Jones will die on 1/1/2007 having $4,500,000 of separate property. He elects a ZFT marital gift. They each gave $40,000 (after exclusions) in two different quarters in 1977 when the unified credit amounts were different. John gave his $40,000 in the first half of 1977 and paid a tax of $2,200 on his gift. Mary gave her $40,000 in the second half of 1977 and her gift was fully sheltered by the unified credit. (Enter the year as 19771 and 19772, respectively, to indicate the period in 1977 in which the gifts were made.) John and Mary each made taxable gifts of $40,000 in 1980.

The application's reports will show the use of the unified credit and the gift tax incurred by each spouse. The "Total Taxable Post-1976 Gifts" row and the "Gift Tax" row of the **Gift Entry** worksheet show the total amount of post-1976 gifts and the total gift taxes thereon, respectively.

RUNNING THE CALCULATIONS

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press Ctrl+N).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default selections—**Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**. The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

2. Accept the default entries in the first section—**Plan Assumptions**—on the **Assumptions Tab**. (The GST calculations do not apply to this example.)

Include GST	No
Married	Yes
Replicate Case Date	Yes

3. In the second section—**Client Information**—on the **Assumptions Tab**, enter the following information:

Decedent: Date of Birth	1/1/1935
Decedent: Name	John
Decedent: State at Death	None
Spouse: Date of Birth	1/1/1935
Spouse: Name	Mary
Spouse: State at Death	None

   Accept all the remaining default entries on the **Assumptions Tab**.

4. On the **Main Worksheet**, click the “Adjusted Gross Estate” row title.

   In the “Separate Gross Estate” row of the **Adjusted Gross Estate** worksheet, enter **$5,000,000** for John and **$4,500,000** for Mary, pressing **Enter** after each entry. Return the focus to the **Main Worksheet**.

5. Enter the other facts of the case on the **Main Worksheet, Marital Deduction** worksheet and **Gift Entry** worksheet. These worksheets and the **Pre-1986 Gift Taxes** report are shown below as they appear after the facts have been entered.

Main Worksheet	John	Mary
Date Of Death	10/29/1992	01/01/2007
Adjusted Gross Estate	5,000,000	8,974,054
Marital Deduction	4,474,054	0
Charitable Deduction	0	0
Taxable Estate	525,946	8,974,054
After 1976 Taxable Gifts	80,000	80,000
Federal Estate	605,946	9,054,054
Federal Tax Per Schedule	195,000	3,955,124
After 1976 Gift Taxes	2,200	0
Unified Credit	192,800	780,800
Federal Tax + Max Credit	0	3,174,324
State Death Taxes - Max Credit	0	0
Federal Tax Before Special Credits	0	3,174,324
Special Fed Estate Tax Credits	0	0
Federal Tax	0	3,174,324
State Death Taxes	0	0
Total Death Taxes	0	3,174,324
Family Share	525,946	5,799,730
Family Share Both Spouses	0	6,325,676

Gift Entry	John	Mary
Pre-1977 Taxable Gifts	0	0
Year Of Gift	19771	19772
Taxable Gifts (Non-DSTs)	40,000	40,000
Year Of Gift	1980	1980
Taxable Gifts (Non-DSTs)	40,000	40,000
Year Of Gift	2007	YYYY
Taxable Gifts (Non-DSTs)	0	0
Discounts And Other Gifts	0	0
Direct Skip Gifts (DSTs)	0	0
GRIT Gifts	0	0
GRAT Gifts	0	0
GRUT Gifts	0	0
Future Gifts	0	0
Adjs & Excluded Gifts	0	0
Total Taxable Post-1976 Gifts	80,000	80,000
Gift Tax	2,200	0
GST Tax On DST Transfers	0	0
Gift Exemption Used	80,000	80,000

Marital Deduction	John	Mary
Specified Marital Bequests	0	0
Joint Property with Spouse	0	0
Plans/IRAs To Spouse	0	0
Zero Federal Tax Option	ZFT1	None
Total Bequests Not Generation-Skipping Transfers	0	0
Bequests Subject To Tax	0	0
Phantom Assets	0	0
Interrelated Residue Calculation	None	None
Fund Before Taxes	0	0
Deductible Percentage Of Fund	0.00000	0.00000
Total Bequests Not GSTs	0	0
Bequests Subject To Tax	0	0
Other Property To Pay Tax	0	0
Computed Marital Bequests	4,474,054	0
Total Marital Bequests	4,474,054	0
Spousal Joint Property & Plan/IRA	0	0
Adjustments To QTIP Trusts	0	0
QTIP Trust	4,474,054	0

Date: 10/23/2006
Time: 10:41 AM

Pre 1986 Gifts

Case 1

	John	Mary
Year of Gift	1977	1977
Taxable Gifts	40,000	40,000
Unified Credit Used	6,000	8,200
Gift Tax	2,200	0
Year of Gift	1980	1980
Taxable Gifts	40,000	40,000
Unified Credit Used	10,000	10,000
Gift Tax	0	0

FUTURE GIFTS

The **Future Gifts** worksheet is used to enter gifts that are to be made in future years (i.e., between the “Planning Date” entered on the **Gross Estate** worksheet and the decedent’s date of death). In other words, future gifts are property that is to be transferred from a now living person’s estate and that will, therefore, not be included in the estate at the time of the decedent’s death. The taxable portion of future gifts and direct skip transfers is entered on the **Future Gifts** worksheet the same way as gifts are entered on the other gift tax worksheets.

In addition to computing the taxes on the future gifts, the application deducts total gifts, after appreciation, and the taxes thereon from the future estate (on the "Decrease For Future Gifts" row of the **Gross Estate** worksheet). If any GRIT, GRAT, or GRUT gifts with a month of transfer after the Planning Date have been entered on the corresponding GRIT, GRAT, or GRUT worksheets, such transfers will also be treated as future gifts and included on the "Decrease For Future Gifts" row. In such case, the future gift is appreciated using the rate entered on the "Future Value Percentage Per Year For Non-Liquid Property" row on the **Gross Estate** worksheet, and the taxes on such gifts are appreciated using the rate entered on the "Future Value Percentage Per Year For Liquid Property" row.

Note. In this example, the **Gross Estate** worksheet was overridden by the entries made in step 4, above. However, in order for the application to automatically deduct the future gifts and gift taxes from the present gross estate, the **Gross Estate** worksheet must be active. Also, for the application to take account of future appreciation, an appreciation rate must be entered on the **Gross Estate** worksheet.

EXCLUDED GIFTS

Future excluded gifts are entered on the **Adjustments & Excluded Gifts** worksheet. These are future non-taxable disbursements that must be deducted from the future gross estate.

The "Charitable Gifts & Other Adjustments +/-", is used to enter future charitable gifts and other non-taxable future disbursements other than those to children or grandchildren (which are entered on other rows below). The amount entered should be reduced by any anticipated increase in the future estate (e.g., an income tax reduction because of the charitable gift). Any excluded gifts to non-family members should be included in this entry. The entry will then be deducted from the future gross estate.

The "Excluded Gifts Amounts To Children" row, is used to enter the amounts given to the children that are subject to the $15,000 "present interest" exclusion plus any other exclusion. The planned gift should be multiplied by the number of donee-children. For split-gifts under IRC §2513(a), the combined annual present interest exclusion is $28,000 (starting in 2013) and should be divided between the Decedent's and Spouse's columns.

The "Number Of Years" row is used to enter the number of years this gift application is expected to follow. The number entered here will then be multiplied by the entry on the row above, and the total will be displayed on the next row, "Excluded Amounts To Children". If you make an entry on the "Beginning Year" row, the application grows each annual gift between the gift date and death, using the growth rate entered on the "Future Value Percentage Per Year For Liquid Property" row of the **Gross Estate** worksheet.

The same pattern is used for gifts to grandchildren. The exclusions for gifts to grandchildren are the same as for gifts to children. The excluded gifts to children and grandchildren are also deducted from the future estate.

GRIT (GRANTOR RETAINED INCOME TRUST) GIFTS

A GRIT transfer is generally a Qualified Personal Residence Trust where the grantor holds a term interest in the personal residence property and family members hold the remainder interest. (The IRC Chapter 14 value rule does not apply where the only property in the trust is an interest in a personal residence which is used as such by persons holding term interests.) GRITs can, however, also be used to advantage with other property if the remainderman is not a member of the family.

The **Grantor Retained Income Trusts** worksheet, accessed from the "GRIT Gifts" row on the **Gift Entry** worksheet provides entries for two GRIT transfers made after 4/20/89. Based on other entries on the worksheet, the application determines the taxable value of the gift and posts the amount back to the **Gift Entry Worksheet** for inclusion in the "Total Taxable Post-1976 Gifts" row. The taxable amount is also included in the **Post-1985 Gift Taxes** report for the appropriate year.

GRIT gifts made between the "Planning Date" and the decedent's date of death are included in the "Decrease For Future Gifts" row on the **Gross Estate** worksheet to reduce the future estate.

For details of the input and output rows on the **GRITs** worksheet, please refer to the discussion in Help for these rows.

Because of the complexity of this area of the law and the highly technical nature of the trust documents, caution is advised when using this type of trust. GRITs are also not suitable for situations involving split-gifts and generation-skipping transfers. However, GRITs do have several advantages for gift tax purposes:

- Gift taxes on the transfer of a residence to children are lower with a GRIT than if the property is transferred in any other way.
- Gift taxes on GRIT transfers of property to collateral relatives are lower than if the property is transferred in any other way.
- If the grantor dies before the end of the term, the only loss is the interest not paid on the gift tax paid.

GRIT EXAMPLE

Month of Transfer:	3/1999
GRIT Gift Amount:	$1,000,000
Age:	65
Term of Years:	10
Section 7520 Interest Rate:	5.8%
Taxable GRIT Amount:	$419,170
Term Certain Remainder Factor (10 yrs @ 5.8%):	0.569041
Probability Grantor will Survive Term (56799/77107):	0.736626
TABLE 80CNSMT	
Lives @ age 65:	77107
Lives @ age 75:	56799

Remainder Factor (0.569041 × 0.736626): 0.419170

Two other retained interest trusts are GRATs and GRUTs, which likewise involve making a deferred gift by retaining the present interest in the property.

GRAT (GRANTOR RETAINED ANNUITY TRUST) GIFTS

A GRAT (Grantor Retained Annuity Trust) is created when the grantor transfers assets to a trust, but retains the right to receive a fixed amount from the trust for a specified term. When the trust terminates at the end of the term, the trust corpus passes to the donee. The application calculates the taxable amount of the gift by computing the present value of the donee's interest. This gift is valued at the date of the GRAT transfer and is based on the length of the term and the §7520 interest rate for the month of the transfer.

The term may be of any length and may be calculated under one of three scenarios:

- Term of Years
- Life Estate
- Shorter of Term of Years or Life Estate

If no entry is made on the "Term Of Years" row on the **GRAT Gifts** worksheet, the application assumes a normal life estate based on the entry on the "Age Of Grantor" row. If an entry is made on both the "Term Of Years" and the "Age Of Grantor" rows, the application calculates the factor based on the shorter of the term of years or the life expectancy. Although Reg. 25.2702–7 made this rule mandatory for all transfers after 1991 involving a term of years, this regulation was invalidated by the Tax Court in Walton v. Comm. 115 TC No. 41 (12/22/2000).

The trust instrument often provides for a "contingent reversion." That is, if the grantor dies before the end of the term, the property reverts to the grantor's estate, and the donee never receives any of the property. Although this actuarially reduces the value of the gift (due to the increased risk that the donee will receive nothing), for gift tax purposes it is irrelevant because contingent reversions are valued at zero under IRC §2702.

GRATs are an especially valuable planning technique when the §7520 rate is low, as this makes it possible to "beat the tables," resulting in a gift tax value that is less than the actual value of the gift.

The application applies the IRS Rev. Rul. 77–454 rule prohibiting zeroed-out GRATs. Under this rule, if the trust might be exhausted if the grantor survives the term, the GRAT must be revalued using a term of the shorter of the stated term or the grantor's life expectancy.

If you enter both the "Age Of Grantor" and "Term Of Years" (i.e., shorter of term/life calculation), you can override the Rev. Rul. 77–454 valuation rule by answering **Yes** on the "Ignore Rev Ruling 77–454? Y/N" row. To ascertain whether Rev. Rul. 77–454 applies in any situation, answer **Yes** to this row. If the amount on the "Taxable GRAT Gift" row does not change, then Rev. Rul. 77–454 does not apply. (If the Rev. Rul. 77–454 special rule does apply, there is no single aggregate annuity factor due to the

methodology requiring that three hypothetical annuities be computed; the calculated "Adjusted Annuity Factor" reflects the last interim calculation. For future GRATs, the annuity factor displayed is the same as if you had entered **Yes** on the "Ignore Rev Ruling 77–454? Y/N" row.)

The following example illustrates how the Rev. Rul. 77–454 exhaustion test is applied and how the GRAT gift is calculated. Assume a $1,000,000 GRAT amount with an annual payout of $553,500 for a two-year term at age 55, with a month of transfer of 3/94 (the application will carry the applicable rate of 6.4% for that month). The taxable gift is 0 if Rev. Rul. 77–454 is ignored; if Rev. Rul. 77–454 is followed, the taxable gift is $8,988.

Using the rationale of Rev. Rul. 77–454, this amount may be proved as follows. First the exhaustion test is applied:

Yr 1: Fund (1,000,000 × 1.064) – 553,500:	510,500
Yr 2: Fund (510,500 × 1.064) – 553,500:	–10,328

This shows that exhaustion of the fund occurs in Year 2, and that the Year 2 payment is only $543,172. Rev. Rul. 77–454 thus applies and requires the GRAT to be valued by computing the value of a two-year GRAT with an annual payout of $543,172 (producing a $981,349 annuity value) and a one-year GRAT with an annual payout of $10,328 (producing a $9,663 annuity value). The two annuity values are added together to equal $991,012, and this sum is then subtracted from the GRAT Gift Amount of $1,000,000 to produce the taxable gift of $8,988.

The "Suggested GRAT Payout" row displays the suggested GRAT payout, calculated using the straight-term annuity factor. This approach generates a slightly larger gift than using the "shorter of term or life" factor, but the straight-term approach makes it more likely the trust will have assets left at termination.

GRUT (GRANTOR RETAINED UNITRUST) GIFTS

GRUTs (Grantor Retained Unitrusts) are similar to GRATs except that instead of retaining a fixed amount, the grantor retains a constant percentage of the trust property (revalued annually).

Note. GRAT or GRUT gifts made between the "Planning Year" and the decedent's year of death are included in the "Decrease For Future Gifts" row on the **Gross Estate** worksheet to reduce the future estate.

Where the decedent dies during the term, you should include the GRAT or GRUT (at date of death value) in the decedent's gross estate and make any necessary adjustments to the gift tax or gift amount on the **Adjustments & Excluded Gifts** worksheet.

GENERATION-SKIPPING TAX

The GST law created a major opportunity for saving taxes in estate planning. However, proper planning has often been impeded because of the large number of complicated calculations needed to obtain accurate forecasts. The Generation-Skipping calculation

in the application drastically reduces the time required to handle the multiple calculations involved in evaluating the GST versus non-GST plan.

In general, the starting point for the GST calculations is the Family Share available at the death of each decedent, i.e., available property after taxes and expenses. The application's default assumption is that this property passes to the children for life and then to the grandchildren (the "non-GST plan"). The application allows you to change this default assumption by entering several types of GST transfers, including direct-skip transfers (DSTs) (lifetime and at death) and GST trusts. In all cases, the application calculates the maximum available amount for each GST transfer, and in the case of the special reverse QTIP trust situation, calculates the optimal amount of the trust.

A comparison between the "non-GST" default computation and a GST plan can easily be made by choosing two or more cases, setting **Include GST** in the **Assumptions Tab** to **Yes**, and entering the details of the Generation-Skipping Transfer dispositions as described below. The basic planning choice is between paying "estate tax" taxes on the deaths of the children or paying GST taxes at that time. The application GST calculation computes and displays both the GST and estate tax results so that you can select the plan that produces the lowest overall tax burden. Because of the GST exemption and certain other factors, the GST system generally results in lower overall taxes, particularly in larger estates. (If you've already created a GST plan and want to see the analysis under a non-GST computation, on the **Assumptions Tab** change the **Include GST** entry to **No**. The application will save the original GST plan under a new client data file name, and save the plan with the GST data and rows stripped out under the original client file name.)

The GST calculation operates in the same way as the basic application calculations described earlier. With the exception of the reverse order of death feature, all features of the basic application can be used in conjunction with the Generation-Skipping calculation.

There are three types of generation-skipping taxable transfers:

- Direct Skip Transfers (DSTs)—Taxable gifts that are transferred directly to a "skip person" (e.g., grandchild);
- Taxable Terminations—Trust terminations that trigger a GST tax because the only remaining beneficiaries are skip persons;
- Taxable Distributions—Trust distributions to a skip person.

The first type, DSTs, may occur during life or at the death of the decedent. This type is discussed below under "Direct Skip Transfers." The other two types involve GST trusts and generally occur after the death of the decedent. These are discussed below under **Generation-Skipping Trusts**.

- Example 2 illustrates how the application handles direct skip transfers.
- Example 3 shows the use of the trusts worksheets to handle lifetime transfers to GST trusts.
- Example 4 uses a six-case GST plan to show the tax savings that result from using one or more GST trusts in combination with other transfers or bequests.

- Example 5 further illustrates the use of GST trusts.
- Example 6 shows a family GST plan where a portion of the decedent's family share passes to the Spouse outside of the marital deduction and then directly to the grandchildren upon her death.

The $1 million exemption is inflated annually starting in 1999. Enter the inflated amounts on section 6—**Inflated $1M Amount (6166)** section of the **Assumptions Tab**. The GST exemption amount was increased by the Economic Growth & Tax Relief Reconciliation Act of 2001 for years after 2003. The GST exemption for years after 2000 is shown below:

Year	GST Exemption	
2001	$1,060,000	
2002 and 2003	$1,060,000	(plus inflation)
2004 and 2005	$1,500,000	
2006–2008	$2,000,000	
2009	$3,500,000	
2010	$5,000,000	
2011	$5,000,000	
2012	$5,120,000	
2013	$5,250,000	
2014	$5,340,000	
2015	$5,430,000	
2016	$5,450,000	
2017	$5,490,000	
2018	$11,180,000	
2019 through 2025	$10,000,000	(plus inflation)
2026 and beyond	$5,000,000	(plus inflation)

See **Scenario 1: Two-Case Married Decedent Plan** on page 12 for instructions on setting these amounts.

BASIC GST CALCULATION (LIFETIME TRANSFERS)

When calculating the GST tax, the application multiplies the taxable amount (usually the amount of the gift or the transfer to trust, net of the $10,000 §2503(b) exclusion or other exclusions) by the applicable rate (the GST tax rate for the year of gift times the inclusion ratio). The inclusion ratio is based on the allocated portion of the exemption allowed each transferor.

The application automatically allocates this exemption to successive direct skip transfers over the taxable years pursuant to the "deemed allocation" rules of §2632(c), although you may override the amounts allocated. In the case of transfers to trusts, the application allows you to specify (on the "Numerator" row of the **GST Trusts** worksheet) the amount of the exemption allocated to GST trusts.

For example, if the Client makes an $800,000 gift (after exclusions) to his granddaughter in 1994, he will pay a GST tax of $440,000 (55% × $800,000) in addition to a gift tax, assuming that none of the exemption is used and the deemed allocation rule is overridden. If we assume the Client allocates $600,000 of his exemption to the transfer, the GST tax is reduced from $440,000 to $110,000:

Taxable Amount:	$800,000
Amount of Lifetime Exemption Allocated:	$600,000
Applicable Fraction ($600,000 ÷ $800,000):	0.75
Inclusion Ratio (1 – 0.75):	0.25
Applicable Rate (55% × 0.25):	13.75%
GST Tax ($800,000 × 13.75%):	$110,000

If the deemed allocation rule applies, the GST tax is zero and $800,000 of the exemption is used.

Although the effective date of the GST tax is generally after 10/22/86, inter vivos transfers between 9/26/85 and 10/22/86 which are subject to the Chapter 12 tax are treated as if made on 10/23/86 and should be entered in the application as if made in 1986. (In unusual cases involving large gifts made between 9/26/85 and 12/31/85, you may need to adjust the gift tax because the unified credit is higher in 1986 than 1985; this is handled by making an adjustment on the "Adjustments to Gift Taxes Paid" row on the **Adjustments & Excluded Gifts** worksheet.)

DIRECT SKIP TRANSFERS (DSTS) (LIFETIME AND ON DEATH)

Direct skip transfers occur directly between the transferor and a skip person in a transaction that is subject to a gift or estate tax. See IRC §§2612(c) and 2623. The transfer may occur during the decedent's lifetime or upon the decedent's death. According to IRC §2613(a), a skip person is defined as any of the following:

- A person assigned to a generation that is two or more generations below the generation assignment of the transferor;
- A trust, if all interests in such trust are held by skip persons;
- A trust, if there is no person holding an interest in such trust and no distribution may be made either presently or in the future to a non-skip person.

Lifetime DST gifts (including gifts in trust where all beneficiaries are skip persons) are entered into the application on the "Amount Of DST Taxable Gifts" rows of the **DST Gifts** worksheet. The application automatically applies the exemption to the extent that it has not been used in prior transfers, pursuant to IRC §2632(b)(1). You may enter **Yes** on the "Override Deemed Allocation Rule Y/N" row and make an entry on the "Exemption Allocated To DST By Transferor" row, if desired. GST taxes are payable immediately on direct skip transfers that are not sheltered by the exemption.

The application calculates both the GST and gift taxes on the amount of the entered DST gift (and displays them on the **Gift Taxes** report for the year of the gift).

Generally, the taxable amount for GST purposes is the same as for gift purposes (i.e., the gross amount of the transfer less any gift tax exclusions.) However, the gift tax exclusion is denied for GST tax purposes (although allowed for gift tax purposes) in the rare cases where IRC §2642(c)(2) applies, i.e., where trust property can be diverted from the beneficiary. In such cases, the amount of the disallowed exclusion should be included as a negative adjustment on the gifts row for the year so that the exclusion will be allowed for gift tax purposes but not for GST purposes.

Direct skip transfers that occur upon the decedent's death should be entered on the "Direct Skip Transfers DST" row of the **GST Taxes Payable on Death** worksheet, whether such transfers are made outright or in trust. The application does not apply the exemption automatically to such transfers, but you can allocate the exemption to the DSTs to the extent it has not been used in prior transfers.

For DST transfers, the tax is computed based on what the recipient receives, i.e., DSTs are taxed on a tax exclusive basis. The GST tax is paid out of the DST property unless the governing instrument expressly provides otherwise. (Two rows are provided at the bottom of the **GST Taxes Payable on Death** worksheet as a utility allowing you to enter the gross amount of the DST and displaying the actual taxable DST (gross amount reduced by the GST tax)).

The application handles a direct skip transfer to a trust (where all the beneficiaries are skip persons) in the same way as a direct skip transfer directly to the grandchild and includes the amount in the grandchildren's shares. Such transfers should be distinguished from transfers to a GST trust, i.e., a trust with both skip persons (grandchildren) and non-skip persons (children) as beneficiaries. In this latter situation, a GST tax is not imposed until a distribution is paid to grandchildren or the trust terminates in favor of grandchildren. See the section "GST Trusts" below, for a discussion of how the application handles such transfers.

EXAMPLE 2 LIFETIME DIRECT SKIP TRANSFERS

Example 2 illustrates how the application handles lifetime direct skip transfers.

Let us assume that the Decedent and Spouse in Example 1, discussed earlier in the gift tax section, also made Direct Skip Transfers in 1990 of $100,000 and $150,000, respectively, of which $90,000 and $140,000 were taxable after exclusions. The amount and year of the transfer are entered on the **DST Gifts** Worksheet, which is accessed from the **Gift Entry Worksheet**. The $10,000 amount excluded for gift tax purposes is, nonetheless, taxable for GST purposes.

Before entering the amounts shown below into the worksheets, you will first need to activate the GST calculations.

On the **Assumptions Tab**, change the entry in the **Include GST** field to **Yes**.

Note. Starting in 1999, the $1,000,000 GST exemption amount is inflated to index it to annual inflation increases. For ease of illustration, however, this example assumes the pre-1999 $1,000,000 GST exemption amount.

The **DST Gifts** and **GST Trust** worksheets are both accessible from the **Gift Entry Worksheet** for "After 1976 Taxable Gifts".

1. From the **Main Worksheet**, click the “After 1976 Taxable Gifts” row title to open the **Gift Entry** worksheet.

   Then click the “Direct Skip Gifts (DSTs)” row title to open the **DST Gifts** worksheet.

2. In the first row (“Year Of Gift (DST)” row) for both John and Mary, enter **1990** and press **Enter**.

3. On the “Amount Of DST Taxable Gifts” row, enter **90,000** for John and 140,000 for Mary, pressing **Enter** after each entry.

4. On the “Override Deemed Allocation Rule Y/N” row, click the check box in the first column (John) to reflect John’s election to override the deemed allocation rule and not allocate any of his exemption to the transfer.

5. Return the focus to the **Gift Entry Worksheet**.

   Click the “GST Trusts” row title (at the bottom of the worksheet) to open the **GST Trusts** worksheet.

6. In **both** columns (John and Mary) of the second row (“Trust 1 Numerator”), enter **10,000** (to shelter the transfer), pressing **Enter** after each entry.

7. In **both** columns (John and Mary) of the third row (“GST Trust Property Denominator”), enter **10,000**, pressing **Enter** after each entry.

8. In **both** columns (John and Mary) of the Trust 1 “Year Of Gift” row, enter **1990**, pressing **Enter** after each entry.

As a result of the Decedent’s election to override the deemed allocation rule and not allocate any of his exemption to the transfer, he paid a $49,500 GST tax. The GST tax is considered an additional gift and the application automatically calculates the additional gift tax on this amount (see IRC §2515). The Spouse did not elect to override the deemed allocation and $140,000 of her $1,000,000 exemption was used on the transfer. When completed, the worksheets will appear like this:

	Case 1	
Gift Entry	John	Mary
Pre-1977 Taxable Gifts	0	0
Year Of Gift	19771	19772
Taxable Gifts (Non-DSTs)	40,000	40,000
Year Of Gift	1980	1980
Taxable Gifts (Non-DSTs)	40,000	40,000
Year Of Gift	YYYY	YYYY
Taxable Gifts (Non-DSTs)	0	0
Discounts And Other Gifts	0	0
Direct Skip Gifts (DSTs)	139,500	140,000
GRIT Gifts	0	0
GRAT Gifts	0	0
GRUT Gifts	0	0
Future Gifts	0	0
Adjs & Excluded Gifts	0	0
Total Taxable Post-1976 Gifts	219,500	220,000
Gift Tax	2,200	0
GST Tax On DST Transfers	49,500	0
Gift Exemption Used	80,000	80,000
GST Trusts	10,000	10,000

DST Gifts	John	Mary
Year Of Gift (DST)	1990	1990
Amount Of DST Taxable Gifts	90,000	140,000
Override Deemed Allocation Rule Y/N	☑	☐
1M Allocated To DST By Transferor	0	0
1M Irrevocable Allocation To GST Transfers	0	0
2M Exemption (pre-1990)	0	0

GST Trusts	John	Mary
Transaction For GST Trusts	Transfer	Transfer
Trust 1 Numerator	10,000	10,000
GST Trust Property Denominator	10,000	10,000
Charitable Deduction	0	0
Inclusion Ratio	0.00000	0.00000
New Value Of Old Trust	0	0
Deductible Expenses At Termination	0	0
Year Of Gift	1990	1990

The application calculates the GST tax and any additional gift tax payable on the GST tax (none in this case) and adds these amounts to the summary information for all post-1976 taxable gifts at the bottom of the **Gift Entry** worksheet.

For correct computation of the GST and gift taxes, the direct skip transfers were entered **after** reduction for the gift tax exclusion. To properly reflect the benefit to the grandchildren after the children's death, however, the exclusions had to be added back to the grandchildren's share. This was done on the **GST Trusts** worksheet, where the exclusion amounts were entered on both the "Numerator" and "GST Trust Property Denominator" rows of one of the trusts on the worksheet. The year of the latest DST transfer was also entered on the "Year Of Gift" row for the same trust. Note that these entries are solely for purposes of accurate fund accounting at the children's deaths and do not affect the tax calculations. For GST tax purposes, direct skip transfers to trusts should be entered on the **DST Gifts** worksheets not on the **GST Trusts** worksheet.

GENERATION-SKIPPING TRUSTS

A GST trust is a trust with both skip persons (grandchildren) and non-skip persons (children) as beneficiaries. A GST trust may be established either during life (inter vivos) or on death. All transfers to GST trusts, whether inter vivos or on death, are handled on the **GST Trusts** worksheet. For inter vivos transfers to trusts, you must enter the year the transfer was made on the "Year Of Gift" row.

GST trusts normally involve property passing to the children for life and then to the grandchildren. The application also handles the following special GST trusts, as discussed later in this section: GST dynasty trusts, QTIP GST trusts, reverse QTIP trusts, charitable lead annuity trusts, and property in trust to Spouse for life and then directly to grandchildren. A total of four GST trusts are allowed per decedent (including two QTIP GST trusts for the spouse). If no exemption is allocated to a GST trust, a GST tax is imposed at the termination of the trust either at the children's death (when the grandchildren receive the trust funds), or upon a prior distribution to grandchildren. The tax is computed on a tax inclusive basis, on the value of the trust at termination (not on what the recipient receives), including any appreciation.

Lifetime transfers to GST trusts are subject to a gift tax when made and may be entitled to the usual gift tax exclusions for gift tax purposes. For GST purposes, however, such

exclusions are generally not available for transfers to GST trusts after March 31, 1988 (see IRC §2642(c)(2) as amended by TAMRA). Example 3 below illustrates the entries for such situations **after** TAMRA. For transfers before April 1, 1988, which qualify for exclusions, the amounts entered in the "Numerator" and "GST Trust Property Denominator" rows for the GST trusts should also be **before** exclusions. A corresponding entry (reduced by the amount of any applicable exclusion) should also be made on the "Irrevocable Allocation To GST Transfers" row on the **DST Gifts** worksheet. For example, if a taxpayer transfers $100,000 in trust, is entitled to a $10,000 exclusion, and wishes to allocate sufficient exemption to fully exempt the trust for GST purposes, the entries are: $100,000 on the "Numerator" and "GST Trust Property Denominator" rows of the **GST Trusts** worksheet and $100,000 ($90,000 before the effective date of TAMRA) on the "Irrevocable Allocation To GST Transfers" row of the **DST Gifts** worksheet.

TAXABLE TERMINATIONS

A taxable termination generally occurs when an interest in trust property is terminated, unless a non-skip person retains an interest in the trust property immediately after termination. See IRC §§2612(a) and §2622.

After TAMRA, when such a trust is entered into the application, the allocated amount of the exemption should be entered on the "Numerator" row of the **GST Trusts** worksheet and the value of the trust property on the "GST Trust Property Denominator" row for the same trust on this worksheet. The application calculates the inclusion ratio based on these entries. The GST tax on termination is the value of the trust at termination times the inclusion ratio of the trust times the GST tax rate. The appreciated value of the trust corpus for both lifetime and testamentary trusts (after taxes) actually passing to the grandchildren is shown on the "Grandchildrens Share After GST Terminates" row on the **Estate Tax on All Childrens Property** report.

The appreciation calculations are based on the year and percentage entered on the "Estimated Year When Children Are Dead" and "Future Value Percentage – Until Children's Deaths" rows of the **Adjusted Gross Estate** worksheet. Appreciation on testamentary trusts is calculated from the date of death to the date entered for "Estimated Year When Children Are Dead". Appreciation on lifetime trusts is calculated from the date of the transfer. The GST taxes upon trust termination are displayed on the "GST Tax On Children's Death" row of the **Main Worksheet**.

TAXABLE DISTRIBUTIONS

All other transfers from GST trusts to skip persons (other than direct skips or terminations) are considered taxable distributions. See IRC §§2612(b) and 2621. The application accommodates up to four trusts each for the decedent and spouse (including two QTIP trusts). You can specify a distribution from any of these trusts. The amounts of the distributions should be entered on the "Distribution From Trust" rows at the bottom of the **GST Trusts** worksheet. The GST tax on the distribution appears here as a convenience. (For this limited purpose the assumed GST rate is 55%.)

VALUES FOR LIFETIME TRANSFERS TO GST TRUSTS

The GST values for lifetime transfers to GST trusts (i.e., the trust Denominator) depend on when the election is made to allocate all or part of the exemption to the transfer. The gift tax value is used for transfers to GST trusts if the allocation is made

in a timely filed gift tax return (IRC §2642(b)(1)). The statute provides for election at a later date at any time before the filing date of the estate tax return (with extensions). The valuation in such cases is determined as of the time the allocation is filed by the transferor or by the executor after the transferor's death (IRC §2642(b)(3)). Effective for years after 2000, the "deemed allocation" rules are extended to non-DST transfers to GST trusts (the application applies the "deemed allocation" rules to DSTs, including DSTs to GST trusts, but not to non-DST transfers to GST trusts). Under the final GST regulations, the transferor may elect to treat the allocation as having been made on the first day of the month during which the late allocation is made. See Reg. §26.2642–2(a)(2). (This election is not available for valuation of life insurance.)

Where the grantor has retained an interest in the GST property (GRITs, etc.), and in other situations involving an ETIP (Estate Tax Inclusion Period), the allocation of GST exemption is not effective until the termination of the ETIP. The ETIP rules do not apply to reverse QTIP trusts. See IRC §2642(f) and Reg. §26.2632–1(c)(2)(ii)(C).

EXAMPLE 3 LIFETIME TRANSFERS TO GST TRUSTS

Let us continue with the Jones case discussed in Examples 1 and 2 and assume that, instead of making direct skip transfers, John and Mary both made lifetime transfers to GST trusts in 1990: John transferred $225,000 (two GST trusts of $75,000 and $150,000), and Mary transferred $250,000 to a single GST trust. Under post-TAMRA law, none of these transfers qualified for gift tax exclusions for GST purposes. All three transfers were entitled to a gift tax exclusion for gift tax purposes but not for GST purposes, reducing the taxable portion of the gifts for gift tax purposes to $205,000 for John and $240,000 for the Mary.

Mary filed a timely gift tax return for 1990 and irrevocably allocated $250,000 of her $1,000,000 exemption, the gift tax value of the transfer. Although at the time of filing, the trust property was valued at $300,000, the Denominator of the trust is $250,000 (gift tax value) since the allocation was made on a timely filed gift tax return.

John did the same for the $75,000 trust, irrevocably allocating $75,000 in a timely filed gift tax return, but he filed his Irrevocable Election after the time for filing the 1990 gift tax return in 1991 for his other gift tax valued trust of $150,000. At the time when he filed his election, the trust had a value of $200,000. In order to have the trust fully protected from the GST tax, he had to apportion $200,000 of his $1,000,000 exemption to a gift of $150,000.

Note. If the GST transfer had been made after 2000, when the "deemed allocation" rules were extended to non-DST lifetime transfers to GST trusts (per the Economic Growth & Tax Relief Reconciliation Act of 2001), the Decedent could have sheltered the GST trust with only $150,000 of the GST exemption.

The Jones' lifetime transfers to GST trusts are entered as shown on the worksheets below. The trust value should be entered on both the **GST Trusts** worksheet ("GST Trust Property Denominator" row) and the **Gift Entry (non-DST)** worksheet "Taxable Gifts" row for 1990).

Note that the allocated exemption must be entered on both the **GST Trusts** worksheet ("Numerator" row) and the **DST Gifts** worksheet ("Irrevocable Allocation To GST Transfers" row) in order for the exemption to be properly taken into account.

Note also that the trust values (and exemption amounts) entered on the **GST Trusts** worksheet should not be reduced by any exclusions, even if the gifts are entitled to exclusions (i.e., even if they were made before TAMRA). By contrast, the corresponding entries for taxable gifts on the **Gift Entry (non-DST)** worksheet are **after** reduction for exclusions, to the extent such exclusions are available. On both worksheets, the exemption amounts reflect the values at the time the irrevocable election was filed.

GST Trusts	John	Mary
Transaction For GST Trusts	Transfer	Transfer
Trust 1 Numerator	75,000	75,000
GST Trust Property Denominator	75,000	75,000
Charitable Deduction	0	0
Inclusion Ratio	0.00000	0.00000
New Value Of Old Trust	0	0
Deductible Expenses At Termination	0	0
Year Of Gift	1990	1990
Trust 2 Numerator	200,000	0
GST Trust Property Denominator	200,000	0
Charitable Deduction	0	0

DST Gifts	John	Mary
Year Of Gift (DST)	1990	1990
Amount Of DST Taxable Gifts	0	0
Override Deemed Allocation Rule Y/N	☐	☐
1M Allocated To DST By Transferor	0	0
1M Irrevocable Allocation To GST Transfers	75,000	250,000
2M Exemption (pre-1990)	0	0
Year Of Gift (DST)	1991	YYYY
Amount Of DST Taxable Gifts	0	0
Override Deemed Allocation Rule Y/N	☐	☐
1M Allocated To DST By Transferor	0	0
1M Irrevocable Allocation To GST Transfers	200,000	0
2M Exemption (pre-1990)	0	0
Year Of Gift (DST)	YYYY	YYYY
Amount Of DST Taxable Gifts	0	0
Override Deemed Allocation Rule Y/N	☐	☐
1M Allocated To DST By Transferor	0	0
1M Irrevocable Allocation To GST Transfers	0	0
2M Exemption (pre-1990)	0	0
Year Of Gift (DST)	YYYY	YYYY
Amount Of DST Taxable Gifts	0	0
Override Deemed Allocation Rule Y/N	☐	☐
1M Allocated To DST By Transferor	0	0
1M Irrevocable Allocation To GST Transfers	0	0
2M Exemption (pre-1990)	0	0
Additional DST (Direct Skip Transfer) Gifts	0	0

Gift Entry	John	Mary
Pre-1977 Taxable Gifts	0	0
Year Of Gift	19771	19772
Taxable Gifts (Non-DSTs)	40,000	40,000
Year Of Gift	1980	1980
Taxable Gifts (Non-DSTs)	40,000	40,000
Year Of Gift	1990	1990
Taxable Gifts (Non-DSTs)	205,000	240,000
Discounts And Other Gifts	0	0
Direct Skip Gifts (DSTs)	0	0
GRIT Gifts	0	0
GRAT Gifts	0	0
GRUT Gifts	0	0
Future Gifts	0	0
Adjs & Excluded Gifts	0	0
Total Taxable Post-1976 Gifts	285,000	320,000
Gift Tax	2,200	0
GST Tax On DST Transfers	0	0
Gift Exemption Used	285,000	320,000
GST Trusts	75,000	75,000

GST DYNASTY TRUSTS

GST dynasty trusts are irrevocable life insurance trusts that pass to children for their lives and then to grandchildren. To enter a GST dynasty trust:

1. On the "Irrevocable Insurance Trust" row (near the bottom) of the **Gross Estate** worksheet, enter an amount.
2. On the "Trust 4 (Spouse's QTIP) Numerator" row of the **GST Trusts** worksheet, enter the exemption used in funding the trust. In the "GST Trust Property Denominator" row, enter the value of the property transferred to the GST trust (generally the cost of the life insurance premiums).
3. On the "GST Dynasty Trust? Y/N" row, click the check box to indicate **yes**.
4. Enter the year of the gift.
5. Enter the gift on the **Gift Entry** worksheet, as the Dynasty Trust calculation assumes that the decedent made a lifetime gift to a GST trust to hold a life insurance policy on the decedent's life.

The only effect of putting a check mark in the check box on the "GST Dynasty Trust? Y/N" row is that the application will use the amount entered on the "Irrevocable Insurance Trust" row, rather than the amount on the "GST Trust Property Denominator" row, to determine the amount going to grandchildren at the death of children (and the GST tax on this amount, if any). The Inclusion Ratio is calculated as usual (i.e., using the Trust 4 Numerator and GST Trust Property Denominator entries).

Generally, a sufficient amount of GST exemption is allocated to the trust to shelter it completely from GST tax (i.e., the Numerator entry is equal to the GST Trust Property Denominator entry). The exempt property in an irrevocable insurance trust is highly leveraged because the GST exemption needs to be allocated only to the insurance premiums, while at the decedent's death, the trust property expands to the entire insurance proceeds and this amount remains completely exempt from GST tax.

TRANSFERS TO GST TRUSTS (UPON DEATH)

Examples 4, 5, and 6 on the following pages illustrate how GST trusts can be used to produce significant tax savings compared to the results under the estate tax system.

- Example 4 compares the results of a non-GST plan with five alternative GST dispositions using both GST trusts and direct skip transfers.
- Example 5 uses a three-case family plan scenario to show how the reverse QTIP election can be used to maximize the GST exemption.
- Example 6 is a family GST plan where a portion of the Decedent's family share passes to the Spouse outside of the marital deduction and then directly to the grandchildren on her death.

The GST trusts used in these examples are testamentary trusts, but the same principles also apply to lifetime GST trusts. Following the examples is a general description of how the application's **GST** worksheets operate.

Note. For detailed descriptions of each input and output item on the **GST** worksheets, refer to the Help for these rows.

EXAMPLE 4 COMPARISON OF ESTATE TAX AND GST SYSTEMS

FACTS

Your client, John Wilson, is a widower with an adjusted gross estate of $3,000,000. You wish to show him the tax consequences to his children and grandchildren of six alternative dispositions. In all six cases the default assumptions apply, i.e., the decedent has two children each having $600,000 and dying within 40 years from the planning date. The decedent's death is assumed to occur on 3/10/2002. A Single Decedent analysis is used in order to maximize the number of cases available.

Note. Starting in 1999, the $1,000,000 GST exemption amount is inflated to index it to annual inflation increases. For ease of illustration, however, this example assumes the pre-1999 $1,000,000 GST exemption amount.

CASE 1 (NO GST TRANSFERS)

Assumes a standard disposition under the estate tax system. The estate taxes on the children's death are $904,300 and the total grandchildren's share is $1,165,700.

CASE 2 ($1,000,000 PROTECTED TRUST)

Shows the savings that result from the creation of a $1,000,000 GST trust, fully protected by the $1,000,000 GST exemption. In this case, estate taxes are lower and the grandchildren's share higher than in Case 1.

CASE 3 ($1,000,000 PROTECTED TRUST, BALANCE IN UNPROTECTED TRUST)

Uses two GST trusts: the $1,000,000 protected trust from Case 2, and a second trust using all the decedent's remaining property. In this case, no estate taxes are payable but the second unprotected trust generates a GST tax that is higher than the estate tax in Case 2.

CASE 4 ($1,000,000 PROTECTED TRUST, BALANCE IN UNPROTECTED DST)

Retains the $1,000,000 protected trust from the previous two cases but substitutes a DST (Direct Skip Transfer) for the unprotected GST trust in Case 3. In this case, estate taxes are still zero but GST taxes are lower than in Case 3 because they are computed on what the recipient receives rather than on the value of the trust.

CASE 5 ($1,000,000 PROTECTED TRUST, $200,000 BEQUEST TO CHILDREN, BALANCE IN UNPROTECTED DST)

Assumes the decedent makes a testamentary gift of personal property valued at $200,000 to the children before establishing the $1,000,000 protected GST trust and the direct skip transfer. In this case, the savings to the grandchildren are lower than in Case 4 because estate taxes must be paid on the personal property in the children's estates.

CASE 6 ($500,000 PROTECTED TRUST FOR HALF OF ESTATE, OTHER HALF TO CHILDREN OF PREDECEASED CHILD)

Shows what happens if one of the decedent's two children dies before the decedent, leaving grandchildren. The facts are otherwise the same as for Case 2. In this case, estate taxes are one-half of the Case 2 amount and the grandchildren's share is considerably higher than in Case 1 because only $500,000 of the $1,000,000 exemption has been used.

RUNNING THE EXAMPLE

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), click the Single button. Accept the default of **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

   The **Main Worksheet** appears in the right pane and the **Assumptions Tab** appears in the left pane.

2. In the first section of the **Assumptions Tab**—**Plan Assumptions**—select **Yes** in the **Include GST** field.

Include GST	Yes
Married	No
Replicate Case Date	Yes

3. In the second section of the **Assumptions Tab**—**Client Information**—enter the following information:

Decedent: Date of Birth	1/1/1935
Decedent: Name	John
Decedent: State at Death	None

   Accept all the remaining default entries on the **Assumptions Tab**.

4. With the cursor in the first column of the "Date of Death" row of the **Main Worksheet** (in the right pane), enter **03/10/2002** and press **Enter**.

5. The **Main Worksheet** displays one case, but there are six cases in our example. To add five more cases, click the **Add Case** button (on the tool bar) five times.

CASE 1

6. On the "Adjusted Gross Estate" row, enter **$3,000,000** for John Wilson's gross estate, and then press **Ctrl+A** to automatically replicate the entry in all cases.

   In all cases, $904,300 is computed for the "Estate Tax On Children's Death" row, and the "Total Grandchildren's Share After Children's Death" row is $1,165,700.

The results of Cases 1 through 6 are shown below, following the discussion of Case 6.

CASE 2

7. To see the savings resulting from the creation of a $1,000,000 protected GST trust, click the “GST Taxes Payable On Death” row title to open the **GST Taxes Payable On Death** worksheet.

   Click the “GST Trusts (Death Transfers)” row title to open the **GST Trusts** worksheet.

8. In the “Trust 1 Numerator” and “GST Trust Property Denominator” rows of Case 2, enter **1,000,000**.

9. Return the focus to the **Main Worksheet**.

   In Case 2, the amount computed for “Estate Tax On Children’s Death” is now $451,500 and the “Total Grandchildren’s Share After Children’s Death” row is $1,618,500, for a savings of $452,800.

CASE 3

10. Case 3 will show the savings resulting from the creation of two GST trusts, using all the $1,000,000 GST exemption and including all the decedent’s property.

11. Return the focus to the **GST Trusts** worksheet.

    In the “Trust 1 Numerator” and “GST Trust Property Denominator” rows of Case 3, enter **1,000,000**.

12. In the Trust 2 “GST Trust Property Denominator” row of Case 3, enter a large number (e.g., 10,000,000) and press **Enter**.

    The application issues a message stating that the amount entered exceeds the available property and that the entry has been reduced to $1,070,000, which is all the available property.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

13. Return the focus to the **Main Worksheet**.

    In Case 3, no estate taxes are payable on the children’s death but GST taxes on the second unprotected trust are $588,500. The grandchildren’s share is $1,481,500 ($315,800 more than Case 1 but $137,000 less than Case 2 because GST taxes are higher than estate taxes in this case).

CASE 4

14. To see the savings resulting from the substitution of a DST (Direct Skip Transfer) for the unprotected GST trust in Case 3, return the focus to the **GST Trusts** worksheet. In the “Trust 1 Numerator” and “GST Trust Property Denominator” rows of Case 4, enter **1,000,000**.

15. Return the focus to the **GST Taxes Payable on Death** worksheet. In the “Direct Skip Transfers DST” row of Case 4, enter a large number (e.g., **10,000,000**) and press **Enter**.

    A message displays stating that the direct skip transfers have been reduced to the highest possible amount that can be paid to the grandchildren.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

    The number will be reduced to 713,333, and 356,667 will appear on the “GST Taxes Payable On Death” row. This combination represents all the available property.

16. Return the focus to the **Main Worksheet**.

    In this case, GST taxes are $356,667 and estate taxes are zero. The total grandchildren’s share after the children’s death is $1,713,333, a savings of $547,633 compared with Case 1. GST taxes are lower in this case because they are computed on what the recipient receives ($713,333) rather than on the value of the trust ($1,070,000) as in Case 3.

CASE 5

17. In Case 5, we will first enter the **$200,000** testamentary gift of personal property to children and then enter the same trust and direct skip transfer amounts as in Case 4.

    Return the focus the **GST Taxes Payable on Death** worksheet.Then, click the “Adjustments To Family Shares” row title to open the **Adjustments to Family & QTIP Shares** worksheet.

    In the “Family Share To Children” row (at the bottom of the worksheet) of Case 5, enter **200,000** and press **Enter**.

18. Return the focus to the **GST Trusts** worksheet. In the “Trust 1 Numerator” and “GST Trust Property Denominator” rows of Case 5, enter **1,000,000**.

19. Return to the **GST Taxes Payable on Death** worksheet.

    In the “Direct Skip Transfers DST” row for Case 5, enter a large amount (e.g., **10,000,000**) and press **Enter**.

    This time the application reduces the number to $580,000. A message displays stating that the direct skip transfers have been reduced to the highest possible amount that can be paid to the grandchildren.

    Note. To see the message, click the Messages tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

20. Return the focus to the **Main Worksheet**.

In this case, the estate taxes on the children's death are $82,000 and the GST taxes are $290,000. The total grandchildren's share after the children's death is now $1,698,000, or $532,200 more than Case 1 because GST taxes on direct skip transfers are generally lower than estate taxes. However, the grandchildren's share in Case 5 is slightly less than Case 4 because estate taxes must be paid on the personal property in the children's estates before it is passed to the grandchildren.

CASE 6

21. Case 6 shows what happens if one of the two children dies before the decedent, leaving grandchildren. The facts of the case are otherwise the same as for Case 1.

    Return to the **GST Trusts** worksheet. In the "Trust 1 Numerator" and "GST Trust Property Denominator" rows of Case 6, enter **500,000** (i.e., one-half of the Case 1 Numerator and GST Trust Property Denominator, because the decedent-child's share of the GST Trust must be excluded).

22. Return to the **Main Worksheet**.

    Click the "Estate Taxes On Children's Death" row title to open the **Estate Taxes on Death of Children** worksheet.

    In the "Child 2 Separate Property" and "Child 2 Percentage Of Non-GST Family Share" rows of Case 6, enter **0**, pressing **Enter** after each entry.

    A message displays stating that the total of the percentages of the Balance of Family Share to be taxed for estate tax purposes in the children's estates is less than 100%.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

23. In the "Grandchild (Parent-Child Dead Before Transfer) Specific Gifts" row (near the bottom of the worksheet) of Case 6, enter **500,000** (the amount of the hypothetical denominator if the parent-child were living and the GST trust were created on the decedent's death) and press **Enter**. The application issues a message.

    Note. To see the message, click the Messages tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the Messages List.

24. In the next row ("Percentage Of Non-GST Family Share") of Case 6, enter **50** (the percentage given to the decedent-child) and press **Enter**.

    These steps take care of the estate tax situation for a pre-deceasing child. The following illustrations show how the **GST Trusts**, **GST Taxes Payable on Death**, and **Est Taxes Payable on Death of Children** worksheets appear for all six cases at the end of the analysis.

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
GST Trusts	John	John	John	John	John	John
Transaction For GST Trusts	Transfer	Transfer	Transfer	Transfer	Transfer	Transfer
Trust 1 Numerator	0	1,000,000	1,000,000	1,000,000	1,000,000	500,000
GST Trust Property Denominator	0	1,000,000	1,000,000	1,000,000	1,000,000	500,000
Charitable Deduction	0	0	0	0	0	0
Inclusion Ratio	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
New Value Of Old Trust	0	0	0	0	0	0
Deductible Expenses At Termination	0	0	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy	yyyy	yyyy

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
GST Taxes Payable on Death	John	John	John	John	John	John
$1M Exemption Used Before Death	0	0	0	0	0	0
$1M Allocated To DSTs By Executor	0	0	0	0	0	0
Direct Skip Transfers DST	0	0	0	713,333	580,000	0
Reverse QTIP Election	No Election	No Election	No Election	No Election	No Election	No Election
$1M Allocated To Reversed QTIP DSTs	0	0	0	0	0	0
DST Transfers Out Of Reversed QTIP	0	0	0	0	0	0
$1M Allocated To QTIP DSTs By Executor	0	0	0	0	0	0
DST Transfers (Paid) Out Of QTIP	0	0	0	0	0	0
GST Taxes Payable On Death	0	0	0	356,667	290,000	0
Family Shares At Death	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000
Adjustments To Family Shares	0	0	0	0	0	0
Adjusted Family Shares	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000
Direct Skip Transfers & GST Taxes	0	0	0	1,070,000	870,000	0
GST Trusts (Death Transfers)	0	1,000,000	2,070,000	1,000,000	1,000,000	500,000
Family Share Balance After GST	2,070,000	1,070,000	0	0	200,000	1,570,000
Tentative QTIP Trust Amount	0	0	0	0	0	0
Adjustments To QTIP Trust	0	0	0	0	0	0
Balance is QTIP	0	0	0	0	0	0
Adjustments To QTIP Property	0	0	0	0	0	0
Adjusted QTIP Property	0	0	0	0	0	0
Direct Skip QTIP Transfers & GST Taxes	0	0	0	0	0	0
GST QTIP Trusts	0	0	0	0	0	0
QTIP After GST Transfers	0	0	0	0	0	0
Total Family Share After GST Transfers	2,070,000	1,070,000	0	0	200,000	1,570,000
Total $1M Exemption Used	0	1,000,000	1,000,000	1,000,000	1,000,000	500,000
Available $1M GST Exemption	1,100,000	100,000	100,000	100,000	100,000	600,000
Direct Skip Transfers Subject To GST Tax	0	0	0	0	0	0
New Value Of Direct Skip Transfers	0	0	0	0	0	0

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Estate Taxes on Death of Children	John	John	John	John	John	John
Child 1 Separate Property	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Child 1 Separate Property Appreciated Value	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Child 1 Specified Gifts	0	0	0	0	0	0
Child 1 Percentage Of Non-GST Family Share	50	50	50	50	50	50
Child 1 Non-GST Family Share	1,035,000	535,000	0	0	100,000	535,000
Child 1 Total Estate	2,035,000	1,535,000	1,000,000	1,000,000	1,100,000	1,535,000
Child 1 Estate Tax On All Property	452,150	225,750	0	0	41,000	225,750
Child 1 Without Tax On Separate Property	452,150	225,750	0	0	41,000	225,750
Child 2 Separate Property	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0
Child 2 Separate Property Appreciated Value	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0
Child 2 Specified Gifts	0	0	0	0	0	0
Child 2 Percentage Of Non-GST Family Share	50	50	50	50	50	0
Child 2 Non-GST Family Share	1,035,000	535,000	0	0	100,000	0
Child 2 Total Estate	2,035,000	1,535,000	1,000,000	1,000,000	1,100,000	0
Child 2 Estate Tax On All Property	452,150	225,750	0	0	41,000	0
Child 2 Without Tax On Separate Property	452,150	225,750	0	0	41,000	0
Child 3 Separate Property	0	0	0	0	0	0
Child 3 Separate Property Appreciated Value	0	0	0	0	0	0
Child 3 Specified Gifts	0	0	0	0	0	0
Child 3 Percentage Of Non-GST Family Share	0	0	0	0	0	0
Child 3 Non-GST Family Share	0	0	0	0	0	0
Child 3 Total Estate	0	0	0	0	0	0
Child 3 Estate Tax On All Property	0	0	0	0	0	0
Child 3 Without Tax On Separate Property	0	0	0	0	0	0
Number Of Child 3 Cases	1	1	1	1	1	1
Child 4 Separate Property	0	0	0	0	0	0
Child 4 Separate Property Appreciated Value	0	0	0	0	0	0
Child 4 Specified Gifts	0	0	0	0	0	0
Child 4 Percentage Of Non-GST Family Share	0	0	0	0	0	0
Child 4 Non-GST Family Share	0	0	0	0	0	0
Child 4 Total Estate	0	0	0	0	0	0
Child 4 Estate Tax On All Property	0	0	0	0	0	0
Child 4 Without Tax On Separate Property	0	0	0	0	0	0
Number Of Child 4 Cases	1	1	1	1	1	1
Grandchild (Parent-Child Dead before Transfer) Specific Gifts	0	0	0	0	0	500,000
Percentage Of Non-GST Family Share	0	0	0	0	0	50
Non-GST Family Share	0	0	0	0	0	1,035,000
Number Of Grandchildren's Cases	1	1	1	1	1	1
Excluded From Grandchildren's Share Y/N						
Adjustment To Non-GST Family Share	0	0	0	0	0	0

25. Return the focus to the **Main Worksheet**.

    In Case 6, estate taxes are $225,750 (one-half of Case 2) and the grandchildren's share is $1,844,250, or $678,550 more than Case 1. There is no GST tax on the property of Child 1 in Case 6 since the $500,000 in Trust 1 is fully sheltered. Only $500,000 of the $1,000,000 exemption has been used.

    If this pre-deceased child scenario had also applied to Cases 3 and 4, the unused $500,000 exemption could have been used to shelter the $535,000 (the surviving child's 50% share of the $1,070,000 remaining property) that was subject to the GST tax in those cases.

    The **Main Worksheet** looks like this:

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Main Worksheet	John	John	John	John	John	John
Date Of Death	03/10/2002	03/10/2002	03/10/2002	03/10/2002	03/10/2002	03/10/2002
Adjusted Gross Estate	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Marital Deduction	0	0	0	0	0	0
Charitable Deduction	0	0	0	0	0	0
Taxable Estate	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
After 1976 Taxable Gifts	0	0	0	0	0	0
Federal Estate	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Federal Tax Per Schedule	1,275,800	1,275,800	1,275,800	1,275,800	1,275,800	1,275,800
After 1976 Gift Taxes	0	0	0	0	0	0
Unified Credit	345,800	345,800	345,800	345,800	345,800	345,800
Federal Tax + Max Credit	930,000	930,000	930,000	930,000	930,000	930,000
State Death Taxes - Max Credit	136,500	136,500	136,500	136,500	136,500	136,500
Federal Tax Before Special Credits	793,500	793,500	793,500	793,500	793,500	793,500
Special Fed Estate Tax Credits	0	0	0	0	0	0
Federal Tax	793,500	793,500	793,500	793,500	793,500	793,500
State Death Taxes	136,500	136,500	136,500	136,500	136,500	136,500
Total Death Taxes	930,000	930,000	930,000	930,000	930,000	930,000
Family Share	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000
Family Share Both Spouses	0	0	0	0	0	0
GST Taxes Before Death	0	0	0	0	0	0
Grandchildren's Share Before Death	0	0	0	0	0	0
Grandchildren's Share Before Death Both Spouses	0	0	0	0	0	0
GST Taxes Payable On Death	0	0	0	356,667	290,000	0
Grandchildren's Share On Death	0	0	0	713,333	580,000	0
Estate Tax On Children's Death	904,300	451,500	0	0	82,000	225,750
GST Tax On Children's Death	0	0	588,500	0	0	0
Grandchildren's Share On Children's Death	1,165,700	1,618,500	1,481,500	1,000,000	1,118,000	1,844,250
Total GST Taxes	0	0	588,500	356,667	290,000	0
Total Grandchildren's Share After Children's Death	1,165,700	1,618,500	1,481,500	1,713,333	1,698,000	1,844,250

EXAMPLE 5 GST TRUSTS AND REVERSE QTIP ELECTION

FACTS

Alan Smith died on 1/10/1996 with an estate of $2,600,000. He gives his Spouse, Ellen, a ZFT QTIP marital deduction trust. He has two children, each having $600,000 in separate property. His Spouse dies on 12/15/1997. The Smiths' property passes 50% to each child. This example provides the following calculations:

PART A

CASE 1 NO GST TRANSFERS

Illustrates the estate taxes that result when GST trusts are not used ($875,880).

CASE 2 $600,000 PROTECTED TRUST FOR DECEDENT, $1,000,000 PROTECTED TRUST FOR SPOUSE

Uses GST trusts for both spouses, fully employing the Spouse's $1,000,000 generation-skipping exemption but employing only $600,000 of the Decedent's exemption. The resulting estate taxes are $168,920 but no GST taxes are payable.

CASE 3 (CALCULATION 1) $1,000,000 PROTECTED TRUST FOR SPOUSE AND DECEDENT THROUGH REVERSE QTIP ELECTION WITH TWO TRUSTS

Fully employs the $1,000,000 exemption in each estate as a result of using the "reverse QTIP election" of IRC §2652(a)(3) for two trusts. Essentially, the "reverse QTIP election" maximizes the $1,000,000 GST exemption for GST purposes by treating the QTIP trust as if the transferor had not made the QTIP election. See §2652(a)(2). Electing the reverse election for two QTIP trusts, as in Case 3, makes

maximum use of the $1,000,000 GST exemption for both spouses. In this case, estate taxes amount to $4,920 and no GST taxes are payable.

CASE 3 (CALCULATION 2) FAILED ATTEMPT TO HAVE $1,000,000 PROTECTED TRUSTS FOR SPOUSE AND DECEDENT THROUGH REVERSE QTIP ELECTION WITH ONE QTIP TRUST

Shows the consequences of making the reverse QTIP election when only one GST QTIP trust is in existence. In this case, the Decedent is deemed to be the sole transferor of the QTIP property and as a result the Spouse's $1,000,000 GST exemption is unavailable for any portion of this property. The application thus ignores any entries on the Numerator rows on the **GST Trusts–QTIP** worksheet and uses an inclusion ratio of "1" for the denominator entries. The Spouse must pay a GST tax on the full amount of the transfer, resulting in a GST tax of $550,000 in addition to estate taxes of $53,136.

PART B

CASE 1—2 QTIP TRUSTS WITH SECOND TRUST INSUFFICIENT TO PAY ALL OF SPOUSE'S ESTATE TAXES

Illustrates what happens if there are two QTIP trusts, but the second trust is insufficient to pay all of the Spouse's estate taxes allocated to the QTIP property on the Spouse's death. Such excess taxes are therefore allocated against the first trust.

CASE 2—2 QTIP TRUSTS, ESTATE APPRECIATED AT 1%

The second trust appreciation is sufficient for the Spouse's estate taxes.

CASE 3—1 QTIP TRUST

Provides the least benefits to grandchildren.

RUNNING THE EXAMPLE

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press Ctrl+N).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default entries of **Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

   The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

2. In the first section of the **Assumptions Tab**—**Plan Assumptions**—select **Yes** in the **Include GST** field.

Include GST	Yes
Married	Yes
Replicate Case Date	Yes

3. In the second section of the **Assumptions Tab**—**Client Information**—enter the following information:

Decedent: Date of Birth	1/1/1935
Decedent: Name	Allen
Decedent: State at Death	None
Spouse: Date of Birth	1/1/1935
Spouse: Name	Ellen
Spouse: State at Death	None

   Accept all the remaining default entries on the **Assumptions Tab**.

4. On the **Main Worksheet** (in the right pane), in the first column (Allen) of the "Date of Death" row, enter **01/10/1996** and press **Enter**.

   In the second column (Ellen) of the same row, enter **12/15/1997** and press **Enter**.

5. Since there are three cases in our example, we need to add two more cases. Click the **Add Case** button (on the tool bar) twice.

CALCULATION 1

6. Click the "Adjusted Gross Estate" row title to open the **Adjusted Gross Estate** worksheet.

   In the first row, "Separate Gross Estate," of the first column (Case 1: Allen), enter **2,600,000**, and then press **Ctrl+A** to automatically carry that amount to cases 2 and 3.

7. Return the focus to the **Main Worksheet**.

   Click the "Marital Deduction" row title to open **Marital Deduction** worksheet.

   On the "Zero Federal Tax Option" row, of the first column (Case 1: Allen), select **ZFT1**. Select **ZFT1** in the Decedent's column for cases 2 and 3 as well.

8. Return the focus to the **Main Worksheet**.

   Click the "GST Taxes Payable On Death" row title to open the **GST Taxes Payable on Death** worksheet.

   In the Decedent's column of Case 3 (Case 3: Allen) on the "Reverse QTIP Election" row, select the **Elect Two Trusts option** (to specify a reverse QTIP election for two trusts for Case 3, thus preserving his full $1,000,000 GST exemption).

   By creating two QTIP trusts in Case 3, with special directions for receiving the reverse QTIP property in one and for paying the apportioned estate taxes out of the other, the $1,000,000 GST exemption of both Decedent and Spouse will be preserved. The application automatically determines the amount of the QTIP marital deduction needed to make maximum use of the Decedent's exemption ($400,000) and displays it in the Decedent's column of the "Amount Subject To Election" row of the **Adjustments to Family and QTIP Shares** worksheet.

9. On the **GST Taxes Payable on Death** worksheet, click the “GST Trusts (Death Transfers)” row title to open the **GST Trusts** worksheet.

   In the Case 3: Allen column of the “Trust 1 Numerator” row, enter **400,000** and press **Enter**.

   The application issues a message indicating that when reverse QTIP is in effect, you do not need to enter a Denominator for Trust 1 because the program automatically posts the entered Numerator amount to the “Denominator” row.

   Note. To see the message, click the **Messages tab** at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

10. In the “Trust 2 Numerator” row of Case 2, enter **600,000** in the Decedent’s column, and then press **Ctrl+A** to automatically carry that amount to the Decedent’s column of Case 3.

    In the Trust 2 “GST Trust Property Denominator” row, enter **600,000** in the Decedent’s column, and then press **Ctrl+A** to automatically carry that amount to the Decedent’s column of Case 3. (Case 1 does not involve GST trusts.)

11. In the “Trust 3 (Spouse’s QTIP) Numerator” row of Case 2, enter **1,000,000** in the Spouse’s column and press **Ctrl+A** to repeat the amount in Case 3. Then repeat the entry for the Trust 3 “GST Trust Property Denominator” row (Spouse).

12. Return the focus to the **Main Worksheet**.

    Note that the “Total Grandchildren’s Share After Children’s Death” row is $1,136,120 (Case 1), $1,843,080 (Case 2), and $2,007,080 (Case 3).

    In Cases 1, 2, and 3, estate taxes of $875,880, $168,920, and $4,920, respectively, have been calculated and there are no GST taxes.

13. Save this calculation since we will use it as the base for Calculation 3. From the File menu, select **Save Client File As**. In the **Save As** dialog, Type “Smith.etp” as the filename to save the file under. Click **OK** to save the file and return to the analysis.

CALCULATION 2

We now wish to see what happens if there is only one QTIP trust in existence when the reverse election is made and the reverse QTIP property is received and taxed out of that trust.

1. Return the focus to the **GST Taxes Payable on Death** worksheet.

2. In the fifth column (Case 3: Allen) of the “Reverse QTIP Election” row, select the **Elect One Trust** option and press **Tab**.

   The application issues a message.

   Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

3. Return the focus to the **GST Trusts** worksheet.

   Notice that in Case 3, the application has subtracted one-fifth (400,000 divided by 2,000,000) of the $588,000 allocated estate taxes ($117,600) from the original denominator of $400,000 to achieve a new denominator of $282,400. This reduction also means that the $117,600 of allocated taxes will be paid from the unreversed share of the QTIP trust (without concomitant protection from the GST taxes). Therefore, this $117,600 cannot be sheltered in its GST trust and will pass to the children and be taxed in their estates. This reduction generates an additional tax of $48,216 on the children's estates.

4. Return the focus to the **Main Worksheet**.

   The results now show a GST tax of $550,000 in Case 3 in addition to an estate tax of $53,136 ($4,920 + $48,216). This is because the Spouse is no longer considered to be the transferor of any of the QTIP property and thus may not use any of her $1,000,000 GST exemption to shelter her GST QTIP trust from GST taxes. The "Total Grandchildren's Share After Children's Death" row in Case 3 is now $1,408,864.

CALCULATION 3

We now wish to see what happens if there are two QTIP trusts in existence and if the second QTIP trust is insufficient to pay all the Spouse's estate taxes allocated to the QTIP's property on the Spouse's death. In Case 3, one QTIP trust is considered.

1. From the File menu, select **Open Client File**. When you prompted to save the file, click **No**.

2. The **Open** dialog appears. Double-click **Smith.etp** to reload Calculation 1.

3. Right-click anywhere in the right pane. Select **Remove Case** on the popup menu. The **Remove Case** dialog opens.

4. Click **Case 2** and **Case 3** while holding down the **Ctrl** key and then click **OK**.

5. On the **Main Worksheet**, click the "GST Taxes Payable On Death" row title to open the **GST Taxes Payable on Death** worksheet.

6. On the **GST Taxes Payable on Death** worksheet, in the first column (Case 1: Allen) of the "Reverse QTIP Election" row, select the **Elect Two Trusts** option and press **Enter**.

   The "Amount Subject to Election" (400,000) is automatically calculated on the **Adjustments to Family & QTIP Shares** worksheet and thus appears here on the "Adjustments To Family Shares" row.

7. Click the "GST Trusts (Death Transfers)" row title to open the **GST Trusts** worksheet. In the first column (Case 1: Allen) of the "Trust 1 Numerator" row, enter **400,000** and press **Enter**.

   The application issues a message stating that the Denominator must be the same as the Numerator in a reverse QTIP trust. Therefore, when reverse QTIP is in effect, you do not need to enter a Denominator for Trust 1 because the application

automatically posts the entered Numerator amount to the Trust 1 “GST Trust Property Denominator” row.

Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

8. In the first column (Case 1: Allen) of the “Trust 2 Numerator” row, enter **600,000** and press **Enter**. Make the same entry in the Trust 2 “GST Trust Property Denominator” row (Case 1: Allen) and press **Enter**.

9. Return the focus to the **Main Worksheet**. Then, click the “Marital Deductions” row to open the **Marital Deductions** worksheet.

10. In the first column (Case 1: Allen) of the “Adjustments To QTIP Trust” row, enter –**1,300,000** and press **Enter**.

    The application issues the message described in step 7, above.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

11. Return the focus to the **Main Worksheet**.

    Click the “GST Taxes Payable On Death” row title to open the **GST Taxes Payable on Death** worksheet. Then, click the “GST Trusts (Death Transfers)” row title to open the **GST Trusts** worksheet.

    Notice that the application has calculated a new Denominator value of $389,000 for Trust 1. This is because the original Denominator of Trust 1 ($400,000) is $11,000 more than the modified QTIP property (700,000) less the allocated estate tax (311,000).

    In the second column (Case 1: Ellen) of the “Trust 1 Numerator” row, enter **1,000,000** and press **Enter**. Make the same entry in the Trust 1 “GST Trust Property Denominator” row (Ellen’s column) and press **Enter**.

12. Now, to add back two cases to the analysis, click the **Add Case** button (on the tool bar) twice.

    Note. Case 1 will be replicated to the newly added Cases because the **Replicate Case Data** field is **Yes** on the **Assumptions Tab**.

13. Return the focus to the **Main Worksheet**. Click the “Adjusted Gross Estate” row title to open the **Adjusted Gross Estate** worksheet.

14. In the first column (Case 1, Allen) of the “Future Value Percentage Family Share Decedent 2 Marital Deduction and Gross Estate” row, enter **2.5** and press **Enter**.

    The application has increased the “GST Trust Property Denominator” row in the Case 2: Allen column of the **GST Trusts** worksheet (due to the 2.5% per year appreciation). Thus, the $11,000 deficit is overcome (the tax rate is less than the appreciation).

15. Return the focus to the **Main Worksheet**. Click the “GST Taxes Payable On Death” row title to open the **GST Taxes Payable on Death** worksheet.

16. In the fifth column (Case 3: Allen) of the “Reverse QTIP Election” row, select the **Elect One Trust** option and press **Tab**. The application issues a message.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

    Because Case 3 uses only one trust rather than two, the $400,000 allocation does not benefit from the availability of the other QTIP trust ($300,000) to first absorb the $311,000 allocated estate tax. Therefore, the 400,000 portion must bear its share of the allocated estate taxes, i.e., $177,714 (400,000 divided by 700,000 times 311,000). These allocated taxes reduce the protected Denominator to $222,286. Because the Spouse’s $1,000,000 exemption has been used on the Spouse’s property, another $166,714 must be estate-taxed in the children’s estates, at a cost of $61,604. (An unprotected QTIP GST trust of $166,714 would cost $91,693 of GST taxes.)

17. Click the “GST Trusts (Death Transfers)” row title to open the **GST Trusts** worksheet.

This completes Example 5.

The figures in Examples 4 through 6 demonstrate the tax savings that result from setting up GST trusts. By converting theory into numbers that can be discussed, the application helps the practitioner determine the optimal amount of the trust corpus and explain to clients the tax advantages of the GST system over the estate tax system. These advantages are:

- The GST exemption allows families to shelter from both the estate tax and GST tax the first $2,000,000 of the generation-skipping transfer (all post-death appreciation on the $2,000,000 also is exempt from the GST tax).
- The 5% surtax on estates over $10,000,000 (for deaths prior to 2002) is avoided for all generation skipping transfers (see IRC §2001(c)(3)).
- State death taxes on GST trusts are reduced or eliminated on the death of the children, except that the state may take the credit of 5% for the federal GST tax, as in Florida, but this will not increase the tax burden. The estate taxes above the maximum credit for state death taxes in such states as Ohio are sometimes substantial. However, a number of issues concerning state death taxation (such as the proper taxing jurisdiction) of a taxable termination of a GST trust are unsettled where the child or grandchild (or other beneficiary) may be domiciled in a state other than the state where the trust was created.
- Administration expenses of determining the GST tax upon the termination of a GST trust may be substantially lower than the expenses for determining the estate tax.

- The basis of the property in the GST trust will be stepped up under IRC §2654(a)(2) to the extent the trust is subject to GST tax upon a taxable termination of the trust on the child's death. This is the same result as under the estate tax system.
- Under IRC §2622(b), administration expenses attributable to property subject to a GST tax are deductible at termination of the trust. This is the same as under the estate tax system.
- The children's benefits during life are the same if the trust is not a GST trust. The rate of 55% has a frightening sound at the termination of the GST trust, but the combined taxes may be larger under the estate tax system for any substantial children's estates.

Increased savings result from appreciation after the parents' deaths. The appreciation is taxed in full under the estate tax system, but the $1,000,000 GST exemption prevents the appreciation on the first $1,000,000 from being taxed under the GST system.

EXAMPLE 6 FAMILY SHARE TO GRANDCHILDREN

The previous examples discussed how to minimize children's estate and GST taxes by establishing protected GST trusts, with and without the reverse QTIP election. Example 6 provides:

CASE 1

Examples of Spouse's DST bequests.

CASE 2

More examples of Spouse's DST bequests and DST transfers out of QTIP. Also, an example where a portion of the Decedent's family share is given directly to grandchildren on the Spouse's death.

CASE 3

Example where the reverse QTIP property is paid directly to the grandchildren on the Spouse's death.

FACTS

Frank Green's estate is worth $3,000,000. He dies in 1995. His Spouse Norma dies in 1997. His will provides a ZFT marital deduction.

RUNNING THE CALCULATIONS

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default entries of **Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

2. In the first section of the **Assumptions Tab**—**Plan Assumptions**—select **Yes** in the **Include GST** field.

Include GST	Yes
Married	Yes
Replicate Case Date	Yes

3. In the second section of the **Assumptions Tab**—**Client Information**—enter the following information:

Decedent: Date of Birth	1/1/1935
Decedent: Name	Frank
Decedent: State at Death	None
Spouse: Date of Birth	1/1/1935
Spouse: Name	Norma
Spouse: State at Death	None

Accept all the remaining default entries on the **Assumptions Tab**.

4. On the **Main Worksheet** (in the right pane), in the first column (Frank) of the “Date Of Death” row, enter **07/10/1995** and press **Enter**.

   In the second column (Norma) of the same row, enter **11/01/1997** and press **Enter**.

5. Since there are three cases in our example, we need to add two more cases. Click the **Add Case** button (on the tool bar) twice.

6. Click the “Adjusted Gross Estate” row title to open the **Adjusted Gross Estate** worksheet.

   In the first column (Case 1: Frank) of the “Separate Gross Estate” row, enter **3,000,000** and press **Ctrl+A**. In the second column (Case 1: Norma) of the same row, enter **50,000** and press **Ctrl+A**.

7. Return the focus to the **Main Worksheet**.

   Click the “Marital Deduction” row title to open the **Marital Deduction** worksheet.

   In the Decedent’s (Frank) column of **all three** cases on the “Zero Federal Tax Option” row, select **ZFT1** (Zero Federal Tax).

8. Return the focus to the **Main Worksheet**.

   Estate taxes on the children’s deaths are shown to be $988,336 and the grandchildren’s share is $1,253,164.

9. Click the “GST Taxes Payable On Death” row to open the **GST Taxes Payable on Death** worksheet.

In the second column (Case 1: Norma) of the “Direct Skip Transfers DST” row, enter **100,000** and press **Enter**.

The application issues a message stating that the Direct Skip Transfers entered are too large for the estate and have therefore been reduced to the highest possible amount that can be paid to the grandchildren.

Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

The application reduces the entry to $32,258 because this amount plus the amount calculated for GST Taxes Payable on Death ($17,742) is $50,000, the only property the Spouse owns outside of the marital trust.

10. In the second column (Case 1: Norma) of the “Exemption Allocated To DSTs By Executor” row, enter **50,000** and press **Enter**.

    In the same column of the “Direct Skip Transfers DST” row, enter **100,000** and press **Enter**.

    The application issues a message stating that the Direct Skip Transfers entered are too large for the estate and have therefore been reduced to the highest possible amount that can be paid to the grandchildren.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

    The direct skip transfer entry will now be limited to $50,000 because the transfer is now fully sheltered and no GST tax is payable.

11. Return the focus to the **Marital Deduction** worksheet.

12. In the third column (Case 2: Frank) of the “Adjustments To QTIP Trusts” row (near the bottom), enter **–200,000** and press **Enter**. This negative entry reduces the QTIP property by $200,000.

    This represents the portion of the marital deduction that is passed to the Spouse as an outright gift rather than as a result of the QTIP election. (“Outright” transfers can be cash and real or personal property that the will gives to the Spouse or that the Spouse will own at the death of the Decedent under the joint ownership rules.) On the **GST Taxes Payable on Death** worksheet, the amount on the “Balance is QTIP” row in the Spouse column of Case 2 is reduced to $2,200,000 as a result of the outright gift and the “Family Share Balance After GST” row increases from $50,000 to $250,000.

13. On the **GST Taxes Payable on Death** worksheet, in the fourth column (Case 2: Norma) of the “Exemption Allocated To DST By Executor” row, enter **250,000** and press **Enter**.

14. In the same column of the “Direct Skip Transfers DST” row, enter a large number (e.g., **10,000,000**) and press **Enter**.

The application issues a message stating that the Direct Skip Transfers entered are too large for the estate and have therefore been reduced to the highest possible amount that can be paid to the grandchildren.

Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

The application reduces the 10,000,000 entry to $250,000, which is the maximum amount of property owned by the Spouse after the $200,000 adjustment and thus the maximum amount available for DST transfers.

15. In the fourth column (Case 2: Norma) of the “Exemption Allocated To QTIP DSTs By Executor” row, enter **10,000,000** and press **Enter**.

    The application issues a message stating that more than $1,000,000 has been excessively allocated against Direct Skip Transfers and other GST transfers by the transferor and the transferor’s personal representative. The application includes any inflated amounts for the $1,000,000 exemption that have been announced before release of the application.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

    The entry is reduced to $750,000 because the Spouse has used $250,000 of her exemption on the direct skip transfer.

16. In the fourth column (Case 2: Norma) of the “DST Transfers (Paid) Out Of QTIP” row, enter a large number—e.g., **10,000,000**—and press **Enter**.

    The application issues a message stating that the Direct Skip Transfers Out of QTIP entered are too large for the estate and have therefore been reduced to the highest possible amount that can be paid to the grandchildren.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

    The application will reduce the entry to $1,163,871, which is the maximum QTIP property available for DST transfers. Taxes on the death of the Spouse are lower when paid on QTIP direct skip transfers than on QTIP trusts, because the taxes are calculated on the value of what the recipient receives rather than on the value of the fund at termination.

17. In the fourth column (Case 2: Norma) of the “DST Transfers (Paid) Out Of QTIP” row, change the entry to **750,000**—the balance of the exemption—to prepare for the next step, and press **Enter**.

18. To see what happens if the family share is given to the grandchildren upon the Spouse’s death, click the “GST Trusts (Death Transfers)” row title to open the **GST Trusts** worksheet.

19. In the third column (Case 2: Frank) of the “Trust End At Surviving Spouse’s Death” row, click the check box. (A check mark in the check box indicates **Yes**).

20. In the same column of the “Trust 4 (Wife’s QTIP) Numerator” row, enter **10,000,000** and press **Enter**. Then, on the next row (“GST Trust Property Denominator”), enter **10,000,000** and press **Enter**.

    The application issues messages after both entries.

    Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

    The Numerator is reduced to $1,000,000 and the Denominator is reduced to $1,902,000. An additional message reports that taxes on the children’s deaths are not computed. If the reverse QTIP election is not in effect, and the sum of the four trust denominators is more than the present Family Share (computed after estate taxes), the Family Share is increased by reducing the Spouse’s marital property. The message appears because the decreased marital deduction causes an increase in the Family Share and the Spouse’s property is then insufficient for her dispositions.

21. In the third column (Case 2: Frank) of the Trust 4 “GST Trust Property Denominator” row, change the entry from 1,902,000 to **600,000** and press **Enter**. This amount will be credited to the grandchildren on the **Main Worksheet** upon the Spouse’s death. Trust 4 operates in this manner only if a check mark is in the Decedent column of the “Trust End At Surviving Spouse’s Death” row.

    Putting a check mark on the “Trust End At Surviving Spouse’s Death” row means that no estate taxes will be paid on the Decedent’s family share in the children’s estates, because this amount passes directly to grandchildren and is not included in the children’s estates. This example is not presented as a tax-saving plan but it illustrates several options.

    The reverse QTIP property, rather than Family Share, can also be paid to the grandchildren at the surviving spouse’s death (as in Cases 1 and 2 of Calculation 3, Example 5, (see page 102), where the grandchildren benefited at the termination of GST trusts).

22. To further illustrate this, return the focus to the **Marital Deduction** worksheet. In the fifth column (Case 3: Frank) of the “Adjustments To QTIP Trust” row, enter –**1,700,000** and press **Enter**. This negative entry reduces the QTIP property by $1,700,000.

    As a result, some changes are reflected in the Spouse column of Case 3 on the **GST Taxes Payable on Death** worksheet. The “Balance is QTIP” row is reduced to $700,000, the “Family Share Balance After GST” row is increased from $50,000 to $1,274,500, and the “Adjusted QTIP Property” row is $367,000.

23. On the **GST Taxes Payable on Death** worksheet, in the fifth column (Case 3: Frank) of the “Reverse QTIP Election” row, select the **Elect Two Trusts** option. Then, in the same column of the “Exemption Allocated To Reversed QTIP DSTs”

row, enter **400,000** and press **Enter**. The following row ("DST Transfers Out Of Reversed QTIP") now reflects $367,000.

If you enter an appreciation factor in the Decedent's column on the "Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate" row of the **Adjusted Gross Estate** worksheet, you can increase the DST Transfers Out Of QTIP amount and even offset the loss on paying estate taxes on the Spouse's estate.

24. Return the focus to the **Main Worksheet**.

Note. The application displays the tax circumstances of three generations: the first generation (often referred to as "Decedent and Spouse"), the children's generation, and the grandchildren's generation. The application does not calculate results beyond the grandchildren's generation.

When a child predeceases the decedent or spouse transferor, grandchildren are credited as the recipients, with no GST tax; in these circumstances, GST trusts may also be made for grandchildren (instead of children), with the remainder passing to great-grandchildren (instead of grandchildren), although the application does not handle such situations. See IRC §2612(c)(2).

A direct double generation skip credits the grandchildren (not great-grandchildren) as the recipients. In fact, the GST tax is the same for a single and double direct generation skip. The application does not handle IRC §2653, "Taxation of Multiple Skips."

HOW THE GST WORKSHEETS OPERATE

GST taxes payable on the death of the decedent or spouse are not calculated until after the estate taxes have been determined and subtracted from the Decedent's and Spouse's estates. The application, therefore, starts with the Family Shares calculated at the end of the estate tax calculations on the **Main Worksheet**. The Family Shares provide an unadjusted, desired figure for purposes of the GST calculations. You can then use the **GST** worksheets discussed below to make adjustments to the Family Shares, allocate exemption amounts, enter direct skip transfers and GST trust data, and finally, for comparison purposes, calculate the estate taxes on the children's deaths. The **GST** worksheets can be used in any order.

ADJUSTMENTS TO FAMILY AND QTIP SHARES WORKSHEET

The Family Shares calculated on the **Main Worksheet** can be adjusted, if necessary, in the **Adjustments to Family & QTIP Shares** worksheet, which is accessible from the **GST Taxes Payable on Death** worksheet. Following are some typical adjustments that might be necessary on this worksheet:

FAMILY AND QTIP SHARES

If the QTIP marital deduction provisions are used, the Family Share in the Spouse's column is a mixture of the Spouse's separate property and the QTIP property (after subtraction of estate taxes). For purposes of the GST calculations, these two classes

of property must be segregated and the appropriate estate tax apportioned to each class:

- the estate tax apportioned to the Spouse's separate property is the amount of tax that the Spouse's estate would pay if the separate property were her only asset;
- the estate tax apportioned to the QTIP property is the rest of the tax when the QTIP is added to the gross estate.

Therefore, the highest marginal tax rate is applied to the QTIP property under the apportionment, in addition to the 5% surtax, (deaths prior to 2002).

In most cases, the application handles this segregation automatically and apportions the Spouse's estate taxes according to the respective values of the separate and QTIP properties after allocating estate tax deductions to the two classes. If the state tax is other than the Maximum Credit for State Death Taxes or if Special Credits are involved, an adjusting entry for QTIP property from the Spouse's Family Share must be made on this worksheet so that the amount can be subtracted from the Total Death Taxes calculated on the **Main Worksheet**.

The application allows you to designate exactly how much estate tax to allocate against the respective QTIP and non-QTIP property. The adjustment is made by answering **Yes** (putting a check mark in the check box) on the "Other States Or Special Credits" row on the **Adjustments to Family & QTIP Shares** worksheet and entering on the "Total Taxes Less QTIP" row the amount of taxes to allocate to Spouse's separate property.

Note. The application assumes that all of the marital property is QTIP (except for joint property with spouse and Plans/IRAs to spouse, which the application automatically subtracts from QTIP property). An adjusting entry is allowed on the "Adjustments To QTIP Trusts" row of the **Marital Deduction** worksheet for any other non-QTIP property that is included in the marital deduction.

REVERSE QTIP ELECTION

IRC §2652(a)(3) provides for a special reverse QTIP election for GST purposes, and the application calculates the optimal amount of the reverse QTIP transfer (which may be in the form of a DST or GST trust or a combination of both). The application assumes any reverse QTIP transfer is fully sheltered by the GST exemption.

In the usual ZFT1 case for deaths before 1998, where the taxable estate of the first spouse to die is typically $600,000, $400,000 of the $1,000,000 GST exemption will be lost if no reverse election is made. If the $600,000 amount passes in a generation-skipping transfer, only $600,000 of the decedent's $1,000,000 GST exemption can be allocated to the transfer. The reverse QTIP election would preserve the remaining $400,000. For deaths from 1998 through 2009, the exemption amount is gradually increased. This means the "reverse QTIP" amount will generally increase each year, e.g., $400,000 before 1998, $375,000 in 1998, $350,000 in 1999 (plus inflation on the GST exemption), etc.

The Reverse QTIP option is selected on the "Reverse QTIP Election" row of the **GST Taxes Payable on Death** worksheet. When you select reverse QTIP, the application generally changes the entry on the Trust 1 Denominator to match the Numerator. If the

Numerator is zero, the application changes the Denominator to zero to match the Numerator. If this is not the intended result, you should re-enter the Trust 1 Numerator after selecting Reverse QTIP.

In Case 2 (Calculation 1) of the Smith example (Example 5 on page 98), the Decedent's $600,000 is placed into a GST trust using only a $600,000 exemption and no reverse election. The resulting Estate Taxes on Children's Deaths are $168,920. In Case 3 (Calculation 1), two QTIP trusts are created, with one trust in the amount of the Decedent's unused exemption (usually $400,000) and the other trust bearing the full amount of estate tax allocated to both trusts. This preserves the $1,000,000 GST exemption of both Decedent and Spouse. In this case, the estate taxes are $4,920.

In Case 3 (Calculation 2), the reverse election is made with only one QTIP trust in existence. In such cases, the Decedent is the sole transferor of the QTIP property. The Spouse, therefore, cannot make any DST transfers out of the QTIP property. In some situations, the distribution may be a taxable termination rather than a direct skip. Also, in the IRS's view, the Spouse's $1,000,000 exemption is then unavailable for the QTIP property since she is not the transferor. The resulting estate taxes in this case are $53,136 and GST taxes of $550,000 are payable. (If no GST trust is created out of the QTIP property and Reverse QTIP—two trusts is selected, estate taxes are $425,400 and no GST tax is payable.)

With or without the presence of the QTIP marital deduction trust, the $1,000,000 GST exemption for the Decedent may be fully preserved if the Decedent's taxable estate is at least $1,259,649. (The estate tax which produces a $1,000,000 Family Share after taxes (in a maximum credit tax state) is $259,649.) Therefore, after paying estate taxes, the Decedent's Family Share will be sufficient to fully maximize the $1,000,000 exemption.

To achieve this result, in Case 1 enter **$400,000** on the "Trust 1 Numerator" and "GST Trust Property Denominator" rows (representing the reverse QTIP amount) and enter **$600,000** on the "Trust 2 (or 3 or 4) Numerator" and "GST Trust Property Denominator" rows (representing the credit shelter amount for the Decedent). The Family Share will be $1,000,000 and taxes will be $259,650.

If you then elect one or two QTIP trusts on the "Reverse QTIP Election" row of the **GST Taxes Payable on Death** worksheet, $400,000 will appear in both the Decedent and Spouse columns and no taxes are payable. The Family Share is now $600,000. The grandchildren's share will be less if one QTIP trust rather than two QTIP trusts is elected because the one trust must pay part of the Spouse's estate taxes. See the discussion earlier for Case 3 of Calculation 3.

The application shields the reverse QTIP trust from estate taxes; however, the reverse QTIP trust will pay any remaining taxes if the other QTIP trust is insufficient to pay the full allocated taxes. Under the final GST regulations you may allocate more taxes against non-QTIP property, as described at the end of the Family and QTIP Shares section, above, thus reducing the burden on the QTIP share. The final GST regulations make clear that, for GST purposes, no constructive addition to the reverse QTIP trust occurs due to the failure of the residuary beneficiaries to exercise their right of recovery. Reg. 26.2652–1(a)(6), Example 7.

Normally, when ZFT is selected and GST entries are made, the application reduces the marital bequest in order to fund the GST transfers. However, when reverse QTIP

is selected, the application “freezes” the amount of the ZFT marital deduction and instead limits the amount of GST entries. In order to override this assumption, you can reduce the calculated ZFT marital deduction by including the amount needed to fund the GST transfer on the “Total Bequests Not GSTs” row of the **Marital Deduction** worksheet.

TRANSFERS TO NON-FAMILY MEMBERS

The GST application assumes a normal disposition, i.e., that all property is includible in the children’s gross estates if not paid (a) to a grandchild (or more remote issue), or (b) to a GST trust.

For reverse QTIP purposes, the amount of the Decedent’s Family Share passing to children should be entered on the “Family Share To Children” row of the **Adjustments to Family & QTIP Shares** worksheet. Any other property that is not to be taxed in the children’s estates must be entered on the “Family Share To Non-Family Members” row of this worksheet to exclude it from the calculations and avoid incorrectly computed taxes. The same rule applies to the “QTIP To Non-Family Members” row.

TRANSFERS TO CHARITABLE TRUSTS

The present value of charitable lead or remainder trusts is included in the Family Share. For GST purposes, the present value of a remainder trust ought to be eliminated from the GST Family Share and the value at termination of a lead trust ought to be substituted for the present value. The application makes this adjustment automatically when you use the **Charitable Deduction** subworksheets.

If the surviving spouse has any charitable trusts, and the charitable trusts are paid partly or entirely out of QTIP property, you should make an entry on the “QTIP–Charitable Trust Adjustment” row near the bottom of the **Adjustments to Family & QTIP Shares** worksheet. (For more details, see the worksheet discussions in Help.)

GST TAXES PAYABLE ON DEATH WORKSHEET

TRANSFERS UPON DEATH

Use the **GST Taxes Payable on Death** worksheet to enter GST information for the following:

- Direct Skip Transfers (from both the Family and QTIP shares)
- Transfers To GST Trusts (including QTIP GST trusts)
- Reverse QTIP Option, and
- Adjustment to QTIP Property.

The first row displays the amount of the $1,000,000 exemption used on transfers before death. The next several rows are used to enter direct skip transfers and any allocated exemption. They are also used to select the Reverse QTIP election and make the Reverse QTIP DST entries. GST taxes are paid on death only on direct skip transfers. A direct skip transfer is a gift-taxable or estate-taxable transfer of an interest in property to a skip person (see IRC §2612(c)(1) and the previous discussion in the “Direct Skip Transfers” section earlier in this section).

Row two, “Exemption Allocated To DSTs By Executor”, allows you to specify the amount of the exemption allocated to the direct skip transfers. GST taxes will be computed on the excess of the DST amount over the allocated exemption amount. The amount of the Spouse’s $5,000,000 exemption allocated by her personal representative to direct skip transfers from the QTIP property may be entered on row 7, “Exemption Allocated To QTIP DSTs”. The GST tax will be paid out of the QTIP property for QTIP direct skip transfers. The Spouse may prefer the beneficiaries of her own Family Share.

Rows five and six, “Exemption Allocated to Reversed QTIP DST By Executor” and “DST Transfers Out Of Reversed QTIP”, are used only when the reversed QTIP election is made. The reversed QTIP trust terminates at the Spouse’s death, with the principal payable to grandchildren. Row 6, “DST Transfers Out Of Reversed QTIP”, must equal row 5 “Exemption Allocated To Reversed QTIP DST”, unless (after computation) the property has appreciated between the deaths of the spouses or the allocated Spouse’s estate tax must be paid of the property.

The second part of the **GST Taxes Payable on Death** worksheet provides access to the **GST Trusts** worksheet (including QTIP GST trusts), on the “GST Trusts (Death Transfers)” row. The other rows in this part of the worksheet account for the amount of Family and QTIP property available for transfer to the GST trusts.

The third part of the worksheet displays the QTIP property after adjustments. The application assumes that all of the marital property is QTIP and is available for GST purposes, except for joint property with spouse and Plans/IRAs to spouse, which the application automatically subtracts from QTIP property. An adjusting entry is allowed on the “Adjustments To QTIP Trusts” row on the **Marital Deduction** worksheet for any other adjustments to the QTIP property.

The “Total Exemption Used” row at the end of the worksheet calculates and displays the amount of the $5,000,000 exemption used.

In the event that the executor does not allocate all of the exemption before the time for filing the estate tax return, any unused GST exemption is allocated by statute (IRC §2632(c)(1)), first to direct skip transfers occurring at death, and second to GST trusts (testamentary or inter vivos) from which a taxable distribution or termination might occur at or after death. For example, if the unused exemption is $1,000,000 and there is an $800,000 DST and a $500,000 GST trust, the exemption is first allocated to the DST and the remaining $200,000 is allocated to the GST trust.

If there are multiple DSTs or trusts, the exemption is allocated pro rata. For example, assuming the above facts except that there are two GST trusts of $500,000 and $100,000, again the DST is allocated the first $800,000 of the exemption. The $200,000 balance is allocated to the two trusts pro rata: $166,667 to the first trust (500,000/600,000 × 200,000) and $33,333 to the second trust. (If the DST amount had instead been $1,000,000, the entire unused exemption would have been allocated to the DST, with 0 allocated to the GST trusts.) For GST trusts, the unused exemption is allocated pro rata according to the value of the trusts on the allocation date. This value may differ from date of death values or, in the case of non-includable GST trusts, historical basis values.

The last two rows on this worksheet, “Direct Skip Transfers Subject To GST Tax” and “New Value of Direct Skip Transfers”, provide a way of calculating the value of a direct

skip transfer when the GST tax on the transfer is payable out of the transfer itself. These rows are not integrated with the application's other calculations and are provided solely as a convenience (except that the GST tax rate is determined by the decedent's year of death). If part of the $5,000,000 exemption is allocated to the DST, the entry on the "Direct Skip Transfers Subject To GST Tax" row should be net of such exemption. For example, if a DST of $800,000 is made in 2001 and $500,000 of exemption is allocated to it, enter on this row the unsheltered $300,000 portion; the application displays $193,548 on the next row. Then enter on the "Exemption Allocated To DSTs" row the $500,000 exemption and enter **693,548** on the "Direct Skip Transfers" row (the sum of the $193,548 plus the $500,000 exemption).

TRANSFERS TO GST TRUSTS WORKSHEET

When a transfer of property is made to a GST trust, the value of the property is entered in a "GST Trust Property Denominator" row. The amount of the $5,000,000 GST exemption assigned to the GST trust is entered on the "Numerator" row. The application accommodates up to four GST trusts for the Decedent's separate property. In the Spouse column, Trust 1 and Trust 2 handle GST trusts using the surviving spouse's separate property while Trust 3 and Trust 4 are used to enter GST trusts using the surviving spouse's QTIP property.

Seven rows are provided for each trust. The first two rows are for entering the Denominator and the Numerator—these are the most important and most used rows on this worksheet.

Charitable deductions are handled on the fourth row, "Charitable Deduction". Such deductions are discussed later under "Charitable Lead Trusts". The entries on these three rows determine the amount on the fourth row, "Inclusion Ratio", which is the taxable part of the distribution or termination.

Inter vivos transfers are distinguished from death transfers by an entry on the "Year Of Gift" row. The "New Value Of Old Trust" rows handle additions to GST trusts, current values of existing trusts, and the statutory allocation when allocation is not completed before the time for filing the estate tax return. The next to the last of the seven rows handles deductible expenses on termination.

You can designate Trust 4 as a GST Dynasty trust (irrevocable insurance trust with life interest to children and remainder to grandchildren) by entering **Yes** (putting a check mark in the check box) on the "GST Dynasty Trust? (Y/N)" row.

If part of the Decedent's family share is left to the Spouse for life, with the remainder passing directly to the grandchildren (without the marital deduction being elected), Trust 4 can be converted to handle this special purpose if you enter **Yes** (putting a check mark in the check box) on the "Trust End At Surviving Spouse's Death" row.

The allocation of the GST exemption is not effective until the termination of the ETIP (estate tax inclusion period). The ETIP rules do not apply to reverse QTIP trusts. The ETIP rules apply to retained interests (GRITs, GRATs, GRUTs) but may also apply to any GST trusts in which the spouse holds a beneficial interest. See IRC §2642(f) and Reg. §26.2632–1(c)(2)(i)(B).

Where pecuniary payments payable in kind are made out of a GST trust, the denominator of the inclusion ratio for residual transfers is computed as the gross amount of

assets less the pecuniary amount, if it carried appropriate interest (transfers within 15 months of death automatically satisfy this requirement). If the distribution did not carry appropriate interest, the gross amount of the distribution is reduced by the discounted value (present interest using §7520 rules) of the pecuniary transfer. Reg. §26.2642–2(b)(2).

The second part of the **GST Trust** worksheet calculates the GST taxes on distributions from a trust. The value of the distribution is entered and multiplied by the inclusion ratio and the assumed 55% GST rate. The distributee is liable for the GST tax.

When a child of the transferor dies before the transferor, leaving the child's children surviving the transferor, the Denominator entry calls for special treatment. In certain circumstances, the deceased child's children are treated as children of the transferor (see IRC §2612(c)(2)). Hence, there is no direct skip transfer directly or in trust, provided the trust or part of the trust has no beneficiary in the children's generation after the child's death (IRC §2654(b)(2)). (A sprinkle provision to distribute income or principal to all children until all children are dead would not qualify for exemption from GST tax in such cases; distribution to the children of the deceased child or to a trust for them would, however.)

Such transfers to or for the benefit of the children of the deceased child must be excluded from the Denominator to avoid calculation of GST taxes. The corresponding Numerator may be used to protect GST trusts for living children (or to protect new GST trusts for the primary benefit of the deceased child's children, with the remainder passing to the deceased child's grandchildren; the application does not, however, handle transfers to persons in generations beyond the grandchildren of the Decedent and Spouse). The predeceased child is also not liable for estate taxes on inherited property from the decedent. Special entries are provided in the **Estate Taxes on Death of Children** worksheet to ensure that estate taxes are not computed for the predeceased child.

SECOND TRANSFERS

If additional property is transferred to an existing GST trust, the application allows you to specify on the **GST Trusts** worksheets that the transfer is a "second transfer". Such subsequent transfers are handled in accordance with IRC §2642(c). The Numerator and Denominator values of the original trust should first be entered into the **GST Trusts** worksheet using the default option of **Transfer** as the type of transfer. The subsequent addition should then be entered as follows:

1. Select **Second Transfer** on the "Transaction For GST Trusts" row of the **GST Trusts** worksheet.
2. On the "Numerator" row, enter the amount of the exemption allocated to the added property.
3. For the Denominator, enter the value of the added property.
4. On the "New Value of Old Trust" row, enter the value of the original trust corpus (i.e., the old denominator) at the time of the subsequent transfer.

The application combines these entries and calculates new values for the numerator, denominator, and inclusion ratio.

The value on the “New Value of Old Trust” row is erased, along with the **Second Transfer** identifier, as soon as the calculation is performed.

ESTATE TAXES ON ALL CHILDREN’S PROPERTY

ESTATE TAXES ON DEATH OF CHILDREN WORKSHEET

TRANSFERS UPON DEATH

If you do not wish to change the application’s default assumptions for calculating the estate taxes on the children’s deaths (i.e., two children, each with separate property set by default to the amount of the applicable exclusion for the children’s estimated year of death) and each inheriting 50% of the combined estates), then no further entries are required for purposes of comparing the estate taxes on the inherited property and the GST tax. The calculated GST taxes and estate taxes are shown on the “GST Taxes On Death Of Children” and “Estate Taxes on Death Of Children” rows, respectively, of the **Estate Taxes on All Children’s Property** report. To determine the estate taxes on the children’s inherited property, the application performs two computations: first, it computes the tax on **all** the separate and the inherited property (reduced only by the unified credit); and second, it computes the tax on **only** the separate property. The tax on the separate property is then deducted from the tax on all the property to yield the tax on only the inherited property.

If you **do** wish to change the application’s assumptions regarding the inherited property, you can do so by accessing the **Estate Taxes on Death of Children** worksheet. This worksheet provides entries for four children directly. Any number of additional children can be accommodated by duplicating the data for Child 3 and Child 4, as long as the total of all percentages for non-GST property does not exceed 100%. The application allows you to change the amount on the “Percentage Of Non-GST Family Share” row to zero for all children. For the unusual situation where this may be appropriate, do not zero out the amount on the “Child [1–4] Separate Property” rows as well. The application simply ignores any non-zero amount in these rows for purposes of the calculation. (If you change both the percentages and the “Separate Property” amounts to zero for all children, the application resets the values to the defaults of 50% and $5,000,000.)

The **Estate Taxes on Death of Children** worksheet also provides entries for situations where a child of the transferor dies before the transferor, leaving the deceased child’s children surviving the transferor. No GST tax is payable on the benefits for the children of the predeceased child in the circumstances described earlier, so these benefits should not be included in the Denominators on the **GST Trust** worksheet. Such benefits are also excluded from the estate tax computation because they are owned by grandchildren, not children. The section near the bottom of the worksheet (beginning with “Grandchild (Parent-Child Dead Before Transfer) Specific Gifts”) are designed to handle such situations.

The first of these “Grandchild (Parent-Child Dead Before Transfer) Specific Gifts” rows, is for entering the sum of the direct gifts to these grandchildren plus the amount of the hypothetical Denominator if the parent-child were living. The “Percentage Of Non-GST Family Share” row is for the percentage share of the estate that was given to these grandchildren. Based on these entries, the application calculates the total amount of

non-GST family share property (appreciated to the death of the last surviving child) and includes it in the “Grandchildren’s Share On Death” row on the **Main Worksheet**.

The next to last row on the **Estate Taxes on Death of Children** worksheet, “Excluded From Grandchildren’s Share Y/N”, gives you the option of not adding the Non-GST Family Share of the “Grandchild (Parent-Child Dead Before Transfer) Specific Gifts” to “all the grandchildren’s” share. If two or more GST trusts are created for different children, this option, in conjunction with separate cases, can isolate the benefits for any child and his family.

The last row on the **Estate Taxes on Death of Children** worksheet is the “Adjustment To Non-GST Family Share” row. An entry here adjusts the amount remaining in the decedent’s estate and passing to children at death (this Non-GST Family Share amount is displayed on the first row of the **Estate Taxes on All Children’s Property** report). After subtracting estate tax at the children’s death, the balance is displayed on the “Grandchildren’s Share On Children’s Death” row near the bottom of the **Main Worksheet**.

The entry is valued as of the decedent’s death and appreciated if there is a growth rate entered on the “Future Value Percentage – Until Children’s Deaths” row on the **Adjusted Gross Estate** worksheet. An adjustment entry would be appropriate, for example, to increase the property passing to children to reflect lifetime bequests to children or irrevocable insurance trusts (other than GST dynasty trusts) passing to children. It may also be appropriate to reduce the amount passing to children, e.g., to reflect higher state estate taxes at children’s death.

CHARITABLE LEAD TRUSTS

The generation-skipping tax rules for Charitable Lead Unitrusts Trusts and Charitable Lead Annuity Trusts (CLAT) are quite different. For lead unitrusts, in the application, the charitable deduction entered on the “Charitable Deduction” row in the **GST Trusts** worksheet reduces the entered Denominator. The entered Denominator minus the entry on the “Charitable Deduction” row acts as the true Denominator, i.e., if it is equal to or less than the amount of the Numerator, the inclusion ratio is 0. The $5,000,000 exemption will therefore cover far more than $5,000,000 of property. (See **Example 8 Charitable Lead Unitrusts** below.)

For a Charitable Lead Annuity Trust (CLAT), the application calculates the GST trust inclusion ratio after certain entries are made. First, the charitable trust information should be entered at the bottom of the **Charitable Deduction** worksheet. Next, on the **GST Trusts** worksheet, in the “Transaction For GST Trusts” row, select **Charitable Lead Annuity**, and on the “GST Trust Property Denominator” row enter the trust value at termination. Finally, enter any number on the “New Value Of Old Trust” row to complete the calculation.

For a CLAT, the Numerator and the Denominator are not determined until the charitable interest actually ends. The Denominator is the future value of the trust property when the annuity actually expires; the Numerator is the initial allocated exemption to the trust (the original Numerator) increased by interest that is computed by multiplying the original Numerator by an annually compounded interest factor. The application is based on date of death values, not on future values. The inclusion ratio must be applied to date of death values, as will be explained in the example below.

Examples 7 and 8, below, illustrate how to use the application in situations involving GST charitable lead trusts. Example 7 shows the differences between the GST treatment of unitrusts and annuity trusts, and Example 8 shows the benefits to the grandchildren in four different scenarios involving charitable lead unitrusts.

EXAMPLE 7 CHARITABLE LEAD ANNUITY TRUSTS

FACTS

Ben Stiles, a widower, has an Adjusted Gross Estate of $5,000,000. Ben wishes to set up a GST charitable lead trust of $1,000,000. He plans to leave a portion of the trust's value at the end of each year for five years to charity. At the end of the trust term, the income will be paid to two children (each having $1,000,000 of separate property). On each child's death, the remainder will be paid to the children of such deceased child.

Case 1 illustrates treatment of the trust as a charitable lead unitrust with 6% of the trust's value going to charity at the end of each of the five years. Cases 2, 3, and 4 show how the application handles the trust as a charitable lead annuity (CLAT) trust, with an equivalent dollar amount ($65,633) going to charity at the end of each year. Case 4 also illustrates how to adjust for date of death values for the CLAT transfer.

RUNNING THE EXAMPLE

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), change the **Marital Status** to **Single**, accept the default entry of **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

   The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

2. In the first section of the **Assumptions Tab**—**Plan Assumptions**—select **Yes** in the **Include GST** field.

Include GST	Yes
Married	No
Replicate Case Date	Yes

3. In the second section of the **Assumptions Tab**—**Client Information**—enter the following information:

Decedent: Date of Birth	1/1/1935
Decedent: Name	Ben
Decedent: State at Death	None

   Accept all the remaining default entries on the **Assumptions Tab**.

4. On the **Main Worksheet** (in the right pane), in the first column (Case 1: Ben) of the "Date Of Death" row, enter **06/15/1990** and press **Enter**.

5. Since there are four cases in our example, we need to add three more cases. Click the **Add Case** button (on the tool bar) **three times**.

Note. Case 1 will be replicated to the newly added Cases because the **Replicate Case Data** field is **Yes** on the **Assumptions Tab**.

CALCULATION 1

1. On the **Main Worksheet**, click the “Adjusted Gross Estate” row title to open the **Adjusted Gross Estate** worksheet.

   On the first row, “Separate Gross Estate”, enter **$5,000,000** and press **Ctrl+A** (to automatically enter that amount in **all** cases).

2. In the first column (Case 1: Ben), on the “Estimated Year When Children Are Dead” row, enter **2030** and press **Ctrl+A** to automatically enter this date in **all** cases as the estimated year when all the children will have passed away.

3. On the “Future Value Percentage – Until Children’s Deaths” row, enter **1.74797** as the appreciation factor until the children’s death for **all** cases. This will double the original values at the end of 40 years.

   The **Adjusted Gross Estate** worksheet looks like this.

	Case 1	Case 2	Case 3	Case 4
Adjusted Gross Estate	Ben	Ben	Ben	Ben
Separate Gross Estate	5,000,000	5,000,000	5,000,000	5,000,000
Marital Deduction From Deceased Spouse	0	0	0	0
Future Value Increase in Marital Deduction And Surviving Spouses Gross Estate	0	0	0	0
Gross Estate	5,000,000	5,000,000	5,000,000	5,000,000
Funeral And Administration Expenses in Dollars	0	0	0	0
Plus Administration Expenses - % Of Gross Estate	0	0	0	0
Section 6166 Interrelated Interest Deduction	0	0	0	0
Total Funeral And Administration Expenses	0	0	0	0
Income Tax-Elected Administration Expenses	0	0	0	0
Schedules K & L Debts And Losses	0	0	0	0
Family Business Deduction	0	0	0	0
Increased Estate Tax	0	0	0	0
State Death Tax Paid	0	0	0	0
Debts And Expenses	0	0	0	0
Adjusted Gross Estate	5,000,000	5,000,000	5,000,000	5,000,000
Future Value Percentage - Family Share Decedent 1	0.00000	0.00000	0.00000	0.00000
Future Value Family Share Decedent 1 in Dollars	0	0	0	0
Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate	0.00000	0.00000	0.00000	0.00000
Future Value Family Share Decedent 2 in Dollars	0	0	0	0
Future Value Family Share Both Spouses	0	0	0	0
Estimated Year When Children Are Dead	2030	2030	2030	2030
Future Value Percentage - Until Children's Deaths	1.74797	1.74797	1.74797	1.74797
Future Value Family Share Decedent 1 in Dollars	5,560,274	5,560,274	5,560,274	5,560,274
Future Value Family Share Decedent 2 in Dollars	0	0	0	0
Future Value Family Share Both Spouses	0	0	0	0
Annual Income Percentage For Children's Life	4	4	4	4

4. Return the focus to the **Main Worksheet**. Click the “Charitable Deduction” row title to open the **Charitable Deduction** worksheet. Then, click the “Nonresiduary Trust Bequests” row title to open the **Nonresiduary Trust Bequests** worksheet.

5. In the first column (Case 1: Ben) on the “Type Of Fund 1” row, select **Lead Unitrust**. (Note that the application automatically selects **Lead Unitrust** in this row for all Cases. **All** Cases within a particular fund must be of the same type.)

   In the same column, on the third row, “Nonresiduary Trust Amount 1”, enter **1,000,000** as the trust amount.

6. To enter the CLAT information in Cases 2, 3, and 4, move down to the next group of entries for Fund #2.

   In the second column (Case 2: Ben) of the “Type Of Fund” row, select **Lead Annuity Trust** and press **Tab**. (Note that the application automatically selects **Lead Annuity Trust** in this row for all Cases.)

7. In the second column (Case 2: Ben) of the “Nonresiduary Trust Amount 2” row (for Fund 2), enter **1,000,000** and press **Ctrl+A** as the trust amount for Cases 2, 3, and 4. The worksheet looks like this:

	Case 1	Case 2	Case 3	Case 4
Nonresiduary Trust Bequests	Ben	Ben	Ben	Ben
Type Of Fund 1	Lead Unitrust	Lead Unitrust	Lead Unitrust	Lead Unitrust
Fund #1	0	0	0	0
Nonresiduary Trust Amount 1	1,000,000	0	0	0
Type Of Fund 2	Lead Annuity Trust	Lead Annuity Trust	Lead Annuity Trust	Lead Annuity Trust
Fund #2	0	0	0	0
Nonresiduary Trust Amount 2	0	1,000,000	1,000,000	1,000,000
Type Of Fund 3	None	None	None	None
Fund #3	0	0	0	0
Nonresiduary Trust Amount 3	0	0	0	0

8. Click the “Fund #1” row title to open the **Nonresiduary Fund #1** worksheet.

9. In the first column (Case 1: Ben) of the “Or Term Of Years (1 to 99)” row, enter **5** and press **Enter** to indicate that payments from the trust are to be made for a period of five years.

   Payments from a lead unitrust can be made either for a term of years or for the life or lives of the individuals benefiting from the trust. Ben Stiles wishes the payments to be made for a period of five years.

   Notice that 11.00000 is displayed in the first column (Case 1: Ben) of the “Sec 7520 Interest Rate” row.

10. In the first column (Case 1: Ben) of the “% Payout” row, enter **6** and press **Enter**.

    Accept the default of **Annually** in the “Payment Frequency” row.

11. In the first column (Case 1: Ben) of the “# Months Before Payment” row, enter **12** and press **Enter**. The computed results will appear like this:

	Case 1	Case 2	Case 3	Case 4
Nonresiduary Fund #1	Ben	Ben	Ben	Ben
First Age	0	0	0	0
Second Age (Two-Life Calculation)	0	0	0	0
Or Term of Years (1 to 99)	5	0	0	0
Sec. 7520 Interest Rate	11.00000	11.00000	11.00000	11.00000
% Payout	6.00000	0.00000	0.00000	0.00000
Payment Frequency	Annually	Annually	Annually	Annually
# Months Before Payment	12	0	0	0
Adjusted Payout Rate	5.40500	0.00000	0.00000	0.00000
Lead Factor	0.24257	0.00000	0.00000	0.00000
Value of Remainder	757,428	0	0	0
Lead Unitrust Deduction	242,572	0	0	0

12. Return the focus to the **Nonresiduary Trusts Bequests** worksheet. Click “Fund #2” row title to open the **Nonresiduary Fund #2** worksheet, where we will enter the CLA transfers.

13. In the second column (Case 2: Ben) of the “Or Term Of Years (1 to 99)” row, enter **5** and press **Ctrl+A** to carry the same number to Cases 3 and 4 also.

    Notice that 11.00000 appears on the “Sec 7520 Interest Rate” row of all Cases.

14. In the second column (Case 2: Ben) of the “Dollar Payout” row, enter **65,633** and press **Ctrl+A** to carry the same amount to Cases 3 and 4 also. The computed results look like this:

	Case 1	Case 2	Case 3	Case 4
Nonresiduary Fund #2	Ben	Ben	Ben	Ben
First Age	0	0	0	0
Second Age (Two-Life Calculation)	0	0	0	0
Or Term of Years (1 to 99)	0	5	5	5
Sec. 7520 Interest Rate	11.00000	11.00000	11.00000	11.00000
Dollar Payout	0	65,633	65,633	65,633
Payment Frequency	Annually	Annually	Annually	Annually
Pay @ Begin or End Period	End	End	End	End
Remainder Factor	0.00000	0.59345	0.59345	0.59345
Annuity Factor	0.00000	3.69590	3.69590	3.69590
Adjustment Factor	0.00000	1.00000	1.00000	1.00000
Adjusted Annuity Factor	0.00000	3.69590	3.69590	3.69590
Present Value of Annuity	0	757,427	757,427	757,427
Lead Annuity Deduction	0	242,573	242,573	242,573

15. Return the focus to the **Nonresiduary Trust Bequests** worksheet to see the computed charitable bequests for all four cases.

    The bequest shown on the “Fund #1” row for Case 1 is $242,572 and the bequest on the “Fund #2” row for Cases 2, 3 and 4 is $242,573. The application uses these amounts as an adjustment to the Family Share for GST purposes. The Fund #1 amount is the deduction from a gift of 6% of the value of a $1,000,000 unitrust payable on the first day of the next year for five years under the 11% actuarial tables; and the Fund #2 amount is the deduction from a gift of an annuity of $65,633 payable out of a $1,000,000 CLAT at the end of the year for five years.

	Case 1	Case 2	Case 3	Case 4
Nonresiduary Trust Bequests	Ben	Ben	Ben	Ben
Type Of Fund 1	Lead Unitrust	Lead Unitrust	Lead Unitrust	Lead Unitrust
Fund #1	242,572	0	0	0
Nonresiduary Trust Amount 1	1,000,000	0	0	0
Type Of Fund 2	Lead Annuity Trust	Lead Annuity Trust	Lead Annuity Trust	Lead Annuity Trust
Fund #2	0	242,573	242,573	242,573
Nonresiduary Trust Amount 2	0	1,000,000	1,000,000	1,000,000
Type Of Fund 3	None	None	None	None
Fund #3	0	0	0	0
Nonresiduary Trust Amount 3	0	0	0	0

16. We will now complete the entries to set up the charitable lead unitrust in Case 1 as a GST Trust. On the **Main Worksheet**, click the “GST Taxes Payable On Death” row title to open the **GST Taxes Payable on Death** worksheet. Then, click the “GST Trusts (Death Transfers)” row title to open the **GST Trusts** worksheet.

17. Make the following entries in the first column (Case 1: Ben) for Trust 1.

    a. In the “Trust 1 Numerator” row, enter **757,428** and press **Enter**.

    b. In the Trust 1 “GST Trust Property Denominator” row, enter **1,000,000** and press **Enter**.

    c. In the “Charitable Deduction” row, enter **242,572** and press **Enter**.

The allocation of only $757,428 of the $1,000,000 exemption protects the entire $1,000,000 transfer from GST taxes (the balance of the $1,000,000 exemption can be used for other transfers to GST trusts).

CALCULATION 2

Now let's see what happens when Stiles makes a GST CLAT transfer of $1,000,000 to pay $65,633 at the end of each year for 5 years to charity. Three cases (2, 3, and 4) are used to illustrate more clearly the steps involved in handling this CLA transfer.

1. On the **Main Worksheet**, click the "Charitable Deduction" row title to open the **Charitable Deduction** worksheet.
2. In the "(Charitable Lead Annuity) Actual Years Of Annuity**"** row of Cases 2–4, enter **5**. Note that a "Sec 7520 Interest Rate" of 11.0000 is displayed in those Cases and that an interest factor of 0.68506 has been calculated on the next row.
3. In the "(Charitable Lead Annuity) Original Numerator" row for Cases 2–4, enter **757,427**. The "(Charitable Lead Annuity Addition)" row is computed to be $518,883 and the new numerator "Charitable Lead Annuity New Numerator after CLA Period" row is $1,276,310.
4. Click the check box in the "Exceed $5M Exemption Y/N" row for Cases 2–4 (to indicate **Yes**).

   Also, click the check box in the "Exceed Available Prop Y/N" row for Cases 2–4 (to indicate **Yes**).

   This will disable the automatic $5,000,000 limit on the use of the exemption and the transfer of available property on death.

   Now, we will access the **GST Trusts** worksheet and enter the CLAT information for Cases 2 through 4 as described below. Each case represents a step in the CLA transfer.

   The first step (Case 2) is used simply to show the inclusion ratio that is calculated when the original CLAT numerator and trust value are entered.

   The second step (Case 3) shows how the inclusion ratio is recalculated when the appreciated value of the trust is taken into account and the trust is identified as a CLA transfer.

   Case 4 shows how to derive the date of death value from the future value using the previously calculated inclusion ratio.

STEP 1 (CASE 2)

1. On the **GST Trusts** worksheet, in the second column (Case 2: Ben) of the "Trust 1 Numerator" row, enter **757,427** and press **Enter**.
2. In the same column of the Trust 1 "GST Trust Property Denominator" row, enter **1,000,000** and press **Enter**. The application automatically calculates an "Inclusion Ratio" of 0.243. The top portion of the worksheet looks like this:

	Case 1	Case 2	Case 3	Case 4
GST Trusts	Ben	Ben	Ben	Ben
Transaction For GST Trusts	Transfer	Transfer	Transfer	Transfer
Trust 1 Numerator	757,428	757,427	0	0
GST Trust Property Denominator	1,000,000	1,000,000	0	0
Charitable Deduction	242,572	0	0	0
Inclusion Ratio	0.00000	0.24300	0.00000	0.00000
New Value Of Old Trust	0	0	0	0
Deductible Expenses At Termination	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy
Trust 2 Numerator	0	0	0	0
GST Trust Property Denominator	0	0	0	0
Charitable Deduction	0	0	0	0
Inclusion Ratio	0.00000	0.00000	0.00000	0.00000

STEP 2 (CASE 3)

1. After the CLAT period expires, the trust has appreciated by 50%, to $1,500,000.

   In the third column (Case 3: Ben) of the “Transaction For GST Trusts” row, select **Charitable Lead Annuity** transfer (this selection will be erased during the operation). Then, in the same column of the Trust 1 “GST Trust Property Denominator” row, enter **1,500,000** and press **Enter**.

2. In the third column (Case 3: Ben) of the “New Value Of Old Trust” row, enter any amount (e.g., 1) to identify the trust and activate the CLAT operation (this amount is erased during the operation). Press **Enter**.

   An inclusion ratio of 0.149 is automatically calculated. The application issues a message because the Numerator exceeds $1,000,000. No corrective action is necessary, however, because this is a CLA transfer.

   Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

   The “(Charitable Lead Annuity) Original Numerator” row ($757,427) and the “CLA Addition” ($518,883) are added together on the “Charitable Lead Annuity New Numerator after CLA Period” row on the **Charitable Deduction** worksheet to achieve the new Numerator value of $1,276,310 for Case 3.

	Case 1	Case 2	Case 3	Case 4
GST Trusts	Ben	Ben	Ben	Ben
Transaction For GST Trusts	Transfer	Transfer	Transfer	Transfer
Trust 1 Numerator	757,428	757,427	1,276,310	0
GST Trust Property Denominator	1,000,000	1,000,000	1,500,000	0
Charitable Deduction	242,572	0	0	0
Inclusion Ratio	0.00000	0.24300	0.14900	0.00000
New Value Of Old Trust	0	0	1	0
Deductible Expenses At Termination	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy
Trust 2 Numerator	0	0	1,276,310	0
GST Trust Property Denominator	0	0	0	0
Charitable Deduction	0	0	0	0
Inclusion Ratio	0.00000	0.00000	0.00000	0.00000
New Value Of Old Trust	0	0	0	0
Deductible Expenses At Termination	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy
Trust 3 (Wife's QTIP) Numerator	0	0	1,276,310	0
GST Trust Property Denominator	0	0	0	0
Charitable Deduction	0	0	0	0
Inclusion Ratio	0.00000	0.00000	0.00000	0.00000
New Value Of Old Trust	0	0	0	0
Deductible Expenses At Termination	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy
Trust 4 (Wife's QTIP) Numerator	0	0	1,276,310	0
GST Trust Property Denominator	0	0	0	0
Charitable Deduction	0	0	0	0
Inclusion Ratio	0.00000	0.00000	0.00000	0.00000

STEP 3 (CASE 4)

The application interprets the entered appreciated value after five years as the date of death value. The “Inclusion Ratio” of 0.149 is correct but the Denominator must be restored to the value on death ($1,000,000) and the Numerator must be reduced in the same proportion as the Denominator.

1. You can use the application’s Math command to calculate the new Numerator. With the cursor on the “Trust 1 Numerator” row, click Math Calculator on the Calculators menu to open the Calculator dialog. Then enter the following:

   1,000,000 / 1,500,000 × 1,276,310 =

   The result of 850873.333333333 is displayed. Press **OK** to enter this amount on the “Trust 4 Numerator” row. Then press **Enter**.

2. In Case 4, enter **1,000,000** as the new “GST Trust Property Denominator” and press **Enter**.

   The application issues a message.

   Note. To see the message, click the **Messages** tab at the bottom of the left pane, and then click the message title. The message appears at the bottom of the **Messages List**.

   This completes the final step of reducing the future values to the date of death values for the GST trust. The top portion of the **GST Trusts** worksheet looks like this:

	Case 1	Case 2	Case 3	Case 4
GST Trusts	Ben	Ben	Ben	Ben
Transaction For GST Trusts	Transfer	Transfer	Transfer	Transfer
Trust 1 Numerator	757,428	757,427	1,276,310	850,873
GST Trust Property Denominator	1,000,000	1,000,000	1,500,000	1,000,000
Charitable Deduction	242,572	0	0	0
Inclusion Ratio	0.00000	0.24300	0.14900	0.14900
New Value Of Old Trust	0	0	1	0
Deductible Expenses At Termination	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy

In summary, the increase in value during the payment of the annuity causes a higher inclusion ratio if the increase exceeds the 11% Treasury interest rate. (The $500,000 increase assumes a growth rate of 14%.) A higher inclusion ratio for the CLAT means more GST taxes than for a Charitable Lead Unitrust. If the Unitrust had a value of $1,500,000 (or more) after five years, no GST taxes would be payable.

To guard against higher GST taxes on the increased value of the CLAT trust, the original allocation must be larger than $757,427. To cover an assumed $500,000 increase, the original allocation (i.e., the original numerator entered on the **Charitable Deduction** worksheet) would have to be $890,176 or greater, rather than the $757,427 actually entered.

After the allocation of $757,427 in the example, there remains $242,573 that can be allocated by the executor to direct skip transfers or other GST trusts no matter what amount is added by IRC §2642(e)(2). The increase in the CLAT Trust Numerator to $1,276,310 that the application calculates in Step 2 (Case 3) is the mechanism that allows the charitable deduction for CLAT trusts, i.e., it is functionally equivalent to subtracting the charitable gift from the Denominator for Lead Unitrusts under §2642(a)(2)(B)(II).

EXAMPLE 8 CHARITABLE LEAD UNITRUSTS

The points made in the summary to Example 7, above, can be further illustrated by expanding the charitable lead unitrust in Case 1 of Example 7 into four lead unitrust cases. We can then see how the amount of property protected by the $1,000,000 GST exemption increases significantly as the trust term is lengthened and the amount of the charitable deduction is increased.

In this four-case example, Case 1 has no charitable deduction and is used for comparison purposes. Cases 2 and 3 differ only in the number of years of the trust term; both cases use two trusts, one for the charitable deduction and one for the balance of the property covered by the GST exemption. Case 4 uses the same trust term as Case 3 but allocates the entire $1,000,000 GST exemption to cover the maximum amount of property in one charitable trust.

RUNNING THE CALCULATIONS

1. Click **Remove Case** on the Worksheets menu to open the **Remove Case** dialog. Holding the Ctrl key down, click **Cases 2, 3 and 4**. Click **OK** to close the **Remove Cases** dialog. Case 1 remains.
2. Click the **Add Case** button (on the tool bar) **three times**. This increases the number of cases to four.

Note. Case 1 will be replicated to the newly added Cases because the **Replicate Case Data** field is **Yes** on the **Assumptions Tab**.

3. Return the focus to the **Nonresiduary Fund #1** worksheet.

4. On the “Or Term Of Years (1 to 99)” row, enter **0** in Case 1 and press **Enter**. Enter **5** in Case 2 and press **Enter**. Enter **10** in Cases 3 and 4, pressing **Enter** after each entry.

   As shown below, note that the deduction amount on the “Lead Unitrust Deduction” row changes to 0 in Case 1, $242,572 in Case 2, and $426,302 in Cases 3 and 4.

	Case 1	Case 2	Case 3	Case 4
Nonresiduary Fund #1	Ben	Ben	Ben	Ben
First Age	0	0	0	0
Second Age (Two-Life Calculation)	0	0	0	0
Or Term of Years (1 to 99)	0	5	10	10
Sec. 7520 Interest Rate	11.00000	11.00000	11.00000	11.00000
% Payout	6.00000	6.00000	6.00000	6.00000
Payment Frequency	Annually	Annually	Annually	Annually
# Months Before Payment	12	12	12	12
Adjusted Payout Rate	5.40500	5.40500	5.40500	5.40500
Lead Factor	0.00000	0.24257	0.42630	0.42630
Value of Remainder	1,000,000	757,428	573,698	573,698
Lead Unitrust Deduction	0	242,572	426,302	426,302

5. Return the focus to the **Nonresiduary Trust Bequests** worksheet. In the fourth column (Case 4) of the “Nonresiduary Trust Amount 1” row, enter **1,743,074** and press **Enter**. (This number is derived by applying the same ratio (0.573699) to the trust numerator as was used in the first (charitable) trust in Case 3.) See the discussion in Step 9 below.

6. Return the focus to the **GST Trusts** worksheet to enter the details of the trusts in all four cases.

   In the first column (Case 1) of the Trust 1 “Charitable Deduction” row, delete the amount of **$242,572**. In the same column of the “Trust 1 Numerator” row, enter **1,000,000** and press **Enter**.

7. In Case 2, leave the entries for Trust 1 unchanged ($757,428 for the Numerator, $1,000,000 for the GST Trust Property Denominator, and $242,572 for the Charitable Deduction).

   In the second column (Case 2) of the “Trust 2 Numerator” row, enter **242,572** and press **Enter**. Enter the same amount in the same column Case 2) for the Trust 2 “GST Trust Property Denominator” row, and press **Enter**.

8. In the third column (Case 3) of the “Trust 1 Numerator” row, enter **573,699**, and press **Enter**. In the same column of the “Charitable Deduction” row, enter **426,301** and press **Enter**.

   Then, in the same column of the “Trust 2 Numerator” row, enter **426,301** and press **Enter**. Make the same entry in the Trust 2 “GST Trust Property Denominator” row of the same column, and press **Enter**.

9. Finally, in the fourth column (Case 4) of the “Trust 1 Numerator” row, enter **1,000,000**. In the same column of the Trust 1 “GST Trust Property Denominator” row, enter **1,743,074** (**1,000,000/.573699**). In the same column of the “Charitable

Deduction" row, enter **743,074**. Press **Enter**. The top portion of the worksheet looks like this:

	Case 1	Case 2	Case 3	Case 4
GST Trusts	Ben	Ben	Ben	Ben
Transaction For GST Trusts	Transfer	Transfer	Transfer	Transfer
Trust 1 Numerator	1,000,000	757,428	573,699	1,000,000
GST Trust Property Denominator	1,000,000	1,000,000	1,000,000	1,743,074
Charitable Deduction	0	242,572	242,572	743,074
Inclusion Ratio	0.00000	0.00000	0.24300	0.00000
New Value Of Old Trust	0	0	0	0
Deductible Expenses At Termination	0	0	0	0
Year Of Gift	yyyy	yyyy	yyyy	yyyy
Trust 2 Numerator	0	242,572	426,301	0
GST Trust Property Denominator	0	242,572	426,301	0
Charitable Deduction	0	0	0	0
Inclusion Ratio	0.00000	0.00000	0.00000	0.00000

Note that the ratio in Case 3 (573,699/1,000,000, or 0.573699) is the same as the ratio in Case 4 (1,000,000/1,743,074). Case 4 is the result of putting the entire $1,000,000 GST exemption into one trust with the entire charitable deduction, instead of creating two trusts with the charitable deduction in one trust and the balance of the property covered by the GST exemption in another GST trust.

10. Return the focus to the **Main Worksheet** and compare the results at the bottom of the worksheet for the four cases.

    Case 1 has no charitable deduction. In Case 2, the $242,572 charitable deduction for the five-year Lead Unitrust increases the coverage by the $1,000,000 GST exemption to $1,242,572 of property, but the children lose unitrust income on $1,000,000 for five years. In Case 3, with a 10-year Lead Unitrust, the exemption covers $1,426,301 of property and the children lose unitrust income on $1,000,000 for 10 years.

    On the other hand, the grandchildren will receive $4,060,544 in Case 2 and $4,351,305 in Case 3 rather than $3,676,660 as in Case 1, assuming values double in the 40 years after 2000. In Case 4, the exemption covers $1,743,076 and the children lose income for 10 years on the entire $1,743,076 of property. However, the benefit to the grandchildren increases significantly in Case 4, to $4,852,616.

    Part of the benefit of the lead trust is due to the decrease of federal estate taxes on Ben Stiles's estate as a result of the charitable deduction. Charitable lead trusts can increase a $2,000,000 joint GST exemption to two or more times as much. But the children will also lose the income and access to the principal for five or more years. Their gain is a larger income from larger funds after five or more years as a result of reduced estate taxes from the charitable deduction; the grandchildren will obtain a greater inheritance; and the favored charity will receive immediate and substantial benefits.

SPECIAL FEDERAL TAX CREDITS

OVERVIEW

The credit calculations described in this chapter follow Schedule P of federal Form 706 for the foreign tax credit and Schedule Q and its worksheet for the property previously

taxed credit. The application is able to handle one gift tax credit, one or two foreign tax credits, one or two prior transfers credits (non-marital), and one special prior transfers credit (marital). A worksheet containing special federal estate tax credits is easily accessed from the **Main Worksheet** (see the next page).

The gift tax credit is handled on a single subworksheet. Separate subworksheets are provided for each of the prior transfers credits.

Only two items of information need be entered for a gift tax credit or a foreign tax credit and the application will compute the rest. In the case of the rarely used gift tax credit, the “Amount of Gift Tax” is the figure from line 12 of Form 4808 and the figure for the next row, “Value of Gift on Death”, is from line 20 of Form 4808.

All input items relating to the foreign death tax credit are cross-referenced to Schedule P of Form 706. Consult Schedule P and the accompanying instructions to determine which amounts to enter on the first and third rows of each foreign death tax credit involved.

The input and output items for the prior transfers credit are referenced to Schedule Q of Form 706 and to the **Schedule Q** worksheet. Space limitations prevented the inclusion of all lines of Schedule Q and the worksheet, but the output provided will be found very helpful when preparing this schedule and worksheet since it is information that is not otherwise readily available.

	Case 1		Case 2	
Special Federal Estate Tax Credits	Decedent	Spouse	Decedent	Spouse
Gift Tax Credit	0	0	0	0
Foreign Death Tax Credit 1 - Treaty Comp? (Y/N)	☐	☐	☐	☐
Foreign Death Tax Credit #1	0	0	0	0
Foreign Death Tax Credit 2 - Treaty Comp? (Y/N)	☐	☐	☐	☐
Foreign Death Tax Credit #2	0	0	0	0
Prior Transfers Credit #1	0	0	0	0
Prior Transfers Credit #2	0	0	0	0
Special PTC #3 Credit	0	0	0	0
Total Foreign Death Tax Credits	0	0	0	0
Total PTC Credits	0	0	0	0
Total Special Credits	0	0	0	0
Special PTC #3 Computation? (Y/N)	☐	☐	☐	☐
Original Marital Deduction	0	0	0	0
Reduced Marital Deduction	0	0	0	0
Elected Taxable Amount	0	0	0	0
Additional Income Fund in Family Share	0	0	0	0
Total Income Fund	0	0	0	0
Apportionment?	None	None	None	None
Special Apportionment	0	0	0	0
Apportionment Amount	0	0	0	0
Net Income Fund	0	0	0	0
The 5x5 Power From Predeceasing Spouse? (Y/N)	☐	☐	☐	☐
Value Of 5x5 Power	0	0	0	0
Schedule Q L4 Percent Allowable	0	0	0	0
Age Of Surviving Spouse	0	0	0	0
Section 7520 Interest Rate	0.00000	0.00000	0.00000	0.00000
Life Estate Income Factor	0	0	0	0
Net Value Of Life Estate	0	0	0	0
Plus Value Of 5 x 5 Powers	0	0	0	0
Special PTC #3 Credit	0	0	0	0

In computing federal estate tax credits, the Internal Revenue Code has imposed the following order:

1. Unified Credit
2. Credit for state death taxes

3. Gift tax credit
4. Foreign tax credit
5. Credit for tax on prior transfers

Thus, the second credit is computed on a federal tax minus the first credit, the third credit on the tax minus the first two credits, and so forth. However, if a foreign tax credit is determined under a **treaty** rather than under the Statute, the prior transfers credit is applied before the foreign tax credit. The application will adjust for this computational change if you indicate on the **Special Federal Estate Tax Credits** worksheet that the computation is being made under a treaty.

The credits are fully incorporated into the zero federal tax and interrelated residue computations. However, if the zero federal tax option is elected, these credits will only be available when the combination of amounts given to taxable persons (other than the surviving spouse), state taxes, after-1976 gifts, and phantom assets exceed the unified credit exemption equivalent. Therefore, a federal tax must be paid. In that event, the special federal credits are automatically taken into account in computing the available marital deduction.

The following example shows how the prior transfers credit might be used with the unlimited marital deduction.

UNLIMITED MARITAL DEDUCTION AND PRIOR TRANSFERS CREDIT

EXAMPLE 1

The usual ZFT formula provision in a Will gives the surviving spouse that amount (or share) of the decedent's property that will reduce the federal tax on the decedent's estate to zero, or if this is not possible, to the lowest possible amount, using all credits, provided that state taxes are not increased as a result of using such credits.

In the ordinary case, this formula produces a zero federal tax, leaving unused any prior transfers credit to which the decedent might have been entitled. By using the credit, considerable property could be given to the next generation, with most or all of the tax paid, instead of being given to or for the surviving spouse in whose estate it will be fully taxed on the survivor's death.

The example below shows how easily the application can be used to take full advantage of this credit.

FACTS

Rod and Priscilla Stapleton come to you for Wills shortly after the death of Priscilla's mother in California on March 17, 1994. Priscilla and her brother John each received on their mother's death one-half of a $1,000,000 marital deduction trust, one-half of a $500,000 non-marital trust of which the mother was income beneficiary (the trust is not taxable in the mother's estate), and $75,000 of other property.

Priscilla's remaining estate consists of a $100,000 half interest in the family residence and securities worth $627,500. She leaves $10,000 to charity. Rod has $600,000 in securities in addition to his half of the house. Priscilla's and Rod's debts and expenses are estimated at $38,800 and $17,500, respectively.

Relevant data for the mother's estate are as follows:

Gross estate:	$1,775,000
Debts plus expenses:	45,000
Federal Tax:	499,840
State Tax:	80,160

You wish to show the Stapletons how, in the event of Priscilla's premature death within 10 years of her mother's, they can use the prior transfers credit from Priscilla's mother's estate to reduce the amount of taxes payable on their own estate when it is passed to their children.

RUNNING THE CALCULATIONS

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default entries of **Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

   The **Main Worksheet** opens in the right pane and the **Assumptions Tab** opens in the left pane.

2. In the first section of the **Assumptions Tab—Plan Assumptions**—select **No** in the **Include GST** field.

   Note. GST Planning does not apply to this analysis, so selecting **No** for **Include GST** suppresses the rows and worksheets used to perform calculations for generation-skipping transfers.

   The Generation-Skipping calculation computes the results of transferring property to the grandchildren's generation under both the estate tax system and the GST system and handles both direct skip trusts as well. For complete details about the generation-skipping tax calculations and the **GST** worksheets, see the section on **Gift Tax and GST Tax** on page 73.

Include GST	No
Married	Yes
Replicate Case Date	Yes

3. In the second section of the **Assumptions Tab—Client Information**—enter the following information:

Decedent: Date of Birth	1/1/1935

Decedent: Name	Rod
Decedent: State at Death	None
Spouse: Date of Birth	1/1/1935
Spouse: Name	Priscilla
Spouse: State at Death	None

4. Since will assume that Priscilla will be the first to die, so we must reverse the columns before entering the information. To do so, right-click anywhere on the right pane and then select **Reverse Order Of Death** on the pop-up menu.

5. On the **Main Worksheet**, in the first column (Case 1: Rod) of the "Date Of Death" row, enter **01/15/1994** and press **Enter**. In the second column (Case 1: Priscilla) of the "Date Of Death" row, enter the same date (**01/15/1994**) and press **Enter.**

6. Since there are three cases in our example, we need to add three more cases. Click the **Add Case** button (on the tool bar) **twice**.

   Note. Case 1 will be replicated to the newly added Cases because the **Replicate Case Data** field is **Yes** on the **Assumptions Tab**.

   The **Main Worksheet** now displays six columns: Case 1: Priscilla and Rod; Case 2: Priscilla and Rod; and Case 3: Priscilla and Rod.

CALCULATION 1

1. Click the "Adjusted Gross Estate" row title to open the **Adjusted Gross Estate** worksheet. Then, on the **Adjusted Gross Estate** worksheet, click the "Separate Gross Estate" row title to open the **Gross Estate** worksheet.

2. In the first column (Case 1: Priscilla) of the "Schedule B – Stocks & Bonds" row, enter **$627,500** and press **Ctrl+A** to automatically repeat the amount in the remaining cases.

   In the second column (Case 1: Rod) of the same row, enter **$600,000** and press **Ctrl+A** to automatically repeat the amount in the remaining cases.

3. To enter each spouse's share of the family residence, in the first column (Case 1: Priscilla) of the "Schedule E – Joint Property With Spouse" row, enter **$100,000** in the "Specified Charitable Bequests" row and press **Ctrl+A** to enter the amount in all Spouse columns.The application automatically enters the same amount in the Decedent's columns.

4. To enter Priscilla's share of the two trusts from her mother's estate plus the $75,000 of other property from the estate, in the first column (Case 1: Priscilla) of the "Schedule F – Other Miscellaneous Property" row, $825,000 and press **Ctrl+A**.

   The worksheet looks like this:

	Case 1		Case 2		Case 3	
Gross Estate	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Schedule A - Real Estate	0	0	0	0	0	0
Schedule B - Stocks & Bonds	627,500	600,000	627,500	600,000	627,500	600,000
Schedule B - Stocks & Bonds-Liquid	0	0	0	0	0	0
Schedule C - Mortgages, Notes & Cash	0	0	0	0	0	0
Schedule C - Mortgages, Notes & Cash-Liquid	0	0	0	0	0	0
Schedule D - Life Insurance-Liquid	0	0	0	0	0	0
Schedule E - Joint Property With Spouse	100,000	100,000	100,000	100,000	100,000	100,000
Schedule E - Joint Property With Spouse-Liquid	0	0	0	0	0	0
Schedule E - Joint Property Other	0	0	0	0	0	0
Schedule E - Joint Property Other-Liquid	0	0	0	0	0	0
Schedule F - Other Miscellaneous Property	825,000	0	825,000	0	825,000	0
Schedule F - Other Miscellaneous Property-Liquid	0	0	0	0	0	0
Schedule G - Lifetime Transfers	0	0	0	0	0	0
Schedule H - Powers Of Appointment	0	0	0	0	0	0
Schedule H - Powers Of Appointment-Liquid	0	0	0	0	0	0
Schedule I - Annuities	0	0	0	0	0	0
Qualified Employer Plans And IRAs	0	0	0	0	0	0
Private Annuities	0	0	0	0	0	0
SCINs (Installment Notes)	0	0	0	0	0	0
Discounts And Miscellaneous Property	0	0	0	0	0	0
Insurance Proceeds-Liquid	0	0	0	0	0	0
Phantom Assets	0	0	0	0	0	0
Pre-Death Appreciation	0	0	0	0	0	0
Decrease For Future Gifts	0	0	0	0	0	0
Gross Estate	1,552,500	700,000	1,552,500	700,000	1,552,500	700,000
Planning Date	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994
Future Value Percentage Per Year For Liquid Property	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Future Value Percentage Per Year For Non-Liquid Property	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Future Value Percentage Per Year For Special Growth Assets	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Life Insurance Proceeds From Spouse	0	0	0	0	0	0
Irrevocable Insurance Trust	0	0	0	0	0	0
Add To Family Shares Y/N	☐	☐	☐	☐	☐	☐
Liquid Assets in Marital Deduction	0	0	0	0	0	0
Adjustments To Liquidity Report	0	0	0	0	0	0
Section 303 Planning	0	0	0	0	0	0

Notice on the “Planning Date” row, that the application automatically carries the Date of Death entered on the **Main Worksheet**, because the Planning Date cannot be after the Date of Death.

5. Return the focus to the **Adjusted Gross Estate** worksheet.

   In the first column (Case 1: Priscilla) of the “Funeral And Administration Expenses in Dollars” row, enter **38,800** and press **Ctrl+A**.

   In the second column (Case 1: Rod) of the “Funeral And Administration Expenses in Dollars” row, enter **17,500** and press **Ctrl+A**.

   The worksheet will look like this:

Adjusted Gross Estate	Case 1		Case 2		Case 3	
	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Separate Gross Estate	1,552,500	700,000	1,552,500	700,000	1,552,500	700,000
Marital Deduction From Deceased Spouse	0	100,000	0	100,000	0	100,000
Future Value Increase in Marital Deduction And Surviving Spouses Gross Estate	0	0	0	0	0	0
Gross Estate	1,552,500	800,000	1,552,500	800,000	1,552,500	800,000
Funeral And Administration Expenses in Dollars	38,800	17,500	38,800	17,500	38,800	17,500
Plus Administration Expenses - % Of Gross Estate	0	0	0	0	0	0
Section 6166 Interrelated Interest Deduction	0	0	0	0	0	0
Total Funeral And Administration Expenses	38,800	17,500	38,800	17,500	38,800	17,500
Income Tax-Elected Administration Expenses	0	0	0	0	0	0
Schedules K & L Debts And Losses	0	0	0	0	0	0
Family Business Deduction	0	0	0	0	0	0
Increased Estate Tax	0	0	0	0	0	0
State Death Tax Paid	0	0	0	0	0	0
Debts And Expenses	38,800	17,500	38,800	17,500	38,800	17,500
Adjusted Gross Estate	1,513,700	782,500	1,513,700	782,500	1,513,700	782,500
Future Value Percentage - Family Share Decedent 1	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Future Value Family Share Decedent 1 in Dollars	1,087,809	0	1,087,809	0	1,087,809	0
Future Value Percentage Family Share Decedent 2 Marital Deduction And Gross Estate	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Future Value Family Share Decedent 2 in Dollars	0	714,325	0	714,325	0	714,325
Future Value Family Share Both Spouses	0	1,802,134	0	1,802,134	0	1,802,134

6. Return the focus to the **Main Worksheet**.
7. Click the “Marital Deduction” row title to open the **Marital Deduction** worksheet.

   Note that the application automatically carries to this worksheet both spouses’ share of the jointly owned property entered on the **Gross Estate** worksheet.
8. In the first column (Case 1: Priscilla) of the “Zero Federal Tax Option” row, select **ZFT1**. Make the same selection in Priscilla’s column of Case 2 and Case 3. Note that **None** is already entered for Rod.

Marital Deduction	Case 1		Case 2		Case 3	
	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Specified Marital Bequests	0	0	0	0	0	0
Joint Property with Spouse	100,000	0	100,000	0	100,000	0
Plans/IRAs To Spouse	0	0	0	0	0	0
Zero Federal Tax Option	ZFT1	None	ZFT1	None	ZFT1	None
Total Bequests Not Generation-Skipping Transfers	0	0	0	0	0	0
Bequests Subject To Tax	0	0	0	0	0	0
Phantom Assets	0	0	0	0	0	0
Interrelated Residue Calculation	None	None	None	None	None	None
Fund Before Taxes	0	0	0	0	0	0
Deductible Percentage Of Fund	0	0	0	0	0	0
Total Bequests Not GSTs	0	0	0	0	0	0
Bequests Subject To Tax	0	0	0	0	0	0
Other Property To Pay Tax	0	0	0	0	0	0
Computed Marital Bequests	813,700	0	813,700	0	813,700	0
Total Marital Bequests	913,700	0	913,700	0	913,700	0
Spousal Joint Property & Plan/IRA	100,000	0	100,000	0	100,000	0
Adjustments To QTIP Trusts	0	0	0	0	0	0
QTIP Trust	813,700	0	813,700	0	813,700	0

9. Return the focus to the **Main Worksheet**.

   In the first column (Case 1: Priscilla) of the “Charitable Deduction” row, enter **$10,000** and press **Ctrl+A** to repeat the entry in all Cases for Priscilla.

   The **Main Worksheet** looks like this:

	Case 1		Case 2		Case 3	
Main Worksheet	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Date Of Death	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994
Adjusted Gross Estate	1,513,700	1,586,200	1,513,700	1,586,200	1,513,700	1,586,200
Marital Deduction	903,700	0	903,700	0	903,700	0
Charitable Deduction	10,000	0	10,000	0	10,000	0
Taxable Estate	600,000	1,586,200	600,000	1,586,200	600,000	1,586,200
After 1976 Taxable Gifts	0	0	0	0	0	0
Federal Estate	600,000	1,586,200	600,000	1,586,200	600,000	1,586,200
Federal Tax Per Schedule	192,800	594,590	192,800	594,590	192,800	594,590
After 1976 Gift Taxes	0	0	0	0	0	0
Unified Credit	192,800	192,800	192,800	192,800	192,800	192,800
Federal Tax + Max Credit	0	401,790	0	401,790	0	401,790
State Death Taxes - Max Credit	0	69,917	0	69,917	0	69,917
Federal Tax Before Special Credits	0	331,873	0	331,873	0	331,873
Special Fed Estate Tax Credits	0	0	0	0	0	0
Federal Tax	0	331,873	0	331,873	0	331,873
State Death Taxes	0	69,917	0	69,917	0	69,917
Total Death Taxes	0	401,790	0	401,790	0	401,790
Family Share	600,000	1,184,410	600,000	1,184,410	600,000	1,184,410
Family Share Both Spouses	0	1,784,410	0	1,784,410	0	1,784,410

PRIOR TRANSFERS CREDIT WORKSHEET

1. On the **Main Worksheet**, click the “Special Fed Estate Tax Credits” row title to open the **Special Federal Estate Tax Credits** worksheet.
2. Only one Prior Transfers Credit applies in the Stapletons’ case, so click the “Prior Transfers Credit #1” row title to open the **Prior Transfers Credit #1** worksheet.

   Note. Each row of the **Prior Transfers Credit #1** worksheet is referenced to a line on Form 706, Schedule Q, or the Schedule Q worksheet. You need enter only four items of information and the application will do the rest.

3. In the first column (Case 1: Priscilla) of the “Schedule Q Line 4 Percentage Allowable” row, enter **100** and press **Ctrl+A** (because Priscilla’s mother died less than two years ago and Priscilla was therefore eligible for 100% of the credit).
4. In the first column (Case 1: Priscilla) of the “Schedule Q Worksheet Line 7 Net Value Prior Transfer” row, enter **$575,000** (the net amount of property received from the mother’s estate) and press **Ctrl+A**.
5. In the first column (Case 1: Priscilla) of the “Schedule Q Line 15 Adjusted Value Of Transferor’s Estate” row, enter **$1,150,000** ($1,775,000 minus taxes, debts, and expenses) and press **Ctrl+A**.
6. In the first column (Case 1: Priscilla) of the “Schedule Q Worksheet Line 19 Adjusted Tax On Transferor’s Estate” row, enter **$499,840** (the adjusted tax paid by the mother’s estate) and press **Ctrl+A**.

   Note that Rod is not entitled to these or any other credits. The worksheet looks like this:

Prior Transfers Credit #1	Case 1		Case 2		Case 3	
	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Schedule Q Line 4 Percentage Allowable	100	0	100	0	100	0
Schedule Q Worksheet Line 7 Net Value Prior Transfer	575,000	0	575,000	0	575,000	0
Schedule Q Line 15 Adjusted Value Of Transferor's Estate	1,150,000	0	1,150,000	0	1,150,000	0
Schedule Q Worksheet Line 19 Adjusted Tax On Transferor's Estate	499,840	0	499,840	0	499,840	0
Schedule Q Line 2 Transferors Tax On Prior Transfer	249,920	0	249,920	0	249,920	0
Schedule Q Worksheet Line 21 Transferee Tax Before Property Previously Taxed Credit	0	0	0	0	0	0
Schedule Q Worksheet Line 24 Transferees Reduced Gross Estate	977,500	0	977,500	0	977,500	0
Schedule Q Worksheet Line 29 Reduced Charitable Deduction	6,201	0	6,201	0	6,201	0
Schedule Q Worksheet Line 30 Transferees Total Adjusted Deductions	948,701	0	948,701	0	948,701	0
Schedule Q Worksheet Line 31a Transferees Reduced Taxable Estate	28,799	0	28,799	0	28,799	0
Schedule Q Worksheet Line 32 Tax On Reduced Taxable Estate Plus After 1976 Taxable Gifts (Calculated)	5,736	0	5,736	0	5,736	0
Schedule Q Worksheet Line 33c Reduced State Death Tax Credit	0	0	0	0	0	0
Schedule Q Worksheet Line 33d Reduced Gift Tax Credit	0	0	0	0	0	0
Schedule Q Worksheet Line 33e Reduced Foreign Death Tax Credit	0	0	0	0	0	0
Schedule Q Worksheet Line 33f Total Credits (Adjusted)	192,800	0	192,800	0	192,800	0
Schedule Q Worksheet Line 34 Net Tax On Reduced Taxable Estate	0	0	0	0	0	0
Schedule Q Worksheet Line 35 Transferees Tax On Prior Transfers	0	0	0	0	0	0
Schedule Q Line 1 Transferees Tax as Apportioned	0	0	0	0	0	0
Schedule Q Line 5 Credit Allowable	0	0	0	0	0	0

7. Return the focus to the **Main Worksheet**.

Main Worksheet	Case 1		Case 2		Case 3	
	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Date Of Death	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994
Adjusted Gross Estate	1,513,700	1,586,200	1,513,700	1,586,200	1,513,700	1,586,200
Marital Deduction	903,700	0	903,700	0	903,700	0
Charitable Deduction	10,000	0	10,000	0	10,000	0
Taxable Estate	600,000	1,586,200	600,000	1,586,200	600,000	1,586,200
After 1976 Taxable Gifts	0	0	0	0	0	0
Federal Estate	600,000	1,586,200	600,000	1,586,200	600,000	1,586,200
Federal Tax Per Schedule	192,800	594,590	192,800	594,590	192,800	594,590
After 1976 Gift Taxes	0	0	0	0	0	0
Unified Credit	192,800	192,800	192,800	192,800	192,800	192,800
Federal Tax + Max Credit	0	401,790	0	401,790	0	401,790
State Death Taxes - Max Credit	0	69,917	0	69,917	0	69,917
Federal Tax Before Special Credits	0	331,873	0	331,873	0	331,873
Special Fed Estate Tax Credits	0	0	0	0	0	0
Federal Tax	0	331,873	0	331,873	0	331,873
State Death Taxes	0	69,917	0	69,917	0	69,917
Total Death Taxes	0	401,790	0	401,790	0	401,790
Family Share	600,000	1,184,410	600,000	1,184,410	600,000	1,184,410
Family Share Both Spouses	0	1,784,410	0	1,784,410	0	1,784,410

All data necessary to compute the taxes on the Stapletons' estates has now been entered. Note that the "Special Federal Estate Tax Credits" row contains zeros in Priscilla's columns, which means that her estate is not entitled to any Prior Transfers Credit.

If we examine the **Main Worksheet** we can see the reason why—the Zero Federal Tax option produced a marital deduction that wiped out the tax on Priscilla's estate. Because Priscilla's estate is $600,000, the estate tax is zero after applying the $192,800 unified credit, so the special credits are also zero.

To make use of the credit, Priscilla's marital bequest to Rod must be cut back so that a federal tax is produced against which the credit may be applied. The situation is complicated by the fact that the credit for state death taxes must be deducted before all other credits, except the Unified Credit. Thus, a federal tax, against which the Prior Transfers Credit may be applied, does not arise until the taxable estate exceeds the ZFT taxable estate using both the unified and state death tax credits. In other words, a state death tax must be paid as the price of using the Prior Transfers Credit.

CALCULATION 2

We now need to run a new ZFT calculation that will produce the optimal marital deduction necessary to use the Prior Transfers Credit fully. To do so, we must start with a taxable estate (before the marital deduction) that is equal to the following:

	Transferee's Reduced Gross Estate (from the Prior Transfers Credit #1 worksheet)	$977,500
Less	Debts and Expenses (from the Adjusted Gross Estate worksheet; this is automatically deducted):	–38,800
Less	Reduced Charitable Deduction (from the Prior Transfers Credit #1 worksheet; the deduction must be reduced)	–6,201

The ZFT calculation combined with the Maximum Credit State Tax option will produce a marital deduction just large enough to fully use the Prior Transfers Credit. Using Case 2 for the new calculation, proceed as follows:

1. Return the focus to the **Gross Estate** worksheet.
2. In the third column (Case 2: Priscilla) in the "Schedule A – Real Estate" row, enter **–575,000** and press **Enter**.

   This subtracts the previously taxed property from the Spouse's separate gross estate in Case 2 and produces a new gross estate of $977,500. This is how the worksheet should look:

	Case 1		Case 2		Case 3	
Gross Estate	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Schedule A - Real Estate	0	0	-575,000	0	0	0
Schedule B - Stocks & Bonds	627,500	600,000	627,500	600,000	627,500	600,000
Schedule B - Stocks & Bonds-Liquid	0	0	0	0	0	0
Schedule C - Mortgages, Notes & Cash	0	0	0	0	0	0
Schedule C - Mortgages, Notes & Cash-Liquid	0	0	0	0	0	0
Schedule D - Life Insurance-Liquid	0	0	0	0	0	0
Schedule E - Joint Property With Spouse	100,000	100,000	100,000	100,000	100,000	100,000
Schedule E - Joint Property With Spouse-Liquid	0	0	0	0	0	0
Schedule E - Joint Property Other	0	0	0	0	0	0
Schedule E - Joint Property Other-Liquid	0	0	0	0	0	0
Schedule F - Other Miscellaneous Property	825,000	0	825,000	0	825,000	0
Schedule F - Other Miscellaneous Property-Liquid	0	0	0	0	0	0
Schedule G - Lifetime Transfers	0	0	0	0	0	0
Schedule H - Powers Of Appointment	0	0	0	0	0	0
Schedule H - Powers Of Appointment-Liquid	0	0	0	0	0	0
Schedule I - Annuities	0	0	0	0	0	0
Qualified Employer Plans And IRAs	0	0	0	0	0	0
Private Annuities	0	0	0	0	0	0
SCINs (Installment Notes)	0	0	0	0	0	0
Discounts And Miscellaneous Property	0	0	0	0	0	0
Insurance Proceeds-Liquid	0	0	0	0	0	0
Phantom Assets	0	0	0	0	0	0
Pre-Death Appreciation	0	0	0	0	0	0
Decrease For Future Gifts	0	0	0	0	0	0
Gross Estate	1,552,500	700,000	977,500	700,000	1,552,500	700,000
Planning Date	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994
Future Value Percentage Per Year For Liquid Property	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Future Value Percentage Per Year For Non-Liquid Property	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Future Value Percentage Per Year For Special Growth Assets	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Life Insurance Proceeds From Spouse	0	0	0	0	0	0
Irrevocable Insurance Trust	0	0	0	0	0	0
Add To Family Shares Y/N	☐	☐	☐	☐	☐	☐
Liquid Assets In Marital Deduction	0	0	0	0	0	0
Adjustments To Liquidity Report	0	0	0	0	0	0
Section 303 Planning	0	0	0	0	0	0

3. Return the focus to the **Main Worksheet**.

In the third column (Case 2: Priscilla) of the “Charitable Deduction” row, enter **$6,201** and press **Enter**. (The ZFT marital deduction for this case was entered earlier.)

4. Click the “State Death Taxes” row title to open the **State Death Taxes** worksheet.

   In the third column (Case 2: Priscilla) of the “State” row, select the **Maximum Credit** option at the bottom of the drop-down list.

5. Return the focus to the **Main Worksheet**.

	Case 1		Case 2		Case 3	
Main Worksheet	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Date Of Death	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994
Adjusted Gross Estate	1,513,700	1,586,200	938,700	972,575	1,513,700	1,586,200
Marital Deduction	903,700	0	290,075	0	903,700	0
Charitable Deduction	10,000	0	6,201	0	10,000	0
Taxable Estate	600,000	1,586,200	642,424	972,575	600,000	1,586,200
After 1976 Taxable Gifts	0	0	0	0	0	0
Federal Estate	600,000	1,586,200	642,424	972,575	600,000	1,586,200
Federal Tax Per Schedule	192,800	594,590	208,497	335,104	192,800	594,590
After 1976 Gift Taxes	0	0	0	0	0	0
Unified Credit	192,800	192,800	192,800	192,800	192,800	192,800
Federal Tax + Max Credit	0	401,790	15,697	142,304	0	401,790
State Death Taxes - Max Credit	0	69,917	15,697	31,664	0	69,917
Federal Tax Before Special Credits	0	331,873	0	110,640	0	331,873
Special Fed Estate Tax Credits	0	0	0	0	0	0
Federal Tax	0	331,873	0	110,640	0	331,873
State Death Taxes	0	69,917	15,697	31,664	0	69,917
Total Death Taxes	0	401,790	15,697	142,304	0	401,790
Family Share	600,000	1,184,410	626,727	830,271	600,000	1,184,410
Family Share Both Spouses	0	1,784,410	0	1,456,998	0	1,784,410

The only figure of interest is the Marital Deduction of $290,075 in the Spouse column of Case 2. This is the marital deduction that will make full use of the available Prior Transfers Credit. To demonstrate this, perform the following steps:

6. Return the focus to the **Marital Deduction** worksheet.

7. In the third column (Case 2: Priscilla) of the first row (“Specified Marital Bequests”), enter **$190,075** (the difference between the $290,075 calculated in Case 2 and the $100,000 joint property share, which the application automatically includes in the marital deduction) and press **Enter**.

   In the third column (Case 2: Priscilla) of the “Zero Federal Tax Option” row, select **None** and press **Tab**.

8. The calculation is now complete. Return the focus to the **Main Worksheet**.

	Case 1		Case 2		Case 3	
Main Worksheet	Priscilla	Rod	Priscilla	Rod	Priscilla	Rod
Date Of Death	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994	01/15/1994
Adjusted Gross Estate	1,513,700	1,586,200	938,700	972,575	1,513,700	1,586,200
Marital Deduction	903,700	0	290,075	0	903,700	0
Charitable Deduction	10,000	0	6,201	0	10,000	0
Taxable Estate	600,000	1,586,200	642,424	972,575	600,000	1,586,200
After 1976 Taxable Gifts	0	0	0	0	0	0
Federal Estate	600,000	1,586,200	642,424	972,575	600,000	1,586,200
Federal Tax Per Schedule	192,800	594,590	208,497	335,104	192,800	594,590
After 1976 Gift Taxes	0	0	0	0	0	0
Unified Credit	192,800	192,800	192,800	192,800	192,800	192,800
Federal Tax + Max Credit	0	401,790	15,697	142,304	0	401,790
State Death Taxes - Max Credit	0	69,917	15,697	31,664	0	69,917
Federal Tax Before Special Credits	0	331,873	0	110,640	0	331,873
Special Fed Estate Tax Credits	0	0	0	0	0	0
Federal Tax	0	331,873	0	110,640	0	331,873
State Death Taxes	0	69,917	15,697	31,664	0	69,917
Total Death Taxes	0	401,790	15,697	142,304	0	401,790
Family Share	600,000	1,184,410	626,727	830,271	600,000	1,184,410
Family Share Both Spouses	0	1,784,410	0	1,456,998	0	1,784,410

We find that in Case 3 the Federal tax has been exactly eliminated by a $194,514 credit, but at the cost of paying $46,072 in state taxes.

Whether Rod and Priscilla would be willing to reduce his marital deduction to such an extent is for them to decide. As shown in the **Adjusted Gross Estate** worksheet, the effect on their children is clear. In Case 1, the family receives from both spouses $1,784,410; in Case 3, $1,997,824, a difference of $213,414 or 12%. (Case 2 was only used to calculate the marital deduction for Case 3.)

PRIOR TRANSFERS CREDIT AND THE QTIP ELECTION

An estate tax saving technique becoming more popular in recent years is to reduce the marital deduction (and thus pay a higher tax when the first spouse dies) in order to reduce overall taxes by using the “prior transfers credit” when the second spouse dies. This credit (provided under IRC §2013) is available when a decedent dies within 10 years after receiving property from a prior decedent who paid estate tax on the property when he died. The decedents need not be related to use this credit.

The Special PTC #3 Credit calculation on the **Special Federal Estate Tax Credits** worksheet addresses the specific question, when the two decedents are married, of whether or not to reduce the marital deduction at the first spouse’s death to maximize the prior transfers credit. The longer the survival period between the two spouses, the lower the credit allowed. The amount of the credit is reduced by 20% for each two years between deaths and is phased out after 10 years.

The special credit calculation works only on the second column in Case 2 and optionally in Case 3. You must use at least two cases so that data can flow between the column containing the original (Case 1) marital deduction and the column(s) displaying the effects of the credit (Case(s) 2 and/or 3).

Note. This special credit calculation is designed to display side-by-side comparisons where the facts between cases are identical except for the amount of the marital bequest. If you wish to run multiple scenarios with different facts (e.g., year of death or size of estate), you must create a separate file for each scenario.

The Special PTC #3 Credit calculation uses a stored actuarial table. The table uses a 10% interest rate from December 1, 1987, to April 30, 1989, and from 2.2% to 26% interest rates thereafter (from May 1, 1989). The date of death of the predeceasing spouse determines the selection of the proper interest rate, carried automatically by the application.

The date of death of the surviving spouse in conjunction with the date of death of the other spouse determines the percentage allowable for the Special PTC #3 credit. The credit and the new tax liability are computed when all of the following entries are made on the **Special Federal Estate Tax Credits** worksheet:

- Reduced marital deduction
- Date of Death (for both spouses)
- Age of the surviving spouse when the predeceasing spouse died
- Interest rate

Additional features of the Special PTC #3 Credit calculation—allocating payments of new taxes to the elected taxable amount and 5×5 powers to the surviving spouse—are discussed in the following example.

Note. Details of the credit calculation are computed and displayed on the **Special PTC #3 Credit** worksheet. No PTC #3 entries are allowed on this worksheet; all entries are made on the **Special Fed Est Tax Credits** worksheet and the application posts the necessary data to the **Special PTC #3 Credit** subworksheet. This subworksheet simply verifies the accuracy of the computation.

EXAMPLE 2

FACTS

On September 15, 1994, Leo Burns died leaving an Adjusted Gross Estate of $2,000,000. His surviving Spouse, Donna, has an estimated estate of $1,000,000. Leo gave a maximum marital deduction preserving the usual family share—a ZFT bequest—to Donna, leaving the family share to his children. Donna had a long-term illness when Leo died and, at that time, her life expectancy was estimated at about two years.

You wish to show how, in the event of Donna's death within 10 years of Leo's, she can use the Prior Transfers Credit from Leo's estate to reduce the amount of taxes payable on the estate when it is passed to their children. The example shows the tax reduction that occurs when the original ZFT marital deduction is decreased by $500,000.

RUNNING THE CALCULATIONS

1. Open a new client file. (Click the **New** button on the Menu Bar, or select **New Client File** on the File menu, or press **Ctrl+N**).

   On the first panel of the **Analysis Wizard** (the **Plan Scenario** panel), accept the default entries of **Married** and **Custom Plan**, and then click **Finish** to close the **Analysis Wizard**.

The **Main Worksheet** appears in the right pane and the **Assumptions Tab** appears in the left pane.

2. In the first section of the **Assumptions Tab—Plan Assumptions**—select **No** in the **Include GST** field.

Note. GST Planning does **not** apply to this analysis, so selecting **No** for **Include GST** suppresses the rows and worksheets used to perform calculations for generation-skipping transfers.

The Generation-Skipping calculation computes the results of transferring property to the grandchildren's generation under both the estate tax system and the GST system and handles both direct skip trusts as well. For complete details about the generation-skipping tax calculations and the **GST** worksheets, see the section on **Gift Tax and GST Tax** on page 73.

Include GST	No
Married	Yes
Replicate Case Date	Yes

3. In the second section of the **Assumptions Tab—Client Information**—enter the following information:

Decedent: Date of Birth	1/1/1935
Decedent: Name	Leo
Decedent: State at Death	None
Spouse: Date of Birth	1/1/1935
Spouse: Name	Donna
Spouse: State at Death	None

4. On the **Main Worksheet**, in the first column (Case 1: Leo) of the "Date Of Death" row, enter **09/15/1994** and press **Enter**.

   In the second column (Case 1: Donna) of the "Date Of Death" row, enter **09/16/1996** and press **Enter**.

CALCULATION 1

1. On the **Main Worksheet**, click the "Adjusted Gross Estate" row title to open the **Adjusted Gross Estate** worksheet.

   In the first column (Case 1: Leo) on the "Separate Gross Estate" row, enter **$2,000,000** and press **Enter**.

   In the second column (Case 1: Donna) on the "Separate Gross Estate" row, enter **$1,000,000** and press **Enter**.

2. Now, to add an identical case to the analysis, click the **Add Case** button (on the tool bar).

Note. Case 1 will be replicated to Case 2 because the **Replicate Case Data** field is **Yes** on the **Assumptions Tab**.

3. Return the focus to the **Main Worksheet**.
4. Click the “Marital Deduction” row title to open the **Marital Deduction** worksheet.

   In the first column (Case 1: Leo) on the “Zero Federal Tax Option” row, select **ZFT1** and press **Tab**.
5. Return the focus to the Main Worksheet.

   In the third column (Case 2: Leo) on the “Marital Deduction” row, enter **$900,000** and press **Enter**.

   Notice that the marital deduction has been reduced to $900,000, and that the Decedent’s and Spouse’s tax liability has been recalculated on the **Main Worksheet** in Case 2.

CALCULATION 2

1. On the **Main Worksheet**, click the “Special Fed Estate Tax Credits” row title to open the **Special Federal Estate Tax Credits** worksheet.
2. In the fourth column (Case 2: Donna) on the “Special PTC #3 Computation Y/N” row, click the check box. (A check mark indicates **Yes,** activating the credit for the Spouse and retaining the original marital deduction value of the Decedent.) This value is posted to the Spouse column of the “Original Marital Deduction” row. The “Reduced Marital Deduction”, “Elected Taxable Amount”, “Total Income Fund”, “Apportionment Amount”, and “Net Income Fund” rows further down the worksheet are also calculated.

   Note. If Leo’s Will had provided for income to be paid from the family share to Donna throughout her life, you would enter **600,000** as the Additional Income Fund in Family Share.
3. Notice that, in the fourth column (Case 2: Donna) in the “Apportionment?” row, the application displays the default of **All Additional**. This selection apportions to the marital bequest all additional estate taxes payable at Decedent’s death (i.e., resulting from the reduced marital deduction in Case 2). In this example, the apportioned taxes are $194,000, which reduces the Spouse’s Net Income Fund to $306,000.

   Notice on the row, “Schedule Q Line 4 Percent Allowable”, 80% appears in the Spouse column of Case 2 because Donna survived Leo more than 2 years but less than 4 years. (If Donna died on 9/15/1996 [one day before her date of death as shown on the **Main Worksheet**], the 80% would be 100%.)
4. On the “Age of Surviving Spouse” row of Case 2, enter **65** in the Spouse column as Donna’s age at the time of her Decedent’s death. The application carries to the next row the §7520 rate (8.4%) corresponding to the Date of Death entered for the predeceasing spouse on the **Main Worksheet**. When you press **Enter** after the last entry, the rest of the worksheet rows are completed.

The Life Estate Income Factor is 0.66472. This is 1 minus 0.33528, the latter decimal value (under 8.4% opposite age 65) from IRS Tables R(1). See the worksheet below.

The Net Value of Life Estate ($203,404) is the Net Income Fund ($306,000) multiplied by the Life Estate Income Factor (0.66472). There is no Value of 5×5 Power, so the Net Value of Life Estate is repeated and a credit ($27,875) is displayed.

CALCULATION 3

This calculation demonstrates the effect of electing the "5×5 power from the predeceasing spouse".

1. In the fourth column (Case 2: Donna) on the "The 5×5 Power from Predeceasing Spouse Y/N" row. click the check box (to put a check mark in the box).

Note. You should only elect the 5×5 power if the fund does not qualify for the marital deduction and if the Will provides a non-cumulative power for the surviving spouse to withdraw the greater of $5,000 or 5% of the fund each year. (Revenue Ruling 79-211, 1979-2 Cum. Bull. 319 holds that the actuarial value of that withdrawal right qualifies as property received for the IRC §2013 credit.)

The application computes the value of the 5×5 power based on the amount of the Net Income Fund; however, the Net Value of Life Estate is computed separately since the Net Income Fund decreases each year that the 5×5 power is elected.

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