Instructions

1. This examination consists of three pages, plus this cover sheet. Please check to be sure you have all pages.

2. Your bluebooks and your copy of the exam are due four hours after you pick up the exam.

3. You may use your copy of the Internal Revenue Code and Regulations, the required course materials, and your own class notes and study notes. You may also use a pocket calculator. You may not use other materials, such as library materials or commercial outlines.

4. Please write your exam number on your copy of the exam and on all bluebooks. St. Mary’s University School of Law prohibits the disclosure of information that might aid a professor in identifying the author of an examination. Any attempt by a student to identify himself or herself in an examination is a violation of this policy and of the Code of Student Conduct.

5. You are not to discuss this exam with any person. Doing so is a violation of the Code of Student Conduct.

6. After reading the oath, place your exam number in the space below.

I HAVE NEITHER GIVEN NOR RECEIVED UNAUTHORIZED ASSISTANCE IN TAKING THIS EXAMINATION, NOR HAVE I OBSERVED ANYONE ELSE DOING SO.

EXAM NUMBER
Ellie was born in 1923. She married Jock in 1945. Their first child, J.R., was born in 1948, and their second child, Bobby, was born in 1953. J.R. has one child, John Ross, who was born in 1982. Bobby has one child, Christopher, who was born in 1984. Jock died in 1989, leaving his entire estate ($4 million after expenses and taxes) in trust, with the income payable to Ellie for life and the remainder to be distributed among Jock’s lineal descendants in such proportions as Ellie directs in her will. You may assume that Jock never made any taxable gifts.

Since Jock’s death, Ellie has been keeping company with Dusty. Dusty and Ellie have decided to get married. J.R. and Bobby are concerned, because Dusty is several years younger than Ellie — Dusty was born in 1963. They fear that he is only after her money. To placate J.R. and Bobby, Ellie and Dusty enter into a pre-nuptial agreement. Dusty relinquishes all rights to Ellie’s property in exchange for $1 million in cash and securities, which Ellie transfers to Dusty on November 30, 1993. Ellie also agrees to leave Dusty her residence and all furnishings if she predeceases him. Also as part of the agreement, Ellie establishes five trusts, which are described below. Ellie and Dusty are married in January of 1994.

The five trusts, to which Ellie transfers $1 million each on November 30, 1993, are as follows:

Trust #1 provides for all income to be paid to J.R. for life, remainder to John Ross. When the trust is established, the actuarial value of J.R.’s life estate is $910,000, and the actuarial value of John Ross’s remainder is $90,000.

Trust #2 provides for all income to be paid to Bobby for life, remainder to Christopher. When the trust is established, the actuarial value of Bobby’s life estate is $930,000, and the actuarial value of Christopher’s remainder is $70,000.

Trust #3 provides for all income to be paid to Ellie for life, with the remainder to be divided equally between J.R. and Bobby upon Ellie’s death. At the time the trust is established, Ellie’s life estate has an actuarial value of $680,000, and the two remainder interests are worth $160,000 each.

Trust #4 provides for all income to be paid to Ellie’s mother, Martha, for life, and the corpus is to be distributed to Ellie at Martha’s death. If Ellie predeceases Martha, the trust is to terminate and the corpus is to be distributed to Martha outright. The actuarial value of Martha’s life estate is $300,000, the actuarial value of Ellie’s reversion is $600,000, and the actuarial value of Martha’s contingent remainder is $100,000.

(Continued on next page)
Trust #5 provides for all income to be paid to Ellie for life, with the corpus to be distributed to St. Mary’s University at Ellie’s death. The actuarial value of Ellie’s life estate is $680,000, and the actuarial value of the remainder is $320,000.

All five trusts are irrevocable and managed by an independent trustee.

1995

Ellie dies in 1995, survived by Dusty, J.R., Bobby, John Ross, Christopher, and Martha. At the time of her death, Ellie is the outright owner of the following property:

<table>
<thead>
<tr>
<th>Property</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, Stocks, &amp; Bonds</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Investment Real Estate</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Residence</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Household Furnishings</td>
<td>$500,000</td>
</tr>
<tr>
<td>Art Collection</td>
<td>$700,000</td>
</tr>
<tr>
<td>Clothing and Jewelry</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

Ellie’s will gives the residence and furnishings to Dusty and leaves the balance of her estate, after payment of expenses and taxes, in equal shares to J.R. and Bobby. Ellie’s will also provides that the corpus of Jock’s trust, which now amounts to $6 million, is to be divided into two equal shares. One share is to be paid to John Ross, and the other share is to be paid to Christopher. Under the terms of Jock’s will, the share of each grandchild will be held in trust until he reaches age 35, but the trustee (a bank) has discretion to distribute income or corpus to the extent it is in the best interests of the beneficiary. The expenses of administering Ellie’s estate total $300,000.

At the time of Ellie’s death, each of the five trusts she created in 1993 has a corpus of $1,200,000. The actuarial value of J.R.’s life estate in Trust #1 is $1,080,000, and the actuarial value of the remainder is $120,000. The actuarial value of Bobby’s life estate in Trust #2 is $1,100,000, and the actuarial value of the remainder is $100,000. Immediately before Ellie’s death, her life estate in Trust #3 had an actuarial value of $780,000 (as did the life estate in Trust #5), and the remainder had an actuarial value of $420,000 (as did the remainder interest in Trust #5). Martha’s life estate in Trust #4 had an actuarial value of $330,000, Ellie’s reversion had an actuarial value of $740,000, and Martha’s contingent remainder had an actuarial value of $130,000 immediately before Ellie’s death.

(The questions begin on the next page.)
Question One

A. Determine the amount of Ellie's Taxable Gifts for 1993. Please explain.

B. Assume that Ellie has made no Taxable Gifts in prior years. Determine Ellie's gift tax liability for 1993.

C. Please discuss the current and future Generation Skipping Transfer Tax consequences of Ellie's 1993 transfers. Determine the amount of Generation Skipping Transfer Tax, if any, that Ellie will owe for 1993.

Question Two

A. Determine the amount of Ellie's Gross Estate.

B. Determine the amount of Ellie's Taxable Estate.

C. Determine the Federal Estate Tax liability of Ellie's estate.

D. Describe any Generation Skipping Transfers that occur at Ellie's death and determine the amount of Generation Skipping Transfer Tax liability, if any.

Notes:

1. You should assume that none of the property described on this exam is community property.

2. Your ultimate answers may depend on whether certain elections are made (or have been made at some point in the past). Please indicate clearly your assumptions regarding whether such elections have or have not been made. You should describe generally how the result would differ under alternative assumptions, but you need not prepare alternative calculations.
### Question 1

**A. Ellie's taxable gifts for 1993:**

<table>
<thead>
<tr>
<th>Trust #1</th>
<th>Gift of income interest to J.R.</th>
<th>$910,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gift to John Ross of remainder</td>
<td>$90,000</td>
</tr>
<tr>
<td>Trust #2</td>
<td>Gift of income interest to Bobby</td>
<td>$930,000</td>
</tr>
<tr>
<td></td>
<td>Gift of remainder to Christopher</td>
<td>$70,000</td>
</tr>
<tr>
<td>Trust #3</td>
<td>Gift falls under § 2702 so life estate is valued at -0- &amp; Ellie makes gift of</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Trust #4</td>
<td>Gift of entire interest (Reversion not qualified)</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Trust #5</td>
<td>Gift doesn't meet requirements of qualified annuity or unitrust (Taxable gift but not deductible)</td>
<td>$320,000</td>
</tr>
</tbody>
</table>

Gift of $1 million to Dusty in exchange for relinquishing his marital property rights is a gift as his property rights are not consideration under the code in money or money's worth $1,000,000

Less: 4 $10,000 exemptions $40,000

[J.R.'s & Bobby's Life estate & Martha's present life estate; Dusty's current gift of $1 mil cash]

1993 Total amount of gifts $5,280,000

No $10,000 exemption allowed for any future interests (remainders).

The charitable remainder to St. Mary's Law School is not deductible as it does not meet the requirements of a qualified charitable remainder annuity trust or a charitable remainder unitrust.
In Trust #5, Martha's transfer of $680,000 life estate for herself is not a gift as a taxpayer cannot make a gift to himself. The gift of the charitable remainder is a gift for gift tax purposes, it just does not qualify for the charitable deduction (or the $10,000 exclusion as it is also a future interest).

The promise to give Dusty Ellie's home and furnishings is not a present gift because Ellie has neither placed the home in trust or otherwise irrevocably conveyed Dusty's right to the home. If she did transfer the home into trust, the furnishings would not qualify for special exclusion under § 2702, only the home would qualify as a qualified interest.

**B. Ellie's gift tax liability for 1993**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ellie's total gifts after the § 2503(b) exclusion</td>
<td>$5,280,000</td>
</tr>
<tr>
<td>Tax on $5,280,000</td>
<td>2,544,800</td>
</tr>
<tr>
<td>Less: Unified Credit</td>
<td>192,800</td>
</tr>
<tr>
<td>Total gift tax liability for 1993</td>
<td>$2,352,000</td>
</tr>
</tbody>
</table>

Use of unified credit is mandatory for gift tax.

**C. Current & Future GST tax consequences**

Ellie's $1 million gift to Dusty is a direct skip as Dusty is 40 years younger than Ellie and they were not married at the time she gifted him the money (which would automatically bump him up to her generation for GST tax purposes). The GST tax on this direct skip, if paid by Ellie will also be a part of her taxable gifts under § 2515. It is therefore necessary to calculate her GST tax for 1993 before computing her gift tax liability above. In this case, however, since Ellie has not to our knowledge ever made any gifts, her $1 million GST exemption will cover any tax liability for GST taxes on this direct skip and our calculation of her 1993 gift tax liability will remain unchanged.

Whether or not the trusts to Ellie's sons for life with remainder to her grandson will be taxed as a direct skip or a taxable termination depends upon whether or not Jock made a QTIP election or a reverse QTIP election on his estate tax return. If a QTIP election only was made with regard to Ellie's life estate, then the transferor of the property will then be Ellie and any GST made by her will have to be covered by her $1 million exclusion. If a reverse QTIP election is made under §
2652(a)(3), Jock will be considered the transferor for the portion of his estate which he elected the reverse QTIP, thus enabling his $1 million exemption to be utilized to transfer wealth to generations below.

At the time the trusts are created, the trust is not considered a skip person because no person with a current interest is a skip person. When J.R. and Bobby die, there will be a taxable termination because all of the remaining trust corpus will be distributed to skip persons.

Because Ellie's only 1993 GST was the direct skip to Dusty, she will not owe any GST tax for 1993. She could, however, allocate a portion of her $1 million exemption to the future GST taxable terminations which will arise out of the trusts she has created for her 2 grandchildren. This would depend upon whether or not some of the GST tax might be covered if Jock elected reverse QTIP for part of his estate and there was actually $2 million of exemption to be spread throughout these transfers.

One reason she might want to allocate her exemption to other than the direct skip would be to freeze the value of the GST at the present value of what assets were placed in trust and not eventually incur GST taxes on an appreciated value of the remainder interest.

OUTSTANDING JOB ON PART ONE
Question 2

A. Ellie's Gross Estate

Everything owned at death $14,000,000
Corpus of trust from Jock's will (assuming he elected QTIP) 6,000,000
Gift tax paid on gifts within 3 years of death under § 2035 2,352,000
Trust #3 included under § 2036 1,200,000
Trust #4 Ellie's reversion interest 740,000

Total gross estate $25,492,000

B & C. Ellie's taxable estate & tax

Gross estate $25,492,000
Less: Expenses of administration 300,000
Charity deduction 1,200,000
Marital deduction 1,500,000

Taxable Estate $23,272,000

Plus: post-1976 taxable gifts not included in gross estate:

Trust #1 1,000,000
Trust #2 1,000,000
Gift to Dusty 1,000,000
Trust #4 gift of $1 million less the $740,000 reversion which is included in estate 260,000

Total amount to compute tax $26,532,000
D. GST at Ellie's death

The $6 million from Jock's trust which is to be distributed equally to John Ross and Christopher will be a direct skip as these are grandchildren of Ellie's. Even though the funds are to be held in trust for the 2 grandchildren until age 35, there is a present interest in the trust corpus because the independent trustee has full discretion to distribute corpus or income to each of the grandchildren as he sees fit. This is a direct skip because no person holding a present interest in the trust is a non-skip person & both interest holders are skip persons. The 2 grandchildren are deemed to have a present interest in the trust because they have a present interest in receiving both income and/or principal as required under the trust instrument.

The $1.5 million to Dusty involves no GST because even though he is 40 years younger than Ellie, he was married to her at her death and therefore has the same generation assignment as Ellie.

The Trust #1 and #2 will result in taxable terminations upon the death of J.R. and Bobby respectively, but Ellie's death does not trigger any GST on these 2 trusts.

GST rate = Maximum estate tax rate times the inclusion ratio

Inclusion ratio = 1 minus the applicable fraction

Applicable fraction = amount of exemption allocated to this transfer/ amount transferred.

If we assume that Ellie allocated all of her $1 million exemption to the gift to Dusty of $1 million prior to their marriage, the GST on this $6 million direct skip will be as follows:

GST rate = 55% times 1 or 55%; 55% of $6 million = 3,300,000
The applicable fraction would be zero because there would be no exemption left. Please note, however the previous discussion regarding a reverse QTIP election Jock could have made in order to fully utilize both his $1 million exemption and Ellie's $1 million exclusion for GST. The amount of exemption would depend upon this and whether or not Ellie elected to also allocate some of her $1 million exemption to the future taxable terminations in the 2 trusts she set up for her son's with remainders to her grandchildren while she was alive.
Section 1

A. The first gift to address is Ellie's exchange of $1,000,000 in cash and securities to Dusty on Nov. 30, 1993. The issue is whether or not Dusty provided valuable consideration for the exchange. Under contract law, Ellie might have an argument that the pre-nuptial agreement was adequate consideration for the money. However, 2512(3) says that when property is transferred for less than adequate consideration in "money or money's worth" shall be deemed a gift. A pre-nuptial agreement is not "money or money's worth." Also, Wayne is on point in applying 2512 the court held that forfeiture of an income interest in an old trust was not consideration in "money or money's worth."
Addendum - Because Ellic and Duszy were not married until 1994, this gift will not qualify for the marital deduction under 2523.
Thus, the $1 million to Dusty would be a "completed gift" in 1993. The transfer of residence and furnishings is testamentary in nature because it was made contingent on whether or not Dusty survived her and if so it would take effect at her death. Thus, this is not a completed gift for gift tax purposes.

Trust #1 will be subject to a gift tax on the $1 million corpus. 261200) says to value the gift at the date of the gift, as to the fair market value FMV. Trust #2 will also result in a "completed gift" for the same reason noted above. A "completed gift" requires
relinquishing "dominion and control," although
derivative intent is irrelevant for gift tax purposes)

(Wexner). Trust #3 - The general rule is that

the gift to the trust of the remainder to J.R.

and Bobby is all that would be subject to
gift tax. (Reg does allow gifts made to

trusts). However, 2036 applies here, which

involves special valuation rules in case of transfers

of interests in trusts. It says that a transfer

of one interest to a family member (J.R. and

Bobby, one he sons) is to be valued at the full

amount. None of the exceptions apply, thus

the amount of the gift is $1,000,000. The
policy reason for this is that we don't want the

trustee to be able to vary the income/remainder

interest via inconsistent distributions. Trust #1

The amount of the gift would be the entire

amount paid to the trust minus Ellis's recursion

interest. Thus, the gift, completed, is

$600,000, including the contingent remainder. Trust #5.

The "completed gift" in this trust is the remainder

to the charity of $300,000. However, there is no

charitable deduction allowed under 2522 during

charitable life because there are no qualified trusts.

involved. (C.R.A.T. or C.R.U.T.). Thus, she

will have to wait until death to take the
Charitable deduction. Thus, Ellie's taxable gifts for 1993 are as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Trust</th>
<th>Purpose</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>Trust #1</td>
<td>Disney</td>
<td>John Roe</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>Trust #2</td>
<td>Bobby</td>
<td>Christopher</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>Trust #3</td>
<td>Trust #3</td>
<td>Mute Mute</td>
</tr>
<tr>
<td>$400,000</td>
<td>Trust #4</td>
<td>Trust #4</td>
<td>Charity</td>
</tr>
<tr>
<td>$320,000</td>
<td>Trust #5</td>
<td>Trust #5</td>
<td>Charity</td>
</tr>
<tr>
<td>$720,000</td>
<td></td>
<td><strong>Taxable Gifts</strong></td>
<td></td>
</tr>
</tbody>
</table>

2503 says that "taxable gifts" mean the total amount of gifts made during the calendar year less deductions. As previously indicated, there are no charitable or marital deductions allowed.

2503 (b) allows Ellie a $10,000 exclusion from taxable gifts, per donee, made during the calendar year for all present interests and not future interests. Thus, Disney, J.R., Bobby and Mute Mute would all be entitled to the exclusion because their interests are present and not a remainder.

\[
\begin{align*}
\text{\$4,720,000} & \quad \text{Taxable Gifts} \\
\text{\$40,000} & \quad \text{Exclusion} \\
\text{\$4,680,000} & \quad \text{Taxable amount}
\end{align*}
\]
B. Answer

$4,680,000  Taxable amount  $1,290,800
$2,214,900  2001(c) Imposition of Tax  $924,000
$192,800  2505 Unified Credit
$2,022,000  Total gift tax due 1993

(The above calculation assumed that Ellie had never made any prior gifts which would have pushed us up higher in the rate structure.)

C. The first CAT issue to address is whether the

$1 million transfer to Dusty qualified. The general

rule under 2651(d) of generation assignment

is that persons who are not lineal descendants

shall be classified by total discrepancy in age.

Ellie is 40 years older than Dusty, thus,

2651(d) would assign Dusty to the 2nd generation

below the transfer would qualify as a

"direct skip" transfer under 2612(a). A Chap.12
Completed gift + 2 or more generations removed?

However, (D) applied only if the person cannot be assigned according to 2651 (a) or (c). (E) applies to the marital relationship and would put Dusty into the same category as the transferee.

However, my argument is going to be that even the disallowance of the marital deduction, 65T is going to apply in this case because the 2 were not married as of 12/31/93.

Trust #1 is not a "skip-branch" because J.R. has a present interest and he is not a skip person. On his death however, a taxable termination will occur and cause 65T to apply.
Trust #2 - Not a "skip-pen"). For the same reasons noted above, taxable termination on death.

Trust #3 has no GST implications at all because J.K. and Bobby are only 1 generation removed from the transfer.

Trust #4 has no GST implications because none of the trust recipients are below the generation of the transfer. The same is true for Trust #5.

Thus, the total GST effect on Elliot’s 1993 distributions are as follows:

- $1,000,000 "Direct skip" to Dudley
- $1,000,000 GST exemption 2631
- GST tax liability for 1993

However, 2515 would apply here because the gift was a "direct skip." This would increase
the gift tax by $1,000,000 x 55% or $550,000.

In addition, because Ellie has used all
of her Gift exemption, the inclusion ratio
will be 1 (1-0) for Trusts #1 and #2 upon
their taxable termination. However, if Ellie
received the property from Jack via the
2056(b)(7) election (which she would of had
to make because Ellie’s interest is terminable
under 2056(b)(2)), she could have the "Transfer" for GST purposes, she could make a partial
reverse Q-TIP election under 2652(b)(3)(i) which
effectively make Jack the transferee for GST
purposes. The partial "splitting" of trusts
would be allowed under 2054-1(c)(2) if it were a "fair" representation of the assets.
Question #2

A. Ellie's Gross Estate:

1st we must determine what Ellie owned outright at death. 2033 would exclude this property and the valuation is "at the moment after the decedent's death" at FMV (Goodman v. Boaz) Under 2033 we would exclude all of the property listed (even the exempt property such as the residence and jewelry) for a total of $14 million. The next issue is Jack's trust. Assuming a 2056(b)(7)

A-T-P election was made (had to because 2056(b)(2)

her interest was "terminable" if they worked deduction at Jack's death) at Jack's death.
the property would have passed tax free under Jack's estate. Under normal circumstances, had the O-TIP election not been made, nothing would be included at Ellis' death because she had no interest at death and was already taxed once in Jack's estate. A marriage is deemed to be 1 economic unit. The cost of the O-TIP election is that Ellis includes the entire amount in her estate under 2044.

Under 207A, the surviving spouse's executor can receive the tax payable out of the first assets, so the surviving spouse is not taxed.
Addendum - Ellie had a power to appoint the corpus at her death. This power was non-general or "special" because she had to appoint only to the deceased (rather than disinherits) and could not appoint to herself. Thus, 2041 would be 0% assuming no QTIP election was made by Jock's estate.
infancy. Thus, at Ellie's death, she would include the entire $6 million value in her estate under 2044.

**Trust #1** - Ellie has no interest in Trust #1 and therefore would exclude it from her estate. However, the issue of 2035 applies - transfers made within 3 years of death. 2035(d)(1) will act to exempt this transfer because the transfer tax was handled via the gift tax and the gift tax shield 2035(d)(2) is N/A. However, 2035(c) will apply to bring back the wealth lost by payment of the gift tax.
Trust #2 - See discussion for trust #1.

Trust #3 - This is the classic 2036 transfer of property with a retained life estate. Thus, the FMV of the entire corpus at death, $1,200,000, will be brought back in as part of the artificial gross estate.

Trust #4 - Ellie's gross estate would include the FMV of the trust minus the value of Marthin's life estate, at death, under 2037. $1,200,000 - 338,000 \times \frac{74.0}{100} = 740,000 - 130,000.
Accidental. Mother's contingent remainder is
the only interest subject to this and the
value of the reversion is greater than $200.

immediately before death. (which it was
$130,000.

In this case). Thus, $130,000 is the
amount included under 2031 at Ellie's
depth. 2035 (a)(2) also applies. 2033 is

1/2 because the value immediately after
depth for Ellie is $6.

See Next Blue Book!
Trust #5 - Would include the FMV of the trust corpus at date of decedent's death under 1036. Ellie retained a life estate. She will be entitled to a charitable deduction for the amount that passes to the charity at death, $1,300,000.

Ellie's total gross estate will be as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2033</td>
<td>$14,000,000</td>
</tr>
<tr>
<td>2044</td>
<td>6,002,000</td>
</tr>
<tr>
<td>2036 (T#3)</td>
<td>1,200,000</td>
</tr>
<tr>
<td>2037 (T#4)</td>
<td>130,000</td>
</tr>
<tr>
<td>2036 (T#5)</td>
<td>1,200,000</td>
</tr>
<tr>
<td></td>
<td><strong>$22,530,000</strong></td>
</tr>
</tbody>
</table>
B. In order to determine Ellis's taxable estate, the deductions have to be made:

2053 - $30,000 of administration expenses

because it fits into one of the categories set forth under 2053.

2055 - $430,000 to the St. Mary's Univ. via the trust, which becomes absolute upon her death.

2056 - $1,500,000 for the residence and furnishings to Ellis's husband Dusty. The "in trust" is in fee and thus is not subject to the Terrible In Testimony rule.
Thus, Ellis's taxable estate is as follows:

<table>
<thead>
<tr>
<th>Gross Estate</th>
<th>$22,530,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductions:</td>
<td></td>
</tr>
<tr>
<td>2053</td>
<td>$300,000</td>
</tr>
<tr>
<td>2055</td>
<td>$20,000</td>
</tr>
<tr>
<td>2056</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,500,000</td>
</tr>
<tr>
<td></td>
<td>2,120,000</td>
</tr>
</tbody>
</table>

\[
\text{Taxable Estate} = \sqrt{20,385,000} = 21,922,000
\]

\[
\text{Taxable Estate} = \frac{21,922,000}{22,332,000} = 1.08
\]

C. Taxability:

<table>
<thead>
<tr>
<th>Taxable Estate</th>
<th>$22,332,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Taxable gifts not included in Gross Estate</td>
<td></td>
</tr>
<tr>
<td>Donor</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Trust #1</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Trust #2</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Trust #3</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Trust #4</td>
<td>299,000</td>
</tr>
<tr>
<td>Trust #5</td>
<td>336,000</td>
</tr>
<tr>
<td></td>
<td>3,990,000</td>
</tr>
<tr>
<td>Next estate</td>
<td>$290,000</td>
</tr>
<tr>
<td>Net estate</td>
<td>$26,322,000</td>
</tr>
<tr>
<td>$26,022,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>2001 Tax - 55%</td>
<td>14,177,100</td>
</tr>
</tbody>
</table>
2001 Tax:

14,477,100

Less: Section 2030 credit

1,925,000

Less: Gift tax paid

2,022,500

Net estate tax payable

12,262,300

D. GST at Ellie's death:

The distribution, by will, to John Ross and Christopher in equal shares represents a GST. The result is a direct skip because the beneficiaries are 2 generations removed from the transferor. Thus, section 2632 is met: Chap.11 distribution + GST.

Ellie can make a partial reverse QTIP election under 2632 which would make
Jack the transfer instead of her, thus allowing him to use his 71st and CST Exemption. (see previous explanation as to why partial Q-Tip may be elected, although, here it doesn't matter because she has used up all her CST during life and therefore should reverse Q-Tip the whole.) The remaining 5 million would be subject to CST tax.

Trust #1 and Trust #2 are affected for CST purposes only upon J.H. and Bobby's death. The 2033 property left outright to J.H. to J.D. and Bobby is not CST because they are only 1 generation removed.
And now that Dusty and Ellie were married, there is no GST as to the receipt of the bequest because he is not assigned to the same generation as Ellie.

We must also assume that John and Christopher's parents are still alive, otherwise the generation would be "bumped up" and no GST would occur.

The GST liability at Ellie's death would be:

<table>
<thead>
<tr>
<th></th>
<th>Jack</th>
<th>Ellie</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$3,000,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>GST</td>
<td>$1,000,000</td>
<td>GST wound up</td>
</tr>
<tr>
<td></td>
<td>$2,000,000</td>
<td>inclusion at $1</td>
</tr>
<tr>
<td></td>
<td>$780,500</td>
<td>GST (2001)</td>
</tr>
<tr>
<td>Total</td>
<td>$2,709,000</td>
<td>GST (2001)</td>
</tr>
</tbody>
</table>