1972

Estate Planning: Final Examination (May 1972)

William & Mary Law School

FINAL EXAMINATION
Estate Planning

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Mr. Donaldson

I

Sam Brown and Ben Gray are equal stockholders in Brown-Gray Enterprises, Incorporated. Their business has an estimated net value of $300,000. Brown, who is 46, and Gray, who is 40, are concerned about continuing the business after the death of one of them, and want to arrange for this contingency. It is their hope that the survivor would be able to continue the business. What would you recommend to them as an agreement which would be fair and advantageous. Outline the essential provisions and note any special tax considerations.

II

A number of "reforms" in the estate and gift tax laws have been proposed recently. What are these proposals and how would they affect estate planning practices?

III

Joseph Edwards, who is 47 years old, owns all the stock in X corporation, and is its president. The business, which has a current value of $200,000 and only a minimal amount of accumulated earnings and profits, is growing rapidly and Edwards is convinced that it will be worth a million dollars within 10 years. X corporation has only one class of stock outstanding. At the present time Edwards principal asset is the business and he has a devoted wife and an infant son, and no estate plan. Hie is fearful of dying a millionaire and owing such large amounts of death tax that a substantial amount of the stock might have to be sold. He hopes that his wife and son will succeed to the business and that outside control or interference in his business pursuant to a forced sale of stock can avoided or minimized. Edwards does't want to bother with inter-vivos trusts, nor does he want to give any of his common stock to his wife or son during his life. What, if anything, should Edwards do to achieve his objective? Explain, noting any tax considerations.

IV

Sam Jones, a wealthy, married alumnus of the law school, wants to endow the Sam Jones Memorial Scholarships, but wants no scholarships to be granted until the corpus of the fund is $100,000. Jones, who is 47 years old, is prepared to give $3,000 annually to endow the scholarship fund, and has just learned that for $3,000 annually he can take out a straight life insurance policy at a face amount of $100,000. From an estate planning standpoint, what should Jones do? Explain any tax considerations.

V

Edward Smith has retained you to develop an estate plan for him. He is a key executive with a large company and draws an annual salary of $50,000. His fringe benefits include convertible group term insurance in a face amount of $75,000 of which he has named his estate as beneficiary and a retirement plan that will pay him $15,000 annually upon disability or retirement, with a guaranteed pay out of $60,000. Should he die before retirement, the guaranteed pay-out is payable as he elects, and he has designated his wife as payee. Smith's other assets consist of 500 shares of IBM stock worth $70,000 which average $4,000 annually in dividends, and 1,000 shares of AT&T stock worth $60,00 and which average $3,000 annually in dividends. He also owns a farm worth $200,000 which he leases to a tenant for an annual rental of $18,000. Smith also enjoys $5,000 annual income from the Smith Trust, which was established under the will of his father and under which Smith holds a life estate with power to appoint the corpus, in fee or in trust, to any person related to him by blood or marriage but not to himself, his estate or his creditors. The corpus of the trust is valued at $100,000. Smith owns his home, which is worth $70,000 and Smith furnished all the considerations. Smith also owns, with his wife as tenants by the entirety, a vacation home which cost $15,000 to build and was built on a waterfront lot which his wife inherited, and which, at the time of the creation of the tenancy by the entirety was worth $5,000, which was also it basis. Smith's other assets consist of savings of $15,000 and personal effects of $10,000. He has no liabilities. It is estimated that, apart from taxes, the expenses of settling his probate estate would be 6% of the probate assets. Smith, who is 54 years old, is married to Jane, age 50, who is devoted and has no independent wealth. Smith has two children, Sam, age 16, who is very bright and wants to be a doctor, and Alice, age 14, who is very attractive, but somewhat of a slow learner. Smith is the sole support of Mary Phillips, his wife's sister, who is 61 years old, and to who he gives $3,000 annually. SMith is a frugal man and invests about $30,000 of his income annually. Smith has no will and has made no taxable gifts. He has great respect for his wife's judgement: His planning objectives are the following:

1. Security to himself and his family during his life.
2. Adequate liquidity in his estate.
3. Reducing income tax liability and minimizing estate and gift taxes.
4. A gift of $100,000 to his alma mater, which can be during his life, or at his death, or at his wife's death-he has no preference as to timing. (He is already giving $5,000 annually to various charities).
5. Security for his son and daughter.
6. Security for his wife.
7. Provisions for unborn grandchildren (low priority).

If Smith died without a will, his wife would receive a statutory share of 1/4 of his probate estate. Devise an estate plan for Smith.