

1970

Taxation of Estates & Trusts: Final Examination (January 15, 1970)

William & Mary Law School

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TAXATION OF ESTATES & TRUSTS

FINAL EXAMINATION

January 15, 1970

1. The trust instrument provides as follows: 40% of the income of the trust must be paid currently to my wife W (from all items of income); 10% of the trust income to be paid annually to X charity (from all items of income); 20% of the trust income to be paid, at the discretion of the trustee, to my son S (from all items of income); and up to \$5000 per year, at the discretion of my trustee, to my married daughter D, out of dividend income only, after distribution to W, X, and S. If less than \$5000 of dividend income is left after the distributions to W, X, and S, then such balance shall be the limit of the amount available to D. The balance of the trust income is to be accumulated. Capital gains are corpus. The trust instrument does not specifically provide who is to deduct depreciation on rental property. The trust instrument also provides that in case of emergency the trustee may distribute any amount to W from current income, accumulated income or corpus. It further provides that \$30000 is to be paid to B (brother of grantor) in 3 annual installments of \$10,000 each (irrespective of the income of the trust), starting during 1974. The trust was set up in 1962.

During 1976 the trust had the following income and expenses:

Income:

Rents	40000
Dividends	40000
Long term capital gains	10000
Short term capital gains	10000
Tax exempt interest	20000

Expenses:

Various rental expenses	10000
Depreciation on rental property	10000
Trustee's commissions on income items	5000
Trustee's commissions on corpus items	1000

During 1976 the trustee distributed the required amounts to W and X and B, the discretionary amount to S and the \$5000 to D. He also distributed 31100 to W on account of an emergency.

The chart below shows the facts regarding the trust's preceding years:

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
DNI which trustee did not distribute*	5100	6100	7100	8100	9100	10100
Long term capital gain			10000			
50% deduction			(5000)			
Exemption	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>
Taxable income	<u>5000</u>	<u>6000</u>	<u>12000</u>	<u>8000</u>	<u>9000</u>	<u>10000</u>
Tax	<u>933</u>	<u>1130</u>	<u>2830</u>	<u>1630</u>	<u>1910</u>	<u>2190</u>

*consists of taxable income only

The chart below shows W's taxable income in preceding years:

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Taxable Income	<u>0</u>	<u>1000</u>	<u>2000</u>	<u>3000</u>	<u>4000</u>	<u>5000</u>
Tax	<u>-0-</u>	<u>145</u>	<u>310</u>	<u>500</u>	<u>690</u>	<u>900</u>

You are to determine the taxable income of the trust for 1976. (This of course involves the worksheet we have used all semester). Also the taxable income of W, S, D, and B and the character of income each has received. None of the beneficiaries have other income than that distributed. Dividend exclusion and exemptions are to be included in your calculations. W's tax for 1976 is also to be computed (by the exact method only): she is single (grantor is dead) and uses the standard deduction.