

CONTENTS

<i>Preface</i>	<i>xxv</i>
<i>Acknowledgments</i>	<i>xxix</i>

1	SETTING THE STAGE: THE BASICS OF GRATUITOUS TRANSFERS	1
	§1.1. Review of Property Concepts	1
	A. History of Law of Gratuitous Transfers	1
	B. Glossary of Terms	5
	§1.2. Review of Basic Income Tax Concepts Relating to Gratuitous Transfers	18
	A. Income Exclusions	18
	B. Nondeductibility of Gifts	19
	C. Basis of Transferee	19
	§1.3. Looking at the Big Picture	21
	A. Relation of the Transfer Taxes to the Income Tax	21
	B. Typology of Wealth (Transfer) Taxes	22
	C. Should the Federal Transfer Taxes Be Retained?	24
	Gerald Jantscher, Aims of Death Taxation	24
	Kriston McIntosh, Emily Moss, Ryan Nunn & Jay Shambaugh, Examining the Black-White Wealth Gap	30
	Dedrick Asante-Muhammed, Chuck Collins, Josh Hoxie & Emanuel Nieves, The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries	31
	Amy Matsui, Kathryn Menefee & Amy Royce, Advancing Gender and Racial Equality by Taxing Wealth	32
2	OVERVIEW OF THE FEDERAL TRANSFER TAXES	35
	§2.1. Prelude	35
	§2.2. The Federal Estate Tax	36
	A. Overview	36
	B. Augmented Gross Estate	38
		xi

C. Net Estate Subject to Tax	40
D. Rates and Exemption-Equivalent Amounts	40
1. Progressivity	40
2. Credit in Lieu of Deduction	40
3. Increase in Size of Tax-Free Estates Over Time	42
4. Exemptions vs. Deductions	43
§2.3. The Federal Gift Tax	44
A. Overview	44
1. The Bird's-Eye View	44
2. A Visual Illustration	45
B. Gift Tax Concepts and Computations	46
1. Progressivity in Gift Tax	46
2. The Mechanics	46
3. The Four Questions	49
C. Sneak Preview: What Type of "Transfer" Is the Kind That Is Subject to Gift Tax?	49
D. Sneak Preview: What Are Incomplete Gifts?	50
E. Sneak Preview: What Is the Annual Exclusion?	50
§2.4. Sneak Preview: The Gift and Estate Tax Marital Deductions	52
A. Spouses as Separate Taxpayers	52
B. Tax Advantages of Owning Community Property and Advantages of Portability	52
C. The Gift-Splitting Election	54
D. The Marital Deduction	54
1. The Original Version	54
2. The Current Unlimited Marital Deduction	55
§2.5. Relation of Estate and Gift Taxes	56
A. Unification of Estate and Gift Taxes	56
B. Transfers Subject to Both Gift and Estate Tax	58
C. Pros and Cons of Gifts	59
1. The Taxability of the Gift Tax Paid	59
2. The Bracket Effect	60
3. The Gift Tax Exclusions	61
4. Support Obligations	61
§2.6. Overlapping Transfer Tax Jurisdictions	62
A. State Death Taxes	62
B. Credit for Foreign Death Taxes	63
§2.7. Credit for Prior Estate Transfers	63
§2.8. The Federal Generation-Skipping Transfer Tax	64

3	GIFT TAX BASICS	71
§3.1.	The Type of Transfers Subject to Gift Tax	72
A.	Rendering Services Is Not a Transfer Subject to Gift Tax	72
B.	Economic Waste and Personal Consumption Are Not Transfers Subject to Gift Tax	73
C.	Transfers in the Ordinary Course of Business Are Not Transfers Subject to the Gift Tax	74
D.	Political Contributions Are Not Transfers Subject to Gift Tax	75
E.	Transfers Mandated by Law: Taxes, Fines, Penalties, Support Obligations (and More) Are Not Transfers Subject to Gift Tax	77
1.	Overview	77
2.	Rationale	77
F.	Divorce-Related Transfers Are Not Subject to Gift Tax	79
§3.2.	The Meaning of “Gift”	80
A.	The Test Is Largely Objective	80
B.	The Meaning of “Full and Adequate Consideration in Money or Money’s Worth”	81
1.	Meaning of “Money’s Worth”	82
<i>Merril v. Fahs</i>		82
2.	Transfers for Partial Consideration	85
3.	Below-Market Term Loans	86
4.	Sham Loans	87
<i>Revenue Ruling 77-299</i>		87
5.	Below-Market Demand Loans	89
§3.3.	Completion	93
A.	Lifetime Transfers	93
1.	What Makes a Transfer Incomplete?	93
2.	Completion of Incomplete Transfers	96
3.	Problems Involving Jointly-Held Powers	97
B.	Binding Agreements to Make Future Transfers	101
<i>Estate of DiMarco v. Commissioner</i>		103
§3.4.	Available Exemptions and Deductions	108
A.	Annual Exclusion Gifts Are Not Taxable Gifts	108
1.	General Outline of the Annual Exclusion	109
2.	Exclusion for Present-Interest Gifts Under §2503(b)	110
<i>Maryland Nat’l Bank v. United States</i>		112
3.	Gifts to Minors	116
4.	Qualifying a Transfer of an Interest in Trust as a “Present” Interest Via Crummey Powers	118
B.	Direct Payments for Medical Care and Education Are Not Taxable Gifts	125
<i>Priv. Ltr. Rul. 200602002</i>		126

	<i>Tax Benefits, Higher Education, and Race: A Gift Tax Proposal for Direct Tuition Payments, 72. S.C. L. REV. 783, 793, 798, 802-04 (2021)</i>	128
C.	Deductible Transfers	130
D.	When All Else Fails, Remember the Applicable Credit	130
§3.5.	Valuation of Gifts	130
A.	The Willing-Buyer Willing-Seller Test	131
B.	Can the Gift Itself Affect Its Value? <i>Revenue Ruling 93-12</i>	133 133
C.	Actuarial Tables	135
	1. Construction and Use of the Tables	136
	2. Retained-Interest Gifts	138
D.	Defined-Value Clauses	139
§3.6.	Identifying the Donor	145
A.	Transfers by Entities and Fiduciaries	146
B.	Indirect Transfers <i>Revenue Ruling 76-490</i>	146 147
C.	Constructive Transfers	149
	1. Allowing Another to Dispose of One's Property	150
	2. Refusing to Accept a Gratuitous Transfer <i>Commissioner v. Estate of Vease</i> <i>Redstone v. Commissioner</i>	151 154 156
4	THE BASIC ESTATE	165
§4.1.	Property Passing by Will or Intestacy	166
A.	What Is "Property" of the Decedent Under §2033?	166
	1. Possession Not Required for Inclusion	167
	2. Contingent Rights Are Includible	168
	3. Mere Expectancies Are Not Includable	169
	4. Discretionary Powers to Control Beneficial Enjoyment Are Not Includible Under §2033	170
B.	Interests That Expire by Reason of the Decedent's Death	171
C.	Interests That Spring into Existence at the Decedent's Death	172
D.	The Role of State Law in Tax Disputes	174
§4.2.	Deductions Under §§2053, 2054, and 2058	178
A.	Overview	178
B.	Claims Against the Decedent Arising Before Death	179
C.	Claims Against the Estate (Other than Death Taxes) Arising After Death	182
D.	Death Taxes	184

§4.3. Estate Tax Valuation	186
A. Estate Tax Valuation Date	187
B. Additional Valuation Rules	187
§4.4. Estate Tax Procedure	192
A. Returns	193
B. Payment	193
C. Burden of the Estate Tax	193
D. Portability and the Problem of Late Elections	194
5 NONPROBATE TRANSFERS	197
§5.1. Revocable Trusts	197
§5.2. Jointly Held Property	200
A. Effect of State Law	201
B. Gift Tax Treatment of the Creation and Termination of Joint Tenancies	203
1. Creation of Joint Ownership Property	203
2. Creation of Joint Bank and Brokerage Accounts	204
3. Termination of Joint Ownership During Life	205
C. Estate Tax Treatment of Joint-Ownership Arrangements	206
1. Non-Spousal Joint Tenancies	206
2. Spousal Joint Tenancies	209
3. Joint Tenancies Created by Third Parties	209
4. Valuation of Included Portion	209
5. Income Tax Basis	210
D. Avoiding §2040	210
1. Surrender Within Three Years of Death	210
2. Terminations and Transfers to Avoid §2040(a)	210
§5.3. Commercial Annuities	213
A. Nature and Function of Commercial Annuities	214
B. Gift Tax Treatment of Commercial Annuities	215
C. Estate Tax Treatment of Commercial Annuities	216
D. Annuity-Insurance Combinations	217
<i>Estate of Montgomery v. Commissioner</i>	218
E. Valuation of Lottery Payments Included Under §2039	219
§5.4. Survivor Benefits Under Employee Plans	222
A. Characteristics and Income Tax Treatment of Employee Plans and Survivor Benefits	222
1. Qualified Plans	223
2. Individual Retirement Accounts	224
3. Nonqualified Plans	225
4. Income Tax Treatment of Survivor Benefits	226

B. Estate Tax Treatment of Survivor Benefits	226
1. Survivor Benefits Under §2039	226
<i>Estate of Bahen v. United States</i>	227
2. Survivor Benefits Outside of §2039	231
3. Effect of Community Property Laws	232
4. Gift Tax Treatment of Employee Survivor Benefits	232
5. Statutory Survivor Benefits	233
§5.5. Life Insurance	234
A. The Nature of Life Insurance	235
1. Economics of Life Insurance	235
2. Distinguishing Life Insurance from Other Survivor Benefits	236
3. Income Tax Treatment of Life Insurance	238
B. Nontax Uses of Life Insurance	240
1. Revocable Insurance Trusts	240
2. Using Life Insurance to Pay Estate Obligations	241
C. Section 2042(2)	245
1. Possible Approaches	245
2. History of §2042(2)	246
3. Meaning of “Incidents of Ownership”	247
<i>Estate of Skifter v. Commissioner</i>	247
D. Avoiding Incidents of Ownership	255
1. Gift Tax Treatment	255
2. Mechanics of Gifts of Life Insurance	256
<i>Commissioner v. Estate of Noel</i>	257
3. Irrevocable Life Insurance Trusts	258
4. Transfers Within Three Years of Death	259
5. Taking Out Insurance on Another’s Life	259
E. Effect of Premium Payments	264
1. Payment by the Insured on a Policy Owned by Another	264
<i>Estate of Leder v. Commissioner</i>	264
2. Can the Payment of Premiums Be a “Transfer” of the Proceeds Outside of §2035?	266
3. Effect of Premium Payments by the Non-Insured Owner	267
6 MARITAL TRANSFERS	271
§6.1. Purpose and Effect of the Marital Deduction	271
A. Background	271
B. Qualification Requirements	274
1. The “Passing” and “Taxable Transfer” Requirements	274
2. The Terminable Interest Rule	275
3. The PAT and QTIP Trust “Income” Requirement	283
4. Gift Tax Treatment of Transfers of Interests in PATs and QTIP Trusts	287
C. The Amount Deductible	290

§6.2. Marital Deduction Planning	298
A. Aims of Marital Deduction Planning	298
1. Why Marital Deduction Planning Is Mostly a “Tax Game”	298
2. Exemption Amounts and the Two-Track Estate Plan	299
3. Allocating Values Between Marital and Non-Marital Transfers	302
4. Shifting Post-Death Wealth to the By-Pass Trust	304
B. Post-Mortem Adjustments	305
C. Generation-Skipping Tax Planning Involving Spouses	306
§6.3. Drafting the Marital Deduction Transfer	308
A. Formula Clauses	308
1. The Problem of Coordination	309
2. Types of Formula Clauses	310
B. Pecuniary, Fractional-Share, and Hybrid Formula Transfers	314
1. Pecuniary Formula	314
2. Fractional-Share Formula Transfer	315
3. Hybrid Formula Clause	317
<i>Revenue Procedure 64-19</i>	317
C. Funding Marital Deduction Transfers	318
7 LONG-TERM TRUSTS	327
§7.1. Policy Issues	327
A. Background	327
B. What Is at Stake? Taxation and Perpetual Trusts	331
C. Debates Over Long-Term and Perpetual Trusts	331
Jesse Dukeminier & James E. Krier, The Rise of the Perpetual Trusts	332
Stewart E. Sterk, Asset Protection Trusts: Trust Law’s Race to the Bottom	333
Lawrence W. Waggoner, From Here to Eternity: The Folly of Perpetual Trusts	334
Allison Anna Tait, The Law of High-Wealth Exceptionalism	335
Bridget J. Crawford, Who Is Afraid of Perpetual Trusts	335
Danny Fein, In Defense of Perpetual Trusts	336
Bridget J. Crawford, Magical Thinking and Trusts	337
Victoria J. Haneman, Dynasty 529 Plans and Structural Inequality	339
§7.2. Powers of Appointment	341
A. Nontax Definition and Role of Powers of Appointment	342
B. Powers of Appointment Under §2033	343
C. Powers of Appointment Under §§2041 and 2514	345
1. Transfer Tax Meaning of Power of Appointment	345
2. Estate and Gift Tax Consequences of General Powers of Appointment	346

3. Transfer Tax Definition of “General Power of Appointment”	346
<i>Revenue Ruling 77-60</i>	348
<i>Revenue Ruling 76-368</i>	349
4. Jointly Held Powers	351
<i>Revenue Ruling 79-63</i>	352
D. Effect of Action or Inaction by the Donee of a General Power	355
1. “Possession” of a General Power	355
2. Exercise or Release of General Power	356
3. Lapse of General Power	358
§7.3. Income Tax Effects of Possessing an <i>Inter Vivos</i> General Power	361
§7.4. Tax Consequences of Exercising a Special Power of Appointment	363
A. Exercise of Special Power as Gift	363
<i>Estate of Regester v. Commissioner</i>	363
B. The “Delaware Tax Trap”	365
§7.5. Giving Content to the Generation-Skipping Transfer Tax	368
A. Review of Major GST Tax Features	368
B. Additional Rules for Identifying Generation-Skipping Transfers	370
1. Effective Date of the Tax	370
2. Effect of Reverse QTIP Election on the Identity of the Transferor	371
3. Marital and Charitable Transfers	372
4. Special Rules Concerning Beneficiary Status	372
C. Rules Relating to the Amount of a Generation-Skipping Transfer	375
1. Exclusions	375
2. Valuation	377
3. Transmission Costs	378
4. Effect of the GST Tax on the GST Tax Base (and the Gift Tax Base)	378
D. Implications of Tax Base Rules for Planning	379
E. Effect of the Exemption Amount on Planning	381
1. Operation of the Exemption Amount	381
2. Effect of the Estate Tax on the Exemption Amount	381
3. Leveraging the Exemption	382
4. Allocating the GST Tax Exemption	383
5. Estate-Includible Completed Gift Transfers	384
6. Effect of Having Two or More Transferors	384
F. Powers of Appointment and the GST	385
1. Giving a General Testamentary Power of Appointment to Beneficiaries	385
2. Effect of the Exercise of a Special Power of Appointment	386
G. Basis Adjustments	386
H. Postscript: The Perversion of the Concept of a GST Tax: How the Present Tax Encourages the Making of Generation-Skipping Transfers	387

8	GIFTS WITH RETAINED INTERESTS AND POWERS	391
§8.1.	Estate Tax §§2036-2038	391
A.	Overview	392
1.	Brief History of §§2036-2038	392
2.	Elements Required for Inclusion Under §§2036-2038	394
B.	The Interests and Powers that Trigger §§2036-2038	394
1.	Prototypical Situations	394
2.	Holding the String at Death	398
3.	Assigning or Releasing the String Within Three Years of Death	398
	<i>United States v. Allen</i>	399
4.	Contingent Interests and Powers	400
5.	Relations Among §§2036-2038	401
C.	The Reduced Importance of the Concept of a Taxable Retained Power	407
1.	Jointly Held Powers	407
2.	<i>The Helmholtz Doctrine</i>	408
3.	Vicarious Powers	409
	<i>Estate of Wall v. Commissioner</i>	410
4.	Powers of Independent Significance	411
	<i>Estate of Tully v. United States</i>	411
5.	Administrative Powers	413
	<i>Old Colony Trust Co. v. United States</i>	413
6.	The Power to Control Business-Entity Distributions	415
7.	Dispositive Powers Limited by Standards	417
	<i>United States v. Powell</i>	417
D.	The “Retention” of an “Interest” (or Power) Under §§2036 and 2037	423
1.	Meaning of “Retention” in Connection with Outright Transfers	423
	<i>Estate of Linderme v. Commissioner</i>	424
2.	Retention in Trusts for the Benefit of the Settlor	426
	<i>Commissioner v. Irving Trust Company</i>	426
	<i>Estate of Skinner v. United States</i>	428
3.	Indirect Retention by a Settlor Through the Rights of the Settlor’s Creditors	430
	<i>Outwin v. Commissioner</i>	431
4.	Retaining an Interest Vicariously: Trusts for the Support of the Settlor’s Dependents	433
	<i>Estate of Chrysler v. Commissioner</i>	433
5.	Transfers to a Trust Created by Another	435
	<i>United States v. Estate of Grace</i>	436
6.	Effect of Interest Retained on the Amount Includible	438
7.	Can <i>Inter Vivos</i> Transfers Avoid Both Gift and Estate Tax?	439
E.	The Requirement that the Retained Interest (or Power) Be “in” the Property Transferred	446
1.	Segregation into Separate Funds	446
	<i>Fidelity-Philadelphia Trust Co. v. Smith</i>	447
2.	Private Annuities	448

	449
	456
1. Inter Vivos Transfer by the Decedent	456
2. Transfers for Consideration in Money or Money's Worth	460
<i>United States v. Righter</i>	463
<i>Estate of D'Ambrosio v. Commissioner</i>	465
§8.2. Section 2702 and Its Impact on Retained-Interest Gifts	473
A. Section 2702	474
1. Basic Operating Rule	474
2. Why §2702 Was Enacted	474
3. Prerequisites for Applying §2702	475
4. Explicit Exceptions to §2702	476
B. GST Tax Treatment of Retained-Interest Transfers	477
C. Applying the Adjusted Taxable Gift Exclusion	477
§8.3. Split-Interest Charitable Transfers	483
A. Background	484
B. General Qualification Rules	485
C. Charitable Remainder Trusts	486
1. The Charitable Remainder Annuity Trust (CRAT)	487
2. The Charitable Remainder Unitrust (CRUT)	487
3. The Pooled Income Fund	488
4. GST Tax Issues	488
5. Income Taxation of the Charitable Remainder Trust	489
6. Direct Charitable Annuities	489
D. Charitable Lead Trusts	490
1. Qualification	490
2. Estate and Gift Tax Deduction	490
3. Generation-Skipping Transfer Tax Treatment	491
4. Income Tax Treatment	491
E. Non-Trust Partial Interests	491
§8.4. Income Tax Treatment of Transfers with Retained Interests and Powers	496
9 ADVANCED VALUATION ISSUES	497
§9.1. The <i>Byrum</i> Case	497
§9.2. Section 2701 and Entity Estate Freeze Transactions	502
A. Status of Entity Estate Freezes Under §2036(a)	502
<i>Estate of Boykin v. Commissioner</i>	503
B. Entity Estate Freezes Under §2701	505

§9.3. Family Limited Partnerships	509
A. Use of FLPs (and Other Entities) to Obtain Valuation Discounts	509
<i>Estate of Kelley v. Commissioner</i>	510
B. Status of FLPs Under §2036(a)	514
C. The Bona Fide Sale Exception Under §2036(a)	516
<i>Estate of Thompson v. Commissioner</i>	516
<i>Estate of Bongard v. Commissioner</i>	520
D. Indirect Gifts of FLP Assets and the Step Transaction Doctrine	526
§9.4. Section 2704: Voting and Liquidation Rights and Restrictions	533
A. Section 2704(a): Lapsing Redemption and Voting Rights	534
B. Section 2704(b): Transfers Subject to Restrictions on Liquidating the Entity	536
<i>Kerr v. Commissioner</i>	537
10 INTERNATIONAL TAX PLANNING: WEALTH TRANSFER TAX CONSIDERATIONS FOR NON-CITIZENS	541
§10.1 Determining Residency	541
<i>Estate of Khan v. Commissioner</i>	543
§10.2 Tax Treaties	547
§10.3 Overview of U.S. Estate and Gift Tax for the Non-Citizen	548
§10.4 Assets Subject to Transfer Tax	550
A. Intangible Personal Property	550
<i>Estate of Ogarrio v. Commissioner</i>	551
B. Tangible Personal Property	555
<i>Delaney v. Murchie</i>	556
C. Real Property	560
<i>Estate of Fung v. Commissioner</i>	560
D. Jointly Held Property	566
E. Stock of a Corporation	567
F. Partnership Interests	568
<i>Revenue Ruling 55-701</i>	568
G. Insurance Proceeds	570
H. Incomplete Lifetime Transfers	571
§10.5. Computation of Tax for Nonresident Non-Citizens	571
A. Deductions Available to the Estate of a Nonresident Non-Citizen	571
B. Computing Estate Tax Liability	573
C. Computing Gift Tax Liability	573

§10.6. Transfers to Non-Citizen Spouses	574
A. <i>Inter Vivos</i> Transfers	574
B. Testamentary Transfers	575
C. More on Qualified Domestic Trusts or QDOTs	575
<i>Rev. Rul. 96-54</i>	577
D. The QDOT Hardship Exception	579
E. QDOT Asset Requirements	579
§10.7. Basic Estate Planning Approaches	580
A. Intangible Property	580
<i>De Goldschmidt-Rothschild v. Comm'r</i>	581
<i>Davies v. Commissioner</i>	585
B. In/Direct Ownership	588
<i>Fillman v. United States</i>	590
§10.8. Generation-Skipping Transfer Tax	594
11 THE INCOME TAXATION OF TRUSTS AND ESTATES	595
§11.1. Introduction and Overview	595
A. When Trust Income Is Taxed to the Grantor	596
B. When Trust Income Is Taxed to the Beneficiaries	599
C. When Trust Income Is Taxed at the Trust Level	599
D. The Estate as an Income Tax Entity	600
1. The Income Tax Existence of the Individual Ends with Death	600
2. Distinguish Testamentary Trusts	600
3. Estate as an Income Tax “Person”	601
§11.2. State Income Taxation of Trusts and Due Process	605
<i>North Carolina Department of Revenue v. The Kimberley Rice</i>	
<i>Kaestner 1992 Trust</i>	605
Daniel Hemel,	
A Constitutional Right to Skirt Income Tax?	609
Bridget J. Crawford & Michelle S. Simon,	
The Supreme Court, Due Process and State Income Taxation	611
§11.3. Income Taxation of Subchapter J Trusts and Their Beneficiaries	612
A. Overview	612
B. Calculation of Trust Net Income	613
C. How Trust Income Is Shifted to Beneficiaries	613
1. Generally	614
2. “Lesser Of” Aspect of Deductions and Income	614
3. Deductions for Other Than Capital Losses	616

D. Allocation of Income Among Beneficiaries	616
1. Generally	616
2. Simple vs. Complex Trusts (and Estates)	617
3. End of Trust's Taxable Year	618
E. The Conduit Principle	619
§11.4. Debts of the Decedent and the Interplay of the Estate and Income Taxes	621
§11.5. The §691(c) Income Tax Deduction	623
A. Income in Respect of a Decedent	623
B. Funeral Expenses and Other Deductions	624
C. Death Taxes	625
<i>Table of Cases</i>	627
<i>Index</i>	639