



## How Much Do You Really Know About Estate Planning?

### Take this true/false quiz and find out.

- 1. A will provides for the distribution of your assets as intended.
- 2. One disadvantage of probate is that your private assets become a matter of public record.
- 3. If you use the marital deduction, unlimited assets may pass to your spouse tax free.
- 4. The applicable exclusion amount effectively exempts an estate of \$3,000,000 from Federal tax.
- 5. Qualified retirement plan benefits and 50% of all property owned in joint tenancy with your spouse with right of survivorship are included in your gross estate.
- 6. Federal estate tax must be paid 12 months after the estate tax return is filed.
- 7. The highest Federal estate tax rate is 40%.
- 8. A qualified terminable interest property trust (QTIP trust) can help provide a surviving spouse with lifetime income.
- 9. An irrevocable life insurance trust (ILIT) can provide liquidity to help pay Federal and state estate taxes.
- 10. The annual gift tax exclusion limit cannot be exceeded for educational and medical needs.
- 11. With charitable giving, you can receive an immediate income tax deduction for the value of a remainder interest gifted to a charity.
- 12. A properly designed trust will eliminate the need for a will.
- 13. In valuing a business, the future earning capacity of the company can be accurately determined using valuation formulas.

- ( ) 14. Owners of small corporations may prefer a cross-purchase buy-sell agreement because they receive an increase in basis with a cross-purchase plan.
- ( ) 15. Changes in tax laws and changes in a person's family situation are valid reasons for updating an estate plan.

### Answers:

While this quiz is designed to test your general knowledge about estate planning, its larger purpose is to stimulate your thinking about the issues that may need your attention. Let's see how you did.

1. **True.** However, contract assets, such as qualified retirement plans and life insurance policies, will pass according to the terms of the contract.
2. **True.** Probate is always a public proceeding.
3. **True.** In using the marital deduction, you can pass unlimited assets to your spouse without paying estate taxes at your death.
4. **False.** The applicable exclusion amount is \$5,450,000 for each individual in 2016. Through the "portability" of the Federal estate tax exemption, if one spouse dies without making full use of his or her exemption from Federal estate and gift taxes, the surviving spouse has the right to utilize whatever exemption amount the deceased spouse did not use.
5. **True.** All property, of which an individual is considered the owner, is included in the gross estate.
6. **False.** The Federal estate tax return, if required, must be filed—and the tax paid—within nine months of death. The Internal Revenue Service (IRS) may extend the time for payment due to "reasonable cause."
7. **True.** The top rate can be as high as 40% in 2016.
8. **True.** A QTIP trust can provide lifetime income for a surviving spouse, with the creator of the trust determining the ultimate disposition of the trust assets.
9. **True.** The proceeds of an irrevocable life insurance trust are not included in the decedent's gross estate, and such a trust is typically used to help provide liquidity for estate taxes.
10. **False.** Gifts in excess of the annual gift tax exclusion can be made without gift tax implications provided the donor pays the expense *directly* to the service provider (e.g., a college or a hospital).
11. **True.** In gifting a remainder interest, the future value of the gift is discounted to a present value. A deduction is allowed for the present value of the future (remainder) gift on the current year's income tax return.
12. **False.** A trust is not a substitute for a will; some matters, such as appointing guardians for minor children, can only be done through a will.
13. **False.** One valuation method is based on an estimate of future earnings, but estimating the future earning capacity of a company involves a good deal of speculation.
14. **True.** One of the advantages of a cross-purchase buy-sell agreement is that the remaining shareholders receive a "step-up" (increase) in basis.
15. **True.** Changes in tax laws and changes in a person's family situation are typically the primary reasons for updating an estate plan.