

FINAL EXAMINATION  
ESTATE PLANNING: CHARITABLE GIVING  
PROFESSOR CHRISTOPHER R. HOYT  
SAMPLE EXAM -- FALL, 2003

ANNOUNCEMENTS

1. UNLESS STATED OTHERWISE, ASSUME THE EVENTS TOOK PLACE IN 2002 AND THAT 2002 TAX LAWS ARE IN EFFECT.

2. The points and recommended times for the examination are:

	<u>Points</u>	<u>Suggested Time</u>
10 True / False	40	
7 Multiple Choice	42	45 Minutes
Essay Question	<u>50</u>	30 Minutes
	132	

2. **Mark the best answer for the multiple choice questions.** I have tried to make certain that there is only one correct answer to each multiple choice question. If you disagree with any answer (i.e, You think no answers are correct or more than one are correct), to get credit state on **the first page of your blue book** (1) the question number, (2) what you think the correct answer is, and (3) why.

3. Put your exam number on each page of the exam and on the computer sheet.

4. **DO NOT ENTER YOUR REAL NAME.** There are several different exams, each coded with a different letter. This exam is a letter "N" Exam. **Insert this letter in the "NAME" portion of the computer answer sheet.**

5. **MAKE CERTAIN THAT YOU HAVE ALL PAGES OF THIS EXAMINATION!!**

**SOLUTIONS TO TRUE/FALSE & MULTIPLE CHOICE:**

- |      |       |
|------|-------|
| 1. B | 9. B  |
| 2. A | 10. A |
| 3. A | 11. A |
| 4. A | 12. B |
| 5. A | 13. D |
| 6. A | 14. C |
| 7. C | 15. B |
| 8. C | 16. C |
|      | 17. B |

It is understood by the student whose Student Number is entered below that this examination is given and the student's response is made and submitted pursuant to the conditions and provisions of the Honor Code.

Student Exam Number

UNIVERSITY OF MISSOURI-KANSAS CITY  
SCHOOL OF LAW

CHARITABLE GIVING

PROFESSOR HOYT  
FALL, 2002

FINAL EXAMINATION - (N Exam)

PART I - MULTIPLE CHOICE

Value: 100 Points (4 OR 6 points per Question)

Suggested time: 45 minutes

**EACH OF THE FOLLOWING 10 QUESTIONS IS WORTH  
ONLY 4 POINTS  
(THE REMAINING 10 QUESTIONS ARE WORTH 6 POINTS EACH)**

1. Don Donor bid (and paid) \$250 to purchase a \$200 VCR at the public television auction. How much can he deduct?

A. Nothing                      B. \$ 50                      C. \$250

2. Don Donor also purchased \$20 of raffle tickets for a fund-raising event at St. Rita's church (he didn't win anything). The church used 20% of the raffle proceeds to purchase prizes and applied 80% of the proceeds toward charitable purposes. How much can Don Donor deduct?

A. Nothing                      B. \$ 16                      C. \$ 20

3. Dr. Up normally charges \$200 per hour for her services, but she volunteered to work at a charity clinic for 5 hours on a Sunday. How much can she deduct?

A. Nothing                      B. \$1,000

4. Dr. Up also contributed \$2,000 to a Nigerian charity that provided needed food to starving children there. How much can Dr. Up deduct on his income tax return as a charitable contribution?

A. Nothing                      B. \$2,000

5. At the request of his church, Daddy Dearest gave \$4,000 this year to his son to pay for his living expenses while he served as a missionary for the church in a foreign country. According to the U.S. Supreme Court, how much can he deduct?

- A. Nothing                      B. \$4,000

6. On December 28, Trudy U. Skool telegraphed IBM and instructed it to transfer title to 100 shares of her stock (worth \$8,000, but purchased 6 years ago for \$7,000) to State University. IBM changed the registration of the stock on January 4 of the next year. How much can Trudy deduct this year?

- A. Nothing                      B. \$7,000                      C. \$8,000

7. G. Whiz purchased stock in Computer Corp (a publicly traded company) for \$2,000 five years ago that is now worth \$10,000. This year he contributed it to the Boys and Girls Club. How much can he deduct for the contribution?

- A. Nothing                      B. \$2,000                      C. \$10,000

8. Golly G. Whiz purchased stock in Computer Corp (a publicly traded company) for \$2,000 five years ago that is now worth \$10,000. This year he contributed it to his own private foundation. How much can he deduct for the contribution?

- A. Nothing                      B. \$2,000                      C. \$10,000

9. Can a donor acquire a charitable gift annuity by contributing appreciated stock rather than cash?

- A. Yes                              B. No

10. Can a charitable remainder annuity trust hold tax-exempt investments (such as municipal bonds)?

- A. Yes                              B. No

11. Can a charitable remainder unitrust receive additional contributions from the same donor after it has been established?

- A. Yes                              B. No

12. Can a charitable remainder annuity trust receive additional contributions from the same donor after it has been established?

- A. Yes                              B. No

**EACH OF THE FOLLOWING 10 QUESTIONS IS WORTH 6 POINTS**

13. A tax-exempt trust that (1) pays income to a noncharitable beneficiary for the rest of his life, (2) with payments equal to a fixed percentage of the value of the assets in the trust (as they change in value from year to year) and (3) distributes the corpus to a public charity upon the death of the income beneficiary is called:

- A. A charitable lead unitrust.
- B. A charitable lead annuity trust.
- C. A charitable remainder annuity trust.
- D. A charitable remainder unitrust
- E. A pooled income fund.

14. Which of the following will pay income to a charity for a period of years and will distribute the remainder interest to a non-charitable beneficiary (such as the child of the donor)?

- A. Charitable remainder trust.
- B. Pooled income fund.
- C. Charitable lead trust.
- D. Both "A" and "B" pay income annually to a charity, but not "C".
- E. All three "A", "B" and "C" pay income to a charity.

15. During its first year of operations, a charitable remainder trust had interest income of \$4,000 and long-term capital gains of \$6,000. It distributed \$5,000 to the sole beneficiary that year. How much income will the taxpayer have, and what will be its character?

	<u>Total</u>	<u>Ordinary Income</u>	<u>Long-term Capital Gain</u>
A.	\$5,000	\$5,000	None
B.	\$5,000	\$4,000	\$1,000
C.	\$5,000	\$2,000	\$3,000
D.	\$5,000	\$1,000	\$4,000
E.	\$5,000	None	\$5,000

16. Belle Piktore purchased a painting five years ago for \$30,000 that is now worth \$100,000. She would like to contribute it to the Homeless Shelter (a public charity), which will sell the painting and use the proceeds to provide shelter to individuals who are in need. How much can she deduct and why?

- A. \$30,000 because the painting is considered "ordinary income" property.
- B. \$30,000 because the painting is considered "short-term capital gain" property.
- C. \$30,000 because the Homeless Shelter used the painting in a manner that is unrelated to its exempt purpose.
- D. \$100,000 because the Homeless Shelter used the painting in a manner that is related to its exempt purpose.
- E. \$100,000 because the painting is considered "long-term capital gain" property.

17. Mr. and Mrs. Donor own publicly traded stock that they purchased 4 years ago for \$42,000 that is now worth \$70,000. Their adjusted gross income this year is \$100,000. If they contribute the stock to a public charity, how much can they deduct this year?

- A. \$21,000
- B. \$30,000
- C. \$35,000
- D. \$50,000
- E. \$70,000

ESSAY QUESTION

**PLEASE WRITE THIS IN YOUR SECOND BLUE BOOK  
AND WRITE ON THE COVER "ESSAY TWO"**

Value: 50 Points Suggested Time: 30 Minutes

Mr. Donor (age 70) is in the process of negotiating the sale of a corporation that he started from scratch: Tire Distributors. He expects that the stock (he owns 100% of it) will sell for \$5 million. His cost basis in the stock is only the \$10,000 that he started the business with in 1950. Although he is still in negotiations, he is confident that he will sign a sale contract with Buyer Corp by the end of the year. His annual income is usually \$200,000, but it will be much higher this year if he sells the stock.

Mr. Donor would like to contribute up to \$2 million of stock to his private foundation charity (leaving him with just \$3 million of stock). He would like to avoid recognizing any taxable gain when the contributed stock is sold (the charity would sell that stock) and he would like to get as large a charitable deduction as possible. An alternative he is considering is to contribute the stock to a university, which promised to name an auditorium after him if he made the gift.

Of the \$3 million of stock left, he would like to contribute another \$1 million of stock to a charitable remainder annuity trust. He will sell the remaining \$2 million of stock, and he tells you that he expects that the \$2 million gift to the private foundation will eliminate any tax on his nearly \$ 2 million gain this year.

He proposes to have the trust pay him and his spouse \$40,000 every year until they die, and then upon their death the proceeds would be distributed to the American Red Cross (a public charity). If it is possible, he would like to reserve the right to substitute his private foundation as the remainder beneficiary instead of the American Red Cross.

Advise Mr. Donor of the tax consequences of his proposals. Give him your recommendations as to what he should do.