

# International estate planning benchmark assignment 3

Law



BENCHMARK ASSIGNMENT THREE PLEASE GIVE SHORT ANSWERS ONLY-NO DISCUSSIONS If you want, a short explanation could be provided with your response A nongrantor foreign trust sells appreciated trust assets in 2013 and makes no distributions to U. S. beneficiaries in 2013 but makes distributions to U. S. beneficiaries in 2014. Will the capital gains rate of tax apply when distributed in 2014?

YES or NO

Answer: Yes (chapter 8 page 31)

2. If Mr. X, a U. S. citizen, creates a foreign asset protection trust (a grantor trust) with U. S. beneficiaries and Mr. X transfers securities valued at \$1 million and a basis of \$500, 000 to the trustee of the trust, if he subject to capital gains tax on such a transfer?

YES or NO

Answer: No (chapter 4 section 1 page 20)

3. On distribution from a complex foreign nongrantor trust, \_\_\_\_\_ determines the amount of taxation to the beneficiaries.

Answer: Gross income (chapter 6 page 27)

4. A U. S. settlor creates and funds an asset protection trust under the laws of Nevis. The discretionary beneficiaries of the trust are the settlor and his family (his U. S. spouse and three U. S. children). Trust trustee makes distributions during 2010 to the settlor's U. S. children. Who is taxable on the income that is distributed?

Answer: The U. S settler is subject to income tax on distributions. (Chapter 2 and 7 page 3 and 28 respectively)

5. A U. S. settlor creates a trust under the Nevis International Trust Ordinance and the beneficiaries are U. S. citizens. After the trust is funded by the U. S. settlor/grantor with cash, the trustee transfers the cash to a Nevis international business company (IBC) and receives the shares of stock in exchange. The Nevis IBC is classified for U. S. tax purposes as: (chosed one)
- a. a foreign corporation
  - b. a disregarded entity

Answer: A foreign corporation (chapter 13 page 81)

6. Is the trust protector generally given positive duties of action or negative duties of action?
- a. positive
  - b. negative

Answer: A protector ensures that the trust is administered. The powers can generally be classified as negative or positive. (Chapter 12)

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