**Subject of Assignment:** Taxation of Trusts and Estates

Read the Facts and answer the following questions. Your answer must be specific and address the correct statute and should be around five sentences.

Code § 674 **Power to control beneficial enjoyment**

1. **Facts:**

G is in the process of creating a trust which pays income for life to each of G’s two children, S and D, remainder to G’s grandchildren. G retains the power to distribute principal to S and D, Subject to a reasonably definite health and support standard. G is considering retaining the power to add the spouse of S and D, if they marry, to the class of beneficiaries. Alternatively, G is considering retaining the power to add only after-born or adopted children of G, S and D to the class of beneficiaries.

1. What are the tax consequences to the trust and grantor of the retained power to distribute principal to S and D?
2. What are the tax consequences to the trust and the grantor of the proposed retained power to add the spouses of D and D as trust beneficiaries?
3. What are the tax consequences to the trust and the grantor of the proposed retained power to add only after=born or adopted children of G, S and D and trust beneficiaries?

**Code § 675.Administrative powers**

1. Facts:

The grantor, G, was an 80% partner in a partnership. G lent the partnership money for construction financing and received a promissory note on market terms. G conveyed the note to a 10-year reversionary trust with G’s children as income beneficiaries and G as trustee. G then bought out the other partners, becoming sole owner of the partnership assets. G made some interest only payments, which were not computed by reference to the mortgage terms, on the notes to himself, as trustee, and some directly to the trust’s beneficiaries.

1. What are the tax consequences to the trust of the transaction described above?
2. What are the tax consequences to the grantor of the transactions described above?
3. What are the tax consequences to the trust’s beneficiaries of the transactions described above?

**Code § 677 - Income for benefit of grantor**

3. Facts:

G created an irrevocable trust, with ordinary income to G for life, remainder to B, an unrelated person. Except for the right to receive income, G did not retain any powers that would cause him to be treated as the owner under IRC sections 671 and 677. Local law requires capital gains to be applied to corpus. The trust had the following item of gross income and deductions for the current year:

Dividends $5,000.00

Capital gains $1,000

Expenses allocable to income $200

Expenses allocable to corpus $100

1. What are tax consequences to the trust of the transaction described above?
2. What are the tax consequences to the grantor of the transactions described above?
3. What are the tax consequences to the trust’s beneficiaries of the transactions described above?