**Tax return problem chapter 18**

3.Harriet C. Harper, age 74, died as a result of an automobile accident on June 6, 2015. At the time of her death, Harriet lived at 1520 Marlin Drive, Clearwater, FL 33758. She was predeceased by her husband, John W. Harper, who died in 2001. Harriet is survived by her two adult children, Travis Harper and Hannah Baker. Information regarding Harriet's estate is summarized below.

* + John's will established a marital deduction trust with $1 million of assets. Under the terms of the trust, Harriet received a life estate with the remainder passing to their children (i.e., Travis and Hannah). To obtain a marital deduction for John's estate, his executor made a QTIP election. On June 6, 2015, the trust had a value of $2.1 million. During 2015, the trust assets are distributed to Travis and Hannah.
  + Harriet owned three insurance policies with Falcon Assurance Company—one on her life and one on the life of each of her children. All policies have a maturity value of $100,000; all name Harriet or her estate as the beneficiary. As of June 6, 2015, the policies on Travis and Hannah each had a value of $40,000.
  + A tract of undeveloped land in Pinellas County (FL) was purchased by Harriet as an investment in 2002 for $300,000. To help finance the purchase, Harriet obtained mortgage funds from Tampa Savings and Loan. As of June 6, 2015, the land was worth $1 million, and Harriet owed $200,000 on the mortgage.
  + Rental beach cottages in Destin (FL) were inherited from John and worth $1.2 million on June 6, 2015. The cottages had a value of $600,000 when John died; his original cost is unknown.
  + A family vacation lodge in Union (SC) was held as joint tenants with right of survivorship in the names of Harriet Harper, Travis Harper, and Hannah Baker. The property was purchased in 2002 for $400,000; $200,000 was provided by Harriet and $100,000 was furnished by each of her children. On June 6, 2015, the lodge was worth $1.4 million.
  + Harriet's Marlin Drive residence is owned by her. It had a value of $800,000 on June 6, 2015.
  + The accident that fatally injured Harriet was caused by the delivery truck of a national soft drink bottling company. Not only was the truck in disrepair, but the driver was charged with DUI. To avoid the adverse publicity of a lawsuit involving the obvious gross negligence, the corporate office offered to settle any claims. After careful deliberation, Harriet's co-executors (Travis and Hannah) signed a release. In return, the estate received $700,000 in cash plus payment of all medical expenses. Of the medical expenses, the doctors and hospital were paid directly by the bottling company. The settlement was received by the estate before it was closed and the Form 706 filed.
  + Other assets owned by Harriet as of June 6, 2015 included:

|  |  |
| --- | --- |
| Checking account at Dunedin State Bank | $    18,000 |
| State of Georgia bonds (interest accrued to date of death) | 205,000 |
| Personal and household effects | 60,000 |
| Federal income tax refund receivable (for tax year 2014) | 4,000 |

* + Liabilities and expenses in connection with the administration of the estate include:

|  |  |
| --- | --- |
| Harriet's credit card debt and household bills (e.g., utilities, gardener) | $21,000 |
| Federal income tax (January 1, 2015, to June 6, 2015) | 27,000 |
| Funeral expenses | 9,000 |
| Attorney's fees | 24,000 |
| Accounting fees | 10,000 |
| Appraisal fees and court costs | 6,000 |
| Unpaid pledge to Clearwater First Methodist Church Building Fund (paid by the estate during its administration) | 40,000 |

Because Travis and Hannah had experience in handling their father's estate, Harriet's will designated them as co-executors of her estate. The probate of the Estate of Harriet C. Harper is completed December 16, 2015. Travis and Hannah are the sole heirs.

Prepare an estate tax return (Form 706) for Harriet. In this regard, make the following assumptions.

* + Disregard any request for information that is not available.
  + Some deductions require a choice between the income and estate taxes (Form 706 or Form 1041) and cannot be deducted twice (see [Chapters 19](javascript://) and [20](javascript://)). Resolve all choices in favor of Form 706.
  + Harriet had made no taxable gifts in prior years.
  + Relevant Social Security numbers:

| **Name** | **Social Security Number** | |
| --- | --- | --- |
| Harriet Harper | 123-45-6781 |  |
| Travis Harper | 123-45-6782 |  |
| Hannah Baker | 123-45-6783 |  |