

# HS-330<sup>Q&As</sup>

Fundamentals of Estate Planning Test

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### QUESTION 1

Examples of terminable interests that are nondeductible for the federal estate tax marital deduction include which of the following?

-

A property interest that would pass to someone else if the surviving spouse remarries

-

A life estate in property that would pass to another person at the death of the surviving spouse

A.

Both 1 and 2

B.

1 only

C.

Neither 1 nor 2

D.

2 only

Correct Answer: A

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### QUESTION 2

A father and son have been farming land owned by the father for the past 12 years. Just prior to his death, the father was offered \$1,200,000 for his farm because of its possible use as a shopping center. The son would like to continue to farm the land if it can be included in his father's estate at its current use value. Additional facts are:

1. Average annual gross rentals from nearby farms of similar acreage are \$56,000.

2. Average annual state and local real estate taxes on the farm are \$8,000.

3. The interest rate for loans from the Federal Land Bank is 8 percent.

For federal estate tax purposes, the farm method valuation formula would result in a current use value for the farm of

A. \$700,000

B. \$820,000

C. \$600,000

D. \$500,000

Correct Answer: C

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### QUESTION 3

On January 1, 2004 a father gave his daughter a \$150,000 straight (ordinary) life insurance policy on his life. Premiums are paid annually. The pertinent facts about the policy are: Date of issue: July 1, 1992

Premium paid on July 1, 2003 \$2,400 Terminal reserve on July 1, 2003 15,000 Terminal reserve on July 1, 2004 18,000

What is the value of the policy for federal gift tax purposes?

- A. \$16,200
- B. \$150,000
- C. \$17,700
- D. \$17,400

Correct Answer: C

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### QUESTION 4

Which of the following statements concerning marital transfers to a non-U.S. citizen spouse is (are) correct?

1.  
A marital deduction is automatically available as long as property is transferred outright to the non-citizen spouse.
  2.  
A marital deduction is automatically available if the transferor-decedent spouse is a U. S. citizen.
- A. 1 only
  - B. Neither 1 nor 2
  - C. 2 only
  - D. Both 1 and 2

Correct Answer: B

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### QUESTION 5

Which of the following statements concerning an installment sale is (are) correct?

1.  
Some portion of the purchase price must be paid in any one taxable year other than the year of sale.

2.

Installments due after the seller's death are excludible from the seller's gross estate.

- A. Both 1 and 2
- B. 1 only
- C. 2 only
- D. Neither 1 nor 2

Correct Answer: B

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#### QUESTION 6

A wife makes outright gifts of \$76,000 to her son this year, and her husband agrees to split the gifts with her. Which of the following correctly states the amount of the taxable gifts?

- A. Wife \$27,000, husband \$27,000
- B. Wife \$37,000, husband \$37,000
- C. Wife \$17,000, husband \$37,000
- D. Wife \$54,000, husband 0

Correct Answer: A

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#### QUESTION 7

All the following statements concerning a complex trust are correct EXCEPT:

- A. Beneficiaries must receive all distributable net income in the year received by the trust.
- B. The trustee may make distributions of principal to trust beneficiaries.
- C. A complex trust may make gifts to charity.
- D. Beneficiaries are taxed on their share of distributable net income when received by them.

Correct Answer: A

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#### QUESTION 8

All the following are conditions that must be met if an otherwise nonqualified terminable interest is to qualify (as QTIP) for the federal estate tax marital deduction EXCEPT:

- A. No person can be given the right to direct that the property go to anyone other than the surviving spouse as long as the surviving spouse is alive.

B. The deceased spouse's executor must make an irrevocable election to have the property includible in the surviving spouse's gross estate.

C. The surviving spouse must be given a lifetime right to receive all the property's income at least annually.

D. The surviving spouse must make a qualified disclaimer to all other property in the deceased spouse's estate within 9 months of death.

Correct Answer: D

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#### QUESTION 9

Many trust instruments provide for the removal of the original trustee. Valid reasons for removing the original trustee include which of the following?

-A shift in trust situs is desirable because of changes in law.

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The beneficiary has moved his or her residence to a distant state.

A.

Neither 1 nor 2

B.

1 only

C.

Both 1 and 2

D.

2 only

Correct Answer: C

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#### QUESTION 10

All the following are proper actions on the part of a trustee EXCEPT

A. placing cash from the sale of securities in a non-interest bearing checking account for an extended period of time

B. investing trust assets in speculative securities in accordance with the provisions of the trust instrument

C. purchasing securities in good faith from a third party just prior to a sharp decrease in their value

D. purchasing assets for personal use from the trust at their fair market value with the approval of all beneficiaries

Correct Answer: A

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#### QUESTION 11

The failure of an individual to have a will can result in all the following EXCEPT:

- A. Testamentary gifts to charity cannot be made.
- B. The decedent's state of domicile might receive the property left by the decedent.
- C. Unnecessary death taxes may be imposed.
- D. A surviving spouse receives only his or her elective share.

Correct Answer: D

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#### QUESTION 12

Which of the following statements concerning federal gift, estate, and income taxes is (are) correct:

1.  
A taxable gift of income-producing property automatically transfers income tax liability to the donee.
  2.  
The value of gifts made within 3 years of death cannot be brought back into the donor's gross estate.
- A. Neither 1 nor 2
  - B. 1 only
  - C. 2 only
  - D. Both 1 and 2

Correct Answer: A

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#### QUESTION 13

Which of the following statements concerning the valuation of intangible personal property in the gross estate of a decedent is correct?

- A. If there were no trades of a listed common stock on the date of the stockholder's death, the stock's value is based on its average daily price for the previous month prior to the shareholder's death.
- B. Certain U.S. Treasury bonds that are used to pay federal estate taxes at par are valued at their market price on the date of death of the owner.
- C. When a minority stockholder in a closely held corporation dies, his stock is valued on the basis of the "blockage" rule.
- D. Valuing closely held stock requires the consideration of several factors outlined by IRS rulings.

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Correct Answer: D

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#### QUESTION 14

An individual who is a resident of State W is also the sole proprietor of a business located in State

A. He owns real property located in State X that is used by the proprietorship. While on vacation in State Y, the individual meets an untimely death. Under the terms of his will, his entire estate is bequeathed to a resident of State Z. Which state will tax the real property used by the proprietorship?

B. State X

C. State W

D. State Y

E. State Z

Correct Answer: A

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#### QUESTION 15

Among the assets in a decedent's gross estate is stock in a closely held corporation that was left to a nephew. The interest passing to the nephew is required to bear the burden of all estate taxes and expenses. The relevant facts about this estate are:

-Adjusted gross estate \$1,200,000

-Fair market value of stock in the

-closely held corporation 500,000

-Administration and funeral expenses 25,000

-State inheritance taxes 40,000

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Federal estate taxes 160,000

A.

\$225,000

B.

\$500,000

C.

0

D.

\$ 65,000

Correct Answer: A

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