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Exam Name: Fundamentals of Estate Planning Test

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QUESTION 1

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.
- 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

QUESTION 2

In which of the following situations will the grantor be taxed on income from trust property.

- The grantor of a trust gives one of the trust beneficiaries the right to add or delete beneficiaries.
- An adverse party to the grantor holds the power to determine the timing of trust distributions to the beneficiaries.

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

Correct Answer: D

QUESTION 3

The following are facts concerning a decedent's estate:

- Taxable estate \$1,800,000
- Pre-1977 taxable gifts 100,000
- Post-1976 adjusted taxable gifts 150,000
- Post-1976 gifts made to a qualified charity 200,000

- A. \$1,800,000
- B. \$1,950,000
- C. \$1,650,000
- D. \$2,150,000

Correct Answer: B

QUESTION 4

Items that are deductions from a decedent's gross estate in determining his adjusted gross estate include which of the following?

- Foreign death taxes
- State death taxes

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

Correct Answer: A

QUESTION 5

All the following trust provisions avoid causing the inclusion of an irrevocable life insurance trust in an insured's gross estate EXCEPT

- A. a trustee's power to pay estate expenses
- B. a trust beneficiary's power to withdraw contributions to the trust
- C. a trustee's power to loan assets to the estate at the trustee's discretion
- D. a trustee's power to purchase assets from the estate at the trustee's discretion

Correct Answer: A

QUESTION 6

Which of the following terms applies to the blending together of separate and community properties of spouses in community-property states?

- A. Inception
- B. Transmutation
- C. Commingling
- D. Proration

Correct Answer: C

QUESTION 7

All the following statements concerning wills are correct EXCEPT:

- A. Once a person is named as an executor in a will, he or she is required to serve.
- B. A codicil is a valid modification of a will.
- C. A testator may lose the capacity to revoke a will prior to death.
- D. In most states a surviving spouse can elect against a will that completely disinherits him or her.

Correct Answer: A

QUESTION 8

If a grantor establishes an irrevocable trust, the income of the trust will be taxed to the grantor if it is used to pay premiums for life insurance on the life of

- A. a child of the grantor
- B. the father of the grantor
- C. the spouse of the grantor
- D. a grandchild of the grantor

Correct Answer: C

QUESTION 9

Which of the following statements concerning ownership of property in the form of a joint tenancy with right of survivorship is correct?

- A. Qualified joint tenancies cannot be severed without mutual consent.
- B. Upon the death of a joint tenant, the surviving joint tenant receives the decedent's interest by operation of law.
- C. Nonqualified joint tenants may have unequal interests in the property.
- D. This form of ownership is limited to real property.

Correct Answer: B

QUESTION 10

Which of the following statements concerning executors is correct?

- A. An executor can be given broad and discretionary powers with respect to the management of the estate.
- B. All executors must post bonds.
- C. The executor must be a licensed attorney in the decedent's state of domicile.
- D. The executor named in the will of a deceased person is automatically authorized to act.

Correct Answer: A

QUESTION 11

Which of the following statements concerning the generation-skipping transfer tax (GSTT) is (are) correct?

- An annual exclusion against GSTT will shelter gifts by a grandparent to a trust benefitting multiple grandchildren.
- Tuition payments made directly by a grandparent to a university for a grandchild's education are exempt from GSTT.

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

Correct Answer: D

QUESTION 12

All the following statements concerning real property ownership by married couples as joint tenants with right of survivorship are correct EXCEPT:

- A. All benefits of ownership remain available to the surviving spouse without interruption during the administration of the deceased spouse's estate.
- B. In common-law states the total value of the property receives a stepped-up tax basis in the estate of the first spouse to die.
- C. Jointly held property between spouses does not pass through the probate estate of the first spouse to die.
- D. The deceased spouse's interest in the property qualifies for the marital deduction since it passes outright to the surviving spouse.

Correct Answer: B

QUESTION 13

Many trust instruments provide for the removal of the original trustee. All the following are valid reasons for removal of a trustee EXCEPT:

- A. A shift in trust situs is desirable because of changes in law.
- B. The beneficiary is not able to get along with the present corporate trustee.
- C. The beneficiary has moved his or her residence to a distant state.
- D. The beneficiary has been successful with investments and wants to manage the trust assets.

Correct Answer: D

QUESTION 14

A father bought stock for \$100,000 and gave it to his son when it was worth \$300,000. The father paid no gift tax on the transfer. When the son sold the property 2 years after the gift, his income tax basis was

- A. \$100,000
- B. 0
- C. \$300,000
- D. \$200,000

Correct Answer: A

QUESTION 15

A father deeded a house as a gift to his daughter in 1990 but retained the right to live in it until his death. He died this year while still living in the house. The following are relevant facts: The father bought the property in 1980 for \$130,000. The fair market value of the property when the gift was made in 1990 was \$150,000. The father filed a timely gift tax return but paid no gift tax because of the applicable credit amount. The fair market value of the property at the father's death was \$220,000. The daughter sold the property 3 months after her father's death for \$220,000. She had a gain of

- A. \$120,000
- B. 0
- C. \$140,000
- D. \$220,000

Correct Answer: B

QUESTION 16

A father wants to accumulate funds for his 12-year-old son's college education. On the advice of his attorney, the father establishes an IRC Section 2503(c) trust and funds it with annual gifts. All the following statements concerning this arrangement are correct EXCEPT:

- A. In the event of the son's death prior to age 21, trust assets must either be payable to the son's estate or be subject to a general power of appointment held by the son.
- B. The father's annual gift tax exclusion must be reduced by any amount used to pay college tuition costs.
- C. The trust must be irrevocable.
- D. Any accumulated income and all trust principal must be available for distribution to the son when he attains age 21.

Correct Answer: B

QUESTION 17

Which of the following statements concerning the estate tax marital deduction is correct?

- A. The marital deduction available to a decedent in a common-law state is limited to a maximum of \$1 million.
- B. The marital deduction available to a decedent in a common-law state is equal to the net amount of qualifying property passing to the surviving spouse.
- C. The marital deduction available to a decedent in a community-property state is equal to the total amount of community property.
- D. The marital deduction available to a decedent in a common-law state is equal to one half the adjusted gross estate.

Correct Answer: B

QUESTION 18

All the following statements concerning real property ownership by married couples as joint tenants with right of survivorship are correct EXCEPT:

- A. Jointly held property between spouses does not pass through the probate estate of the first spouse to die.
- B. In common-law states the total value of the property receives a stepped-up tax basis in the estate of the first spouse to die.
- C. All benefits of ownership remain available to the surviving spouse without interruption during the administration of the deceased spouse's estate.
- D. The deceased spouse's interest in the property qualifies for the marital deduction since it passes outright to the surviving spouse.

Correct Answer: B

QUESTION 19

A wife makes outright gifts of \$40,000 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 \$9,000, husband \$9,000
- B. Wife 0, husband \$18,000
- C. Wife \$18,000, husband 0
- D. Wife \$19,000, husband \$19,000

Correct Answer: A

QUESTION 20

Which of the following transactions is a taxable gift for federal gift tax purposes?

- A. A grandmother purchased a U.S. savings bond that is registered as payable to her and her two grandchildren and the bond has not yet been surrendered for cash.
- B. A father made a deposit of \$100,000 into a bank account titled jointly with his son, and the son has not yet made any withdrawals.
- C. A mother purchased listed common stocks titling them in joint names with her daughter and the stocks have not yet been sold.
- D. A man deeded real estate to his sister but did not record the deed nor did he deliver the deed to his sister.

Correct Answer: C

QUESTION 21

A father plans to create a trust for the benefit of his 22-year-old son and wishes to take advantage of the gift tax annual exclusion. He has named a bank as trustee. Which of the following trust provisions would cause the gifts to be ineligible to qualify for the gift tax annual exclusion?

- The trust income is to be paid to the son or accumulated at the discretion of the trustee.
- The income is to be accumulated until the son reaches age 32 when all accumulated income and principal are to be distributed to him.

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

Correct Answer: C

QUESTION 22

Which of the following statements concerning the inclusion and valuation of all or part of a commercial annuity in the estate of an annuitant is (are) correct?

- A life annuity with a period certain is includible to the extent of the present value of any remaining guaranteed payments.
- If the executor elects the alternate valuation date, an annuity is includible at its replacement cost 6 months after death.

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

Correct Answer: D

QUESTION 23

Generally all the following statements concerning life insurance arrangements for partnership buy- sell agreements are correct EXCEPT:

- A. With an entity-purchase agreement the formula used for determining the number of life insurance policies needed is N (number of partners) + 1.
- B. With an entity-purchase agreement the partnership strives to maintain face amounts of coverage equal to its obligations under the agreement.
- C. With a cross-purchase agreement each partner purchases life insurance on the life of each of the other partners.
- D. With a cross-purchase agreement the individual partners are the applicants, owners, beneficiaries and premium-payers of the policies.

Correct Answer: A

QUESTION 24

Which of the following statements concerning a testamentary trust is correct?

- A. It becomes effective only at the death of the grantor.
- B. It saves federal and state death taxes at the death of the grantor.
- C. The trust terms must be included in the will.
- D. The assets in the trust are free of probate costs.

Correct Answer: A

QUESTION 25

Ignoring the annual per-donee exclusion, which of the following transfers is a gift for federal gift tax purposes?

- A. A creditor cancels the promissory note of a recently unemployed friend as a charitable gesture.
- B. A father promises to buy his daughter a condominium when she finishes college.
- C. A grandmother pays her grandson's \$30,000 tuition at an Ivy League university.
- D. An individual gratuitously performs valuable services for the benefit of a close friend.

Correct Answer: A

QUESTION 26

Which of the following statements concerning ownership of property in the form of a joint tenancy with right of survivorship is correct?

- A. This form of ownership is limited to real property.
- B. Nonqualified joint tenants may have unequal interests in the property.
- C. Upon the death of a joint tenant, the surviving joint tenant receives the decedent's interest by operation of law.
- D. Qualified joint tenancies cannot be severed without mutual consent.

Correct Answer: C

QUESTION 27

Which of the following statements concerning the methods of valuing a closely held business for federal estate tax purposes is (are) correct?

- The capitalization-of-adjusted-earnings method uses a capitalization rate that varies inversely with the degree of risk and rate of return.
- The adjusted-book value method involves adjusting the asset components of a business to an approximate fair market value for each component.

- A. Both 1 and 2
- B. 1 only

- C. 2 only
- D. Neither 1 nor 2

Correct Answer: A

QUESTION 28

Alan, a widower, is a retired executive with substantial assets. He wishes to provide for the financial security of his two grandchildren since their father, Alan's son, has always managed money poorly. This year Alan would like each grandchild to receive a substantial gift. Which of the following statements concerning the generation-skipping transfer tax (GSTT) on these gifts is (are) correct?

- Federal estate or gift tax will not be imposed if the gift is otherwise subject to the GSTT.
- Assuming no prior gifts, Alan can gift a cumulative total of (not including the annual exclusion) \$1.5 million to his grandchildren without the imposition of the GSTT.

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

Correct Answer: A

QUESTION 29

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

- A marital deduction is automatically available as long as property is transferred outright to the non-citizen spouse.
- A marital deduction is automatically available if the transferor-decedent spouse is a U. S. citizen.

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

Correct Answer: C

QUESTION 30

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

QUESTION 31

Which of the following statements concerning a power of appointment is (are) correct?

- A power of appointment can be designed to restrict the donee's right to appoint the property in favor of a specific class of recipients.
- A power of appointment can be designed to restrict the time period during which the donee may exercise the power.

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

Correct Answer: C

QUESTION 32

In addition to substantial probate assets, a married man with two minor children has a \$1,000,000 ordinary life insurance policy payable to his estate. He wants to make certain that if he predeceases his wife the death proceeds will be available to provide income for his wife during her lifetime and to provide for their two children after her death. He would like the policy and/or its death proceeds to be as free of federal gift and estate taxes as possible with respect to both him and his wife. Which of the following courses of action would best accomplish these objectives?

- A. Designate his wife as beneficiary and she will establish a testamentary trust in her will to receive the proceeds at her subsequent death
- B. Assign the policy to an irrevocable inter vivos trust with five and five powers and designate the trustee to receive the death proceeds
- C. Establish a revocable inter vivos trust and designate the trustee to receive death proceeds
- D. Assign the policy to his wife who will establish a revocable inter vivos trust to receive the death proceeds

Correct Answer: B

QUESTION 33

All the following statements concerning an estate for a term of years are correct EXCEPT:

- A. An interest may extend beyond the lifetime of the grantor.
- B. The tenant may transfer the property at the end of the term of his interest.
- C. It is an interest in property established for a specific duration.
- D. The tenant has the right to possess the property during the term of his interest.

Correct Answer: B

QUESTION 34

Which of the following statements concerning pooled-income funds is (are) correct?

- A pooled income fund is similar to a mutual fund maintained by a qualified charity.
- It is an irrevocable arrangement in which the remainder interest passes to charity.

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

Correct Answer: B

QUESTION 35

A father deeded a house as a gift to his daughter in 1990 but retained the right to live in it until his death. He died this year while still living in the house. The following are relevant facts:

The father bought the property in 1980 for \$130,000. The fair market value of the property when the gift was made in 1990 was \$150,000. The father filed a timely gift tax return but paid no gift tax because of the applicable credit amount. The fair market value of the property at the father's death was \$220,000. The daughter sold the property 3 months after her father's death for \$220,000. She had a gain of?

- A. \$140,000
- B. \$220,000

- C. \$120,000
- D. 0

Correct Answer: D

QUESTION 36

All the following statements concerning a power of appointment are correct EXCEPT:

- A. The donee of a power of appointment might be restricted with respect to the time the power can be exercised.
- B. The appointee of a power of appointment is the party who exercises the power.
- C. Failure to exercise a power of appointment is known as a lapse of the power.
- D. The possible recipients of property after the exercise of a power of appointment depend on the terms of the power.

Correct Answer: B

QUESTION 37

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

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

Correct Answer: A

QUESTION 38

A father is considering giving his daughter a gift. For tax planning purposes, the father should give his daughter which of the following?

- A. Raw land that cost him \$10,000, its present fair market value, but which has a substantial potential for appreciation
- B. Real estate that cost him \$40,000 and is now worth \$120,000, subject to a \$110,000 mortgage
- C. Stock that cost him \$10,000 and which now has a fair market value of \$20,000
- D. A bond that cost him \$15,000 and is now worth \$10,000

Correct Answer: A

QUESTION 39

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

QUESTION 40

All the following trust provisions avoid causing the inclusion of an irrevocable life insurance trust in an insured's gross estate EXCEPT

- A. a trust beneficiary's power to withdraw contributions to the trust
- B. a trustee's power to loan assets to the estate at the trustee's discretion
- C. a trustee's power to pay estate expenses

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