

HS-330^{Q&As}

Fundamentals of Estate Planning Test

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QUESTION 1

When the owner of a closely held business dies, the payment of a portion of the federal estate tax may be deferred for a period of several years if the estate otherwise qualifies under the provisions of IRC Section 6166. Which of the following statements concerning this deferral of federal estate tax is correct?

- A. The interest rate on the deferred tax is determined by the prime rate in effect on the date of death.
- B. The interest on the unpaid estate tax is payable over the first 10 years, after which the tax plus interest on the balance is payable in equal installments for the last 5 years.
- C. Under certain circumstances, the estate will forfeit its right to tax deferral, and all the remaining unpaid estate tax will become due and payable immediately.
- D. To qualify for the tax deferral, the closely held business must represent more than 50 percent of the value of the decedent's adjusted gross estate.

Correct Answer: C

QUESTION 2

All the following statements concerning a federal estate tax deduction for a bequest or gift to a qualified charity are correct EXCEPT:

- A. A life insurance policy that was assigned to a charity as a gift less than 3 years prior to the insured's death qualifies for a charitable deduction.
- B. The amount of a charitable deduction may not exceed 50 percent of a decedent's adjusted gross estate.
- C. The amount of a charitable deduction is reduced by any taxes and administrative expenses chargeable against the bequest.
- D. An estate may deduct the value of the remainder interest in a charitable remainder trust.

Correct Answer: B

QUESTION 3

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?

1.
Federal estate or gift tax will not be imposed if the gift is otherwise subject to the GSTT.
2.
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. Both 1 and 2
- B. 1 only
- C. Neither 1 nor 2
- D. 2 only

Correct Answer: D

QUESTION 4

Which of the following statements concerning the inclusion in a decedent-employee's gross estate of a lump-sum distribution from a qualified retirement plan to a beneficiary other than the employee's estate is (are) correct?

1.
Lump-sum distributions of payments attributable to the employer's contributions are excluded from the gross estate.
- 2.

Lump-sum distributions of payments attributable to the decedent-employee's contributions are excluded from the gross estate.

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

Correct Answer: A

QUESTION 5

A father died leaving his property equally to his wealthy son and his poor daughter. The son wishes to disclaim his share of the inheritance so that it will pass to his sister without his incurring any gift tax liability. In this situation, all the following acts on the part of the son are required EXCEPT:

- A. He must not have received any part of his inheritance or any income from it prior to his refusal to accept it.
- B. His refusal to accept the inheritance must be received by the executor of his father's estate within 9 months of his father's death.
- C. His refusal to accept the inheritance must be in writing.
- D. His refusal to accept the inheritance must direct specifically that his sister is to receive it instead.

Correct Answer: D

QUESTION 6

A wealthy individual might consider selling a substantially appreciated property interest in an installment sale for which of the following reasons?

1.
To spread the taxable gain inherent in the property over the period of the installments
2.
To provide a buyer who lacks the requisite funds for a lump-sum purchase with the ability to finance the acquisition

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

Correct Answer: D

QUESTION 7

All the following statements concerning a federal estate tax deduction for a bequest or gift to a qualified charity are correct EXCEPT:

- A. A life insurance policy that was assigned to a charity as a gift less than 3 years prior to the insured's death qualifies for a charitable deduction.
- B. The amount of a charitable deduction is reduced by any taxes and administrative expenses chargeable against the bequest.
- C. The amount of a charitable deduction may not exceed 50 percent of a decedent's adjusted gross estate.
- D. An estate may deduct the value of the remainder interest in a charitable remainder trust.

Correct Answer: C

QUESTION 8

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

Correct Answer: C

QUESTION 9

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 10

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 11

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?

1.

The trust income is to be paid to the son or accumulated at the discretion of the trustee.

2.

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. Both 1 and 2

B. Neither 1 nor 2

C. 1 only

D. 2 only

Correct Answer: A

QUESTION 12

Which of the following statements concerning filing the federal estate tax return is correct?

A. A one-year extension for filing the estate tax return is granted when the estate contains a closely held business interest.

B. An automatic two-year extension for filing the estate tax return is granted when the decedent dies overseas.

C. The estate tax return must be filed within 9 months of death unless an extension is granted by the IRS.

D. For persons dying under current law, an estate tax return must be filed for all U.S. citizen decedents.

Correct Answer: C

QUESTION 13

A wife makes outright gifts of \$66,000 this year to her son, and her husband agrees to split the gifts with her. Which of the following correctly states the amount of the taxable gifts?

- A. Wife \$22,000, husband \$22,000
- B. Wife \$44,000, husband 0
- C. Wife \$12,000, husband \$32,000
- D. Wife \$32,000, husband \$32,000

Correct Answer: A

QUESTION 14

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 15

A single man with substantial assets and income is supporting his 80-year-old partially senile mother with monthly cash gifts. He is trying to find a practical way to support his mother while at the same time saving federal gift and income taxes without giving up ultimate control of any assets. Which of the following courses of action will best accomplish these objectives?

- A. Make her an interest free loan with a principal amount large enough to produce sufficient income for her support when invested in corporate bonds

B. Purchase corporate bonds that pay interest in an amount sufficient for her to support herself and assign the interest payments to her

C. Make her annual gifts of enough interest income from the tax free municipal bonds in his portfolio so that she will be able to support herself

D. Make her a gift of enough corporate bonds from his portfolio so that she will be able to support herself from the interest payments

Correct Answer: C

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