



HS330^{Q&As}

Fundamentals of Estate Planning test

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QUESTION 1

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 \$900,000 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 \$36,000.
2. Average annual state and local real estate taxes on the farm are \$4,000.
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. \$400,000
- B. \$500,000
- C. \$600,000
- D. \$300,000

Correct Answer: A

QUESTION 2

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 3

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

- A. The trustee may make distributions of principal to trust beneficiaries.



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

Correct Answer: B

QUESTION 4

A man recently died with only probate assets. Under the terms of his will, he left his entire probate estate outright to his wife. The following are relevant facts about the estate:

- Gross estate \$1,700,000
- Estate administration expenses 30,000
- Debts of decedent 65,000
-
- Allowable funeral expenses 5,000

- A.
\$1,635,000
- B.
\$1,695,000
- C.
\$1,665,000
- D.
\$1,600,000

Correct Answer: D

QUESTION 5

A number of states have passed statutes governing "living wills." Which of the following statements concerning a living will is (are) correct?

1.
A living will is an alternative to an inter vivos trust under certain circumstances.
2.
A living will is an oral will made by the testator during a final illness when it is impossible to write one.



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

Correct Answer: A

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