



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

Fundamentals of Estate Planning Test

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### QUESTION 1

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

1.

The capitalization-of-adjusted-earnings method uses a capitalization rate that varies inversely with the degree of risk and rate of return.

2.

The adjusted-book value method involves adjusting the asset components of a business to an approximate fair market value for each component.

A. 2 only

B. 1 only

C. Both 1 and 2

D. Neither 1 nor 2

Correct Answer: C

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### QUESTION 2

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 correct?

A. A life annuity with a period certain is includible to the extent of the present value of any remaining guaranteed payments.

B. A joint and survivor annuity is includible to the extent that the survivor paid the purchase price of the contract.

C. An annuity is includible to the extent of the value determined by the special 10-year averaging rule.

D. If the executor elects the alternate valuation date, an annuity is includible at its replacement cost 6 months after death.

Correct Answer: A

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### QUESTION 3

All the following statements concerning the generation-skipping transfer tax (GSTT) are correct EXCEPT:

A. The tax is imposed according to a graduated rate schedule similar to the federal estate and gift tax rates.

B. The tax may be imposed on gifts in trust to grandchildren.

C. The tax may be imposed on direct gifts to grandchildren.



D. All donors have a cumulative \$1.5 million exemption against generation-skipping transfers.

Correct Answer: A

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#### QUESTION 4

The Decedent, T, died this year. The facts concerning T estate are:

-Gross estate \$2,700,000

-Marital deduction 900,000

-Charitable deduction 110,000

-Gifts made after 1976 130,000

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State death taxes payable 165,000

A.

\$1,395,000

B.

\$1,525,000

C.

\$1,655,000

D.

\$1,285,000

Correct Answer: B

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#### QUESTION 5

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

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#### QUESTION 6

All of the following statements concerning the use of an irrevocable life insurance trust to solve liquidity problems of the insured's estate are correct EXCEPT:

- A. The grantor is the most appropriate choice for trustee.
- B. The grantor can avoid inclusion of the corpus in his or her gross estate.
- C. The grantor should avoid obtaining incidents of ownership in the policy.
- D. Gift taxes can be avoided for premium contributions made by the grantor.

Correct Answer: A

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#### QUESTION 7

Harry, Barry, and Carrie incorporated their business, HBC and received 150 shares of stock each. They entered into a cross-purchase buy-sell agreement at this time. The agreement binds their estates to sell their shares of stock to the surviving shareholders. Each shareholder also agrees to purchase one-half of the shares held by the estate of the deceased shareholder. Assume Barry dies sometime later. Which of the following statements concerning this arrangement is (are) correct?

1.

When the agreement is carried out, HBC will have 300 shares of stock outstanding.

2.

Barry's estate will have additional liquidity to meet expenses and distribution requirements.

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

Correct Answer: A

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#### 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

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#### QUESTION 9

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

Correct Answer: C

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#### QUESTION 10

All the following are grounds for contesting a will EXCEPT:

- A. The widow was bequeathed less than her intestate share.
- B. The instrument is a forgery.
- C. The testator did not have testamentary capacity.
- D. The testator executed a later valid will.

Correct Answer: A

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#### QUESTION 11

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

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### QUESTION 12

An executor elects to value the assets of the estate at the alternative valuation date 6 months after death. Which of the following statements concerning the estate tax value of assets included in this estate is correct?

- A. Property sold before the alternate valuation date is valued at the alternate valuation date.
- B. Property that has increased in value since the date of death may be valued at the date of death if the executor so elects.
- C. Property distributed under the will before the alternate valuation date is valued at the date of death.
- D. An annuity included in the gross estate that diminishes with the mere passage of time is includible at the date of death value.

Correct Answer: D

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### QUESTION 13

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

-Foreign death taxes

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State death taxes

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

Correct Answer: A

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### QUESTION 14

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

- A. The time that a special power of appointment may be exercised may not be restricted by the donor when creating the



power.

B. A limited power of appointment permits the donee of the power to exercise the power in favor of anyone except the donee's family members.

C. A donee who possesses a special power of appointment at the time of his or her death has the property included in the gross estate.

D. The recipients of the property after the donee exercises the power of appointment are known as the appointees.

Correct Answer: D

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#### QUESTION 15

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. 1 only

B. Both 1 and 2

C. Neither 1 nor 2

D. 2 only

Correct Answer: B

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