

Health Insurance - Principles and Practices

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

1. A shift in trust situs is desirable because of changes in law.
2. 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

Answer(s): C

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

1. The grantor of a trust gives one of the trust beneficiaries the right to add or delete beneficiaries.
2. 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

Answer(s): D

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

The tentative tax base of this estate is

A. \$1,800,000

B. \$1,950,000

C. \$1,650,000

D. \$2,150,000

Answer(s): B

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

1. Foreign death taxes
2. State death taxes

A. Neither 1 nor 2

B. Both 1 and 2

C. 1 only

D. 2 only

Answer(s): A

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

Answer(s): A

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

Answer(s): C

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.

Answer(s): A

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

Answer(s): C

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.

Answer(s): B

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.

Answer(s): A

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

1. An annual exclusion against GSTT will shelter gifts by a grandparent to a trust benefitting multiple grandchildren.
2. 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

Answer(s): D

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.

Answer(s): B

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.

Answer(s): D

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

Answer(s): A

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

Answer(s): B

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.

Answer(s): B

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.

Answer(s): B

18. 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

Answer(s): A

19. 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.

Answer(s): C

20. 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. Neither 1 nor 2

C. Both 1 and 2

D. 2 only

Answer(s): C
