

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

Fundamentals of Estate Planning Test

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**QUESTION 1**

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

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**QUESTION 2**

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

Correct Answer: B

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**QUESTION 3**

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. 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.
- B. 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.
- C. 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.

D. The interest rate on the deferred tax is determined by the prime rate in effect on the date of death.

Correct Answer: B

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**QUESTION 4**

On January 1, 2004 a father gave his daughter a \$200,000 straight (ordinary) life insurance policy on his life. Premiums are paid annually. The pertinent facts about the policy are:

-Date of issue: July 1, 1992

-Premium paid on July 1, 2003 \$3,200

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Terminal reserve on July 1, 2003 20,000

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Terminal reserve on July 1, 2004 24,000

A.

\$200,000

B.

\$ 23,200

C.

\$ 23,600

D.

\$ 21,600

Correct Answer: C

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**QUESTION 5**

A man is planning to establish and fund an irrevocable trust for the benefit of his two sons, ages 19 and 22, and plans to give the trustee power to sprinkle trust income. From the standpoint of providing federal income, gift, and estate tax savings, which of the following would be a suitable trustee?

1.

The grantor of the trust

2.

The grantor's 22-year-old son

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

Correct Answer: C

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