

# HS330<sup>Q&As</sup>

Fundamentals of Estate Planning test

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**QUESTION 1**

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.

Correct Answer: B

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**QUESTION 2**

Which of the following is (are) a permissible deduction from a decedent's gross estate to determine the decedent's adjusted gross estate?

- 1.  
Expenses incurred for the benefit of individual heirs.
  - 2.  
Expenses incurred in the collection of estate assets.
- A. Neither 1 nor 2
  - B. 2 only
  - C. 1 only
  - D. Both 1 and 2

Correct Answer: B

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**QUESTION 3**

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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#### QUESTION 4

Under the terms of his will, a man left his residuary estate to a testamentary trust for the benefit of his wife. Which of the following powers with respect to the trust will cause all the trust principal to be includible in the gross estate of the widow for federal estate tax purposes?

- A. The power of the widow to direct the trustee to use trust assets to pay her personal debts
- B. The power of the trustee in its sole discretion to distribute trust assets to the widow for any reason satisfactory to the trustee
- C. The testamentary limited or special power of the widow to direct the trustee to distribute trust assets to her heirs.
- D. The power of the widow each year to direct the trustee to pay her the greater of 5 percent of the trust principal or \$5,000

Correct Answer: A

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#### QUESTION 5

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. 2 only
- D. Both 1 and 2

Correct Answer: D

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**QUESTION 6**

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

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**QUESTION 7**

On January 1, 2004 a father gave his daughter a \$50,000 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 \$800

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Terminal reserve on July 1, 2003 5,000

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Terminal reserve on July 1, 2004 6,000

- A.  
\$5,800
- B.  
\$50,000
- C.  
\$5,900
- D.  
\$5,400

Correct Answer: C

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**QUESTION 8**

All the following statements concerning lifetime gifts are correct EXCEPT:

- A. A substantial amount of property may be given away over a period of time without the imposition of the federal gift tax because of the annual exclusion.
- B. The amount of gift tax paid within 3 years of death is included in the gross estate.
- C. If a wealthy widower lives more than 3 years after making a taxable gift to his sister, the value of the gift has no effect on his federal estate tax liability.
- D. Gifts of life insurance within 3 years of death are included in the donor-insured's gross estate.

Correct Answer: C

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#### QUESTION 9

All the following powers held by the grantor of an irrevocable trust will cause the trust assets to be brought back into the estate of the grantor EXCEPT the power to

- A. designate who shall enjoy the trust income
- B. add principal to the trust
- C. change the trust remainderpersons
- D. terminate the trust

Correct Answer: B

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#### QUESTION 10

Ignoring the annual per-donee exclusion, which of the following transfers is a gift for federal gift tax purposes?

- A. A creditor cancels the promissory note of a recently unemployed friend as a charitable gesture.
- B. A father promises to buy his daughter a condominium when she finishes college.
- C. A grandmother pays her grandson's \$30,000 tuition at an Ivy League university.
- D. An individual gratuitously performs valuable services for the benefit of a close friend.

Correct Answer: A

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#### QUESTION 11

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. 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.
- B. His refusal to accept the inheritance must direct specifically that his sister is to receive it instead.

C. His refusal to accept the inheritance must be in writing.

D. He must not have received any part of his inheritance or any income from it prior to his refusal to accept it.

Correct Answer: B

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**QUESTION 12**

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 trust must be irrevocable.

C. Any accumulated income and all trust principal must be available for distribution to the son when he attains age 21.

D. The father's annual gift tax exclusion must be reduced by any amount used to pay college tuition costs.

Correct Answer: D

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**QUESTION 13**

On January 1, 2004 a father gave his daughter a \$150,000 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 \$2,400

Terminal reserve on July 1, 2003 15,000

Terminal reserve on July 1, 2004 18,000

What is the value of the policy for federal gift tax purposes?

A. \$16,200

B. \$150,000

C. \$17,700

D. \$17,400

Correct Answer: C

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**QUESTION 14**

All the following statements concerning wills are correct EXCEPT:

- A. A testator may lose the capacity to revoke a will prior to death.
- B. A codicil is a valid modification of a will.
- C. Once a person is named as an executor in a will, he or she is required to serve.
- D. In most states a surviving spouse can elect against a will that completely disinherits him or her.

Correct Answer: C

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**QUESTION 15**

Which of the following life insurance settlement options will qualify for the federal estate tax marital deduction?

- 1.  
Proceeds left to the surviving spouse under the interest option, with interest payable to the surviving spouse who has the unrestricted right to withdraw proceeds and with any proceeds not withdrawn payable equally to her children per stirpes
  - 2.  
Proceeds left to the surviving spouse under an installment option, with any installments remaining at her death to be commuted and paid to her estate
- A. Both 1 and 2
  - B. 2 only
  - C. 1 only
  - D. Neither 1 nor 2

Correct Answer: A

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