

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

All the following items are allowed as a deduction from a decedent's gross estate to determine the decedent's adjusted gross estate EXCEPT:

- A. Payments of estate debts.
- B. Expenses incurred in the presentation of probate assets.
- C. Costs of distributing probate assets to estate beneficiaries.
- D. Expenses incurred for the benefit of individual heirs.

Correct Answer: D

QUESTION 3

Which of the following statements concerning an installment sale is (are) correct?

1.
Some portion of the purchase price must be paid in any one taxable year other than the year of sale.
- 2.

Installments due after the seller's death are excludible from the seller's gross estate.

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

Correct Answer: B

QUESTION 4

The following are facts concerning a decedent's estate:

-Taxable estate \$1,700,000

-Pre-1977 taxable gifts 200,000

-

Post-1976 adjusted taxable gifts 50,000

-

Post-1976 gifts made to a qualified charity 100,000

- A.
\$1,750,000
- B.
\$1,850,000
- C.
\$1,900,000
- D.
\$1,700,000

Correct Answer: A

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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