CFP ESTATE PLANNING PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. **Regarding gross gifts versus taxable gifts, what rule applies when a loan is less than $10,000?**

   A. It receives standard taxable treatment

   B. It is exempt from the imputed interest rule

   C. It must be reported on a tax return

   D. It qualifies as a charitable contribution

2. **What is the impact on the gross estate if the insured can borrow against their life insurance policy?**

   A. It has no effect on the gross estate.

   B. It causes inclusion of policy proceeds in the gross estate.

   C. It decreases the estate value due to the loan.

   D. It allows for a tax deduction on the proceeds.

3. **What is a Totten trust primarily used for?**

   A. To minimize estate taxes

   B. To transfer property during the grantor's life

   C. To avoid probate

   D. To manage assets for minors

4. **If property has appreciated as of the date of the gift, how is the gift tax paid by the donor treated?**

   A. It is ignored for tax purposes.

   B. It is allocated to the donee's basis in the property.

   C. It is deducted from the transferor's estate.

   D. It must be reported as income by the donee.

5. **When is a Gift Tax Return due?**

   A. April 1st

   B. April 15th

   C. June 15th

   D. December 31st

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6. What type of property is included in the probate estate?

A. Trust-owned property

B. Jointly Owned with Right of Survivorship (JTWROS)

C. Life insurance with a named beneficiary

D. POD accounts

7. What was the 2011 gift tax exclusion amount for individuals?

A. $10,000

B. $13,000

C. $15,000

D. $20,000

8. How is gift tax allocated to the recipient's basis calculated?

A. Based on the difference between market value and original cost

B. By subtracting the total amount of gift tax paid

C. Using the market value at the date of gift

D. By dividing the total market value by the gift tax paid

9. If a grantor of a GRAT dies during the trust term, what happens to the trust's value?

A. The entire value is excluded from the gross estate.

B. The entire value is included in the gross estate.

C. The value is decreased by any distributions.

D. Only the distributions are taxed.

10. What is an important factor to consider when using a net gift technique?

A. The donee must have considerable income

B. The donor must have a high adjusted basis

C. The gift tax paid may create taxable income for the donor

D. The donor must remain below the estate tax threshold

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Answers

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1. B
2. B
3. C
4. B
5. B
6. B
7. B
8. A
9. B
10. C

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Explanations

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1. Regarding gross gifts versus taxable gifts, what rule applies when a loan is less than $10,000?

A. It receives standard taxable treatment

B. It is exempt from the imputed interest rule

C. It must be reported on a tax return

D. It qualifies as a charitable contribution

When a loan is less than $10,000, it is exempt from the imputed interest rule. This refers to the IRS's requirement to charge a minimum amount of interest on certain loans, known as the Applicable Federal Rate (AFR). If the loan amount is below this threshold, the lender is not required to charge interest, nor is it necessary to report any interest that could be considered as imputed. As a result, no gift tax implications arise on the transaction due to the lack of interest, allowing the loan to proceed without triggering additional tax reporting or liabilities. For loans exceeding $10,000, the IRS does impose rules that could lead to tax liabilities or reports related to imputed interest and potential taxable gifts. Consequently, it is crucial to understand this threshold when assessing the tax implications of personal loans between parties. The exemptions in these cases help simplify financial transactions, reducing the burden of tax considerations for smaller loans.

2. What is the impact on the gross estate if the insured can borrow against their life insurance policy?

A. It has no effect on the gross estate.

B. It causes inclusion of policy proceeds in the gross estate.

C. It decreases the estate value due to the loan.

D. It allows for a tax deduction on the proceeds.

When an insured individual takes out a loan against their life insurance policy, the proceeds from that policy are treated as part of the gross estate for estate tax purposes. This means that the death benefit amount, which is typically paid out to beneficiaries upon the insured's death, will be included in the total value of the gross estate, even if a loan has been taken against the policy. Loans taken against the policy do not reduce the death benefit that will be payable; instead, any outstanding loan balance will be deducted from the death benefit at payout. Therefore, while the policy's cash value can be borrowed against, the full death benefit remains part of the gross estate. This could have tax implications for the heirs, as a larger estate may lead to higher estate taxes, depending on the total value of the estate and current estate tax laws. By understanding that the mere act of borrowing against the life insurance does not exclude the policy's face value from the gross estate, one can see why this choice highlights the need for careful estate planning. This inclusion can affect the financial strategy surrounding the estate, potentially requiring adjustments to account for the estate tax obligations that may arise.

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3. What is a Totten trust primarily used for?

A. To minimize estate taxes

B. To transfer property during the grantor's life

C. To avoid probate

D. To manage assets for minors

A Totten trust, often referred to as a "payable-on-death" account, is primarily used to avoid probate. This type of trust allows the grantor to maintain control over the assets during their lifetime while designating a beneficiary who will receive the assets directly upon the grantor's death. By using a Totten trust, the assets bypass the probate process, which can be time-consuming and costly. When the grantor passes away, the primary benefit is that the designated beneficiary can access the funds immediately without the need for a court proceeding. This is particularly advantageous as it allows for a quick transfer of assets to the beneficiary and ensures that the assets are not subject to the claims of the grantor's creditors in the same way that properties in a probate estate might be. In contrast, while a Totten trust does provide some helpful means of managing assets, its specific design is aimed at allowing assets to transfer upon death, making it distinct from other planning tools intended for purposes like tax minimization, transfers during life, or asset management for minors.

4. If property has appreciated as of the date of the gift, how is the gift tax paid by the donor treated?

A. It is ignored for tax purposes.

B. It is allocated to the donee's basis in the property.

C. It is deducted from the transferor's estate.

D. It must be reported as income by the donee.

When considering how gift tax paid by the donor is treated concerning appreciated property, the correct understanding lies in how the gift tax affects the donee's basis in the property received. When property is gifted, the basis (the value used to determine gain or loss for tax purposes) for the donee in that property is generally affected by the amount of gift tax paid. In this instance, if the donor pays gift tax on the appreciation of the property, that amount is effectively added to the recipient's basis in the property. This rule is in place to ensure that the donee is not penalized for the appreciation that occurred before the transfer and that the tax liability is appropriately aligned with the true value received. Essentially, it helps maintain an equitable tax treatment regarding the increase in value of the asset, which the donee would eventually realize as a capital gain if they were to sell the property in the future. This treatment ensures that the combined basis of the original property value and the additional amount from the gift tax provides a fair basis when determining any future gain or loss on the property by the donee.

5. When is a Gift Tax Return due?

A. April 1st

B. April 15th

C. June 15th

D. December 31st

A Gift Tax Return, specifically Form 709, is due on April 15th of the year following the year in which the gift was made. This timing aligns with the individual income tax return deadlines, providing a convenient point for taxpayers who may handle multiple tax-related filings at the same time. If you are unable to file by this deadline, you can request an extension, similar to other tax forms, but it is essential to remember that while an extension allows more time to file, any gift taxes owed still need to be paid by the original due date to avoid penalties. Understanding the due date for the Gift Tax Return is crucial for estate planning, as it helps individuals manage their gift-giving strategies in light of tax implications and utilize applicable exemptions effectively.

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6. What type of property is included in the probate estate?

A. Trust-owned property

B. Jointly Owned with Right of Survivorship (JTWROS)

C. Life insurance with a named beneficiary

D. POD accounts

The probate estate consists of all assets owned solely by a deceased individual at the time of their death, including properties that do not have designated beneficiaries or legal rights of survivorship. The correct answer pertains to property that is solely owned by the individual, which, in this case, is represented by property that is jointly owned with right of survivorship (JTWROS) while also acknowledging that the rights of ownership transfer automatically to the surviving owner upon death, therefore not necessitating probate. Regarding the other choices: Trust-owned property, for instance, is not included in the probate estate because assets in a trust are transferred directly to the beneficiaries of the trust upon the individual's death, bypassing the probate process entirely. Similarly, life insurance with a named beneficiary pays directly to the designated beneficiary and is also outside the probate estate. Lastly, Payable on Death (POD) accounts also directly transfer to the specified beneficiary at the time of the account holder's death, negating the involvement of probate. Therefore, JTWROS fits the criteria for consideration within probate, as it is only relevant to the deceased person's ownership interest and is subject to the rules governing such estates, despite the survivorship aspect.

7. What was the 2011 gift tax exclusion amount for individuals?

A. $10,000

B. $13,000

C. $15,000

D. $20,000

The 2011 gift tax exclusion amount for individuals was indeed $13,000. This figure represents the maximum amount that an individual could gift to another individual in a given year without incurring a gift tax or needing to file a gift tax return. The exclusion is designed to allow individuals to give financial gifts without immediate tax implications, and it has been adjusted for inflation over the years. In 2011, each individual was allowed to give up to $13,000 to as many people as they wished, tax-free. This amount was set by the Internal Revenue Service and is associated with one of the annual exclusion limits as part of estate and gift tax laws. It is important for individuals engaging in estate planning to be aware of this exclusion, as it can significantly influence gift strategy and estate accumulation practices. Understanding these amounts and thresholds is essential for effective financial planning and for maximizing the wealth that can be passed down to heirs without the burden of immediate taxation.

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8. How is gift tax allocated to the recipient's basis calculated?

A. Based on the difference between market value and original cost

B. By subtracting the total amount of gift tax paid

C. Using the market value at the date of gift

D. By dividing the total market value by the gift tax paid

The way gift tax is allocated to the recipient's basis is crucial for understanding the tax implications of receiving a gift. When a gift is made, the recipient's basis in the asset is generally determined by your original cost, adjusted for any gift tax that is applicable. Thus, when calculating the recipient's basis, you take into account the fair market value of the gift at the time it is given and any gift tax paid on that amount. The correct choice emphasizes the difference between the market value and the original cost, which is essential for calculating the basis accurately. If the fair market value at the time of the gift exceeds the donor's basis in the asset, the gift tax effectively increases the recipient's basis. This means that the recipient may have a higher basis if the donor has paid gift tax, allowing for more favorable tax treatment when the recipient eventually sells the asset. Understanding this aspect ensures proper calculation of capital gains when a gifted asset is sold in the future, which is why the approach of using the difference between market value and original cost is pivotal. Other options do not accurately capture how basis adjustments due to gift tax are calculated, focusing instead on elements that do not reflect the correct methodology for determining the basis of gifted property.

9. If a grantor of a GRAT dies during the trust term, what happens to the trust's value?

A. The entire value is excluded from the gross estate.

B. The entire value is included in the gross estate.

C. The value is decreased by any distributions.

D. Only the distributions are taxed.

When a grantor of a Grantor Retained Annuity Trust (GRAT) dies during the trust term, the entire value of the trust is included in the gross estate. This is because the grantor retained an interest in the trust, specifically the right to receive annuity payments for a certain term. Under estate tax rules, if a grantor passes away while an interest is retained in a trust, the assets of that trust are included in the grantor's gross estate at the time of their death. This provision safeguards against circumvention of estate taxes by ensuring that assets from which the decedent retained benefits are accounted for in their estate valuation. In contrast, distributions made from the trust or any decrease in value due to those distributions do not impact the inclusion of the trust's total value. Essentially, the trust remains fully in play for tax considerations until the grantor's term of interest concludes, or they pass away, which makes it subject to estate tax calculation.

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10. What is an important factor to consider when using a net gift technique?

A. The donee must have considerable income

B. The donor must have a high adjusted basis

C. The gift tax paid may create taxable income for the donor

D. The donor must remain below the estate tax threshold

In the context of using a net gift technique, it's crucial to understand the implications of the gift tax on the donor. When the donor agrees to pay the gift tax associated with the transfer, this amount is considered a gift itself and may create taxable income for the donor. The donor effectively exchanges the gift tax liability for an increased basis in the gifted asset, which means they may have to report this on their income tax return. This technique is often employed to reduce the size of the taxable estate, as the amount paid in gift taxes is also removed from the estate. However, the tax implications, especially regarding the creation of potential taxable income for the donor, are an important consideration that must be examined. Other factors, such as the donee's income or the donor's adjusted basis, do not specifically relate to the operational mechanics of using a net gift technique as directly as the potential tax income from the gift tax payment. Likewise, while staying below the estate tax threshold is important for general estate planning, it does not specifically relate to the mechanics of net gifting. Understanding these financial dynamics is essential for properly implementing the net gift strategy.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://cfpestateplanning.examzify.com

We wish you the very best on your exam journey. You've got this!

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