

### An Overview of the Foreign Account Tax Compliance Act

1. All of the following statements about the Foreign Account Tax Compliance Act (FATCA) are correct **EXCEPT**:
  - A. It was signed into law by President Barack Obama in 2010.
  - B. FATCA is administered by the U.S. Treasury Department.
  - C. FATCA represents U.S. efforts to prevent U.S. taxpayers who hold financial assets in non-U.S. financial institutions from avoiding U.S. tax obligations.
  - D. FATCA is codified as Chapter 8 of the Internal Revenue Code.
  
2. How many countries have signed inter-governmental agreements (IGAs) pursuant to FATCA?
  - A. 15
  - B. 48
  - C. 98
  - D. More than 113
  
3. All of the following statements about IGAs are correct **EXCEPT**:
  - A. IGAs are designed to remove reporting impediments posed by local privacy laws.
  - B. IGAs are essentially government-to-government agreements for the foreign government to report tax and financial information to the IRS while the U.S. financial institutions do the same to the foreign government.
  - C. Under IGAs, there is a symmetrical requirement for the information to be reported.
  - D. The intent of the IGA model is to form a global financial information reporting network.
  
4. For purposes of FATCA, how is a cash value life insurance contract defined?
  - A. FATCA defines a cash value contract as an insurance contract that has an aggregate cash value exceeding \$50,000 at any time during the calendar year.
  - B. FATCA defines a cash value contract as an insurance contract that has an aggregate cash value exceeding \$25,000 at any time during the calendar year.

- C. FATCA regulations fully exclude insurance companies from categorization as a foreign financial institution (FFI).
- D. FATCA defines cash value life insurance as any insurance policy that has a cash surrender value.

### Six All-Too-Common Irrevocable Life Insurance Trust Traps

5. All of the following statements about using life insurance as an estate planning tool are correct **EXCEPT**:
  - A. The process should not be navigated without an expert in the various types of products and guidance on the most efficient way to finance it.
  - B. When using an irrevocable trust to serve as the owner of the client's life insurance, a best practice is to have the insured also named as a beneficiary of the trust.
  - C. Life insurance can be a critical piece of a comprehensive estate plan and is often used to balance inheritances among heirs or provide liquidity to pay estate tax.
  - D. Under IRC Section 2035, life insurance owned by an irrevocable trust will be included in the decedent's estate if he or she was the original owner of the policy and transferred it to the trust within 3 years of death.
  
6. Which statement about obtaining a gift tax annual exclusion for contributions made to an irrevocable life insurance trust (ILIT) to pay life insurance premiums is (are) correct?
  - I. The *Crummey* case determined that if the trust beneficiaries could withdraw their pro rata share of a gift, the transfer would qualify for the annual gift tax exclusion under IRC Sec. 2503(b).
  - II. In order to obtain a gift tax exclusion for contributions to the ILIT, the gift must be a present interest gift.
    - A. I only
    - B. II only
    - C. Both I and II
    - D. Neither I nor II

7. In what ruling did the U.S. Treasury Department provide guidance that a swap power over life insurance is not an incident of ownership?
- Revenue Ruling 2011-28
  - PLR 201122005
  - TAM 200810014
  - Revenue Ruling 2011-22

### Federal Estate and Gift Taxes Are a Mortality Risk

8. All of the following statements about the federal estate tax are correct **EXCEPT**:
- Estate tax is effectively a tax on principal and applies to wealth that arguably has oftentimes already been taxed.
  - For an estate of \$10 million, the amount that can be lost to the federal estate tax is 22.0 percent.
  - The tax rate for a \$500 million estate is 39.6 percent.
  - The challenge of the estate tax is exacerbated by the fact that, in many cases, the value of the decedent's estate is not known until death.
9. Pat is single and has a taxable estate of \$100 million. Assuming Pat dies having retained all \$100 million, how much estate tax will be due?
- |                 |                 |
|-----------------|-----------------|
| A. \$10,000,000 | C. \$37,804,000 |
| B. \$4,622,000  | D. \$18,000,000 |
10. All of the following statements about the inclusionary sections of the federal estate tax are correct **EXCEPT**:
- The four inclusionary sections of the Internal Revenue Code have the effect of significantly increasing an estate's exposure to transfer taxes and can compound the mortality risk associated with taxes on the wealthy.
  - One of the inclusionary sections, IRC Section 2035, creates an arbitrary rule that when gifts are made within 5 years of death, the gift taxes paid on these gifts must be added back into the estate.
  - Pursuant to inclusionary IRC Sections 2036, 2037, or 2038, when a completed gift has the effect of allowing the decedent to retain sufficient use, control, enjoyment, or power over the property gifted, that property is added back into the estate at its date-of-death value.
- D. The challenge of the inclusionary sections is that they have the potential to cause a form of double taxation.
11. Which of the following statements about Pat's estate/gift tax liability, as outlined in Table 1, is correct?
- In Scenario 2, Pat's combined estate and gift tax equal \$37,682,400.
  - In Scenario 4, Pat's gift of \$50 million allowed her to reduce her combined estate and gift taxes to less than the amount she paid in Scenario 1, where she had retained her full \$100 million estate.
  - In Scenario 5, Pat made a gift of \$50 million, but her gift violated one of the inclusionary sections. This resulted in a combined estate and gift tax of more than half of her original \$100 million estate.
  - Pat's gift tax liability on her gift of \$50 million is lower in Scenario 3 than it is in Scenario 4, because in Scenario 4 Pat died within 3 years of making the gift.
12. All of the following statements identify key strategies for managing the mortality risk of estate and gift taxes **EXCEPT**:
- The client needs good advice, including a team of experts to assess, fund, and manage the mortality risk inherent in transfer taxes.
  - The client must have an appropriate attitude about taxes and play by the rules.
  - Effective estate planning should be a combination of legal and product strategies. For example, life insurance can provide liquidity and help absorb estate taxes.
  - The client must recognize that the most effective planning has to happen within 3 years of death.

### Related-Party Rules Present Challenges for Family Businesses

13. All of the following statements about the attribution rules in the Internal Revenue Code are correct **EXCEPT**:
- A. The purpose of attribution rules is to prevent what the government perceives as potential abuses perpetuated by families acting together to take advantage of the Internal Revenue Code.
  - B. In certain circumstances, family hostility has been found to negate family attribution rules.
  - C. The federal attribution rules covering related party prohibitions are codified in one section of the Internal Revenue Code.
  - D. Early attribution rules were enacted in the 1930s when individuals of wealth were taking advantage of the Internal Revenue Code to create deductions and losses in one entity without having to pick up income in another entity.
14. Which section of the Internal Revenue Code applies when testing whether a shareholder owns a certain threshold percentage of a business entity?
- A. IRC Section 267
  - B. IRC Section 318
  - C. IRC Section 2041
  - D. IRC Section 382
15. All of the following statements about the attribution rules under IRC Section 267 are correct **EXCEPT**:
- A. Attribution under IRC Section 267 is narrower than under IRC Section 318.
  - B. Attribution under IRC Section 267 includes siblings.
  - C. Family attribution cannot be used under IRC Section 267 to attribute stock from an entity and then to another family member.
  - D. In certain circumstances, there can be double attribution of shares from a family member to another family member.
16. All of the following statements about related-party transactions are correct **EXCEPT**:
- A. The related-party rules are intertwined with the attribution rules because the Internal Revenue Code prevents certain tax advantages where transactions occur between related parties.
  - B. Related-party transactions may be especially disadvantageous when selling family real estate.
  - C. Related-party rules prevent losses from being recognized.
  - D. Related-party rules do not prevent gains from being recognized.
17. What triggered the enactment of the Installment Sales Revision Act of 1980?
- A. A taxpayer victory in the Rushing case.
  - B. Strong public policy interest in protecting assets in irrevocable trusts.
  - C. Perceived taxpayer abuses related to sales of publicly traded stock.
  - D. Strong public policy interest in protecting intrafamily transfers.
18. Which statement(s) about the related-party installment sales rules is (are) correct?
- I. The rules trigger gain on related-party installment sales to family members and to other entities that are deemed owned by the taxpayer.
  - II. The rules do not apply after a sale of an asset that is held for more than one year by the related party.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
19. Under what section of the Internal Revenue Code was the economic substance doctrine codified?
- A. IRC Section 1256
  - B. IRC Section 1031
  - C. IRC Section 2704(b)
  - D. IRC Section 7701(o)

### Index Annuities: Looking under the Hood

20. All of the following statements about index annuities are correct **EXCEPT**:
- A. Index annuities are fixed annuities.
  - B. Index annuities are securities.
  - C. The Harkin Amendment in the Dodd-Frank Financial Reform Act addressed the regulatory treatment of index annuities.
  - D. An index annuity differs from a deferred fixed, declared-rate annuity in how interest is calculated and credited.
21. All of the following statements about the factors affecting the amount of interest credited to an index annuity are correct **EXCEPT**:
- A. In an index annuity, the yield spread is also called the margin or asset fee.
  - B. Many index annuities use some sort of averaging in order to protect annuity contract owners from a dramatic decline in market performance late in the interest-crediting term.
  - C. Many index annuities place an upper limit, or cap, on index-linked interest that will be paid.
  - D. Typically, the yield spread and the participation rate are used together to determine the percentage of index gain that is credited as interest.
22. Which statement(s) about interest-crediting methods used in index annuities sold today is (are) correct?
- I. The annual point-to-point method is the most popular method used in index annuities today.
  - II. The monthly sum and monthly averaging with a cap methods of interest crediting are used when the interest-crediting period is one year.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
23. If an index annuity guarantees minimum interest crediting at the rate of 1 percent applied to 87.5 percent of the premium, how long will it take to affect the contract value?
- A. 3 years
  - B. 8 years
  - C. 10 years
  - D. 14 years

24. All of the following statements about index annuities are correct **EXCEPT**:
- A. Despite the perception that one cannot lose money in an index annuity, it is possible if the contract holder withdraws money from or cashes in the contract during the surrender charge period.
  - B. In an index annuity, previously credited interest can be lost due to bad index performance.
  - C. It is a myth that index annuities offer the upside of the market with no risk.
  - D. Despite the perception that annuities are impossible to understand, almost all index annuities can be understood by a consumer who puts in the time and effort required.

### Developing Best Practices: Beneficiary Designations

25. What was the total amount of assets in retirement accounts as of December 31, 2016?
- A. \$125 billion
  - B. \$25.3 trillion
  - C. \$75 trillion
  - D. \$5.5 trillion
26. All of the following statements about beneficiary designations are correct **EXCEPT**:
- A. Individuals have the option of naming beneficiaries directly on a wide range of financial products, including life insurance, qualified retirement plans, and annuities.
  - B. The advantage of accounts with named beneficiaries is that when the account holder dies, the funds go directly to the named beneficiary.
  - C. Accounts that have named beneficiaries bypass the probate process at the death of the account holder.
  - D. Federal tax law prevents individuals from naming a beneficiary on an individual retirement account (IRA).

27. Which statement(s) about the *Kennedy v. Plan Administrator for DuPont Savings and Investment Plan* is (are) correct?
- In *Kennedy*, the U.S. Supreme Court held that plan administrators can rely on the plan terms and beneficiary designation forms in determining the proper recipient of survivor benefits.
  - The *Kennedy* case stresses the importance of financial advisors reminding clients to change beneficiary designations after they experience a change in family status.
- I only
  - II only
  - Both I and II
  - Neither I nor II
28. All of the following statements about beneficiary designations for retirement plans are correct **EXCEPT**:
- For single retirement account owners, failure to name a beneficiary will result in the funds escheating to the state where the account owner resides.
  - Federal regulations automatically designate the spouse of the retirement account owner as the beneficiary of qualified plans, such as profit-sharing plans, 401(k) plans, and 403(b) plans.
  - Federal law does not require spousal consent to name an IRA beneficiary.
  - In the states of Alaska, Arizona, and California, among others, spousal consent is required to name someone other than the spouse as the primary beneficiary of an IRA.
29. Which of the following describes the structure for a typical default beneficiary designation under a 401(k) plan?
- A typical structure is: (1) spouse; (2) children; (3) parents; (4) estate.
  - A typical structure is: (1) spouse; (2) children; (3) grandchildren; (4) estate.
  - A typical structure is: (1) spouse; (2) estate; (3) parents; (4) children.
  - A typical structure is (1) spouse; (2) children; (3) estate; (4) grandchildren.
30. All of the following statements about a periodic comprehensive beneficiary designation review are correct **EXCEPT**:
- The financial advisor should request a confirmation of all beneficiary designations in writing.
  - The financial advisor should check the default provisions for beneficiary designations, because they may come into play if a named beneficiary predeceases the client.
  - The financial advisor needs to include the beneficiary designations for life insurance and annuities and payable on death and transfer on death bank and brokerage accounts in the review process.
  - Under IRC Section 2033, beneficiary designations for retirement accounts must be reviewed and updated annually.

### **Do Designations Attract a More Knowledgeable Consumer?**

31. All of the following statements about the research on financial service professionals and the impact of designations are correct **EXCEPT**:
- The Arman and Shackman research found that holding the ChFC designation was associated with significantly higher levels of income compared with CFP and PFS holders and nondesignees.
  - The Bigel research provided evidence that CFP professionals have higher ethical development scores than their non-CFP counterparts.
  - The Lemoine research showed that CFP professionals make different recommendations on annuities from their counterparts without the CFP designation.
  - The Bigel research looked at whether consumers choose to work with a professional based on how he or she is compensated.

32. All of the following statements regarding a consumer's determination about the quality of services offered by financial service professionals are correct **EXCEPT**:
- Financial services can be classified as credence goods whose qualities are difficult to determine after the consumer has received the goods.
  - Consumers looking to be more informed may choose a financial service professional based on that advisor's signaling—e.g., titling, advertising, designations, and reputation.
  - Designations provide consumers with some expectation of quality and a means of retaliation if the quality does not meet expectations.
  - Research by Morris indicates that consumers link the quality of services with method of compensation.
33. According to the *Cambridge Business Dictionary*, what is the definition of a money manager?
- A money manager is an individual or institution who invests money for people or organizations.
  - A money manager works with high-net-worth consumers to provide guidance on investment metrics.
  - A money manager is a financial planner who works with consumers to make financial decisions to meet lifestyle goals.
  - A money manager provides comprehensive financial services to low- and middle-income investors.
34. Which statement(s) about consumer knowledge and understanding of the services offered by financial service professionals is (are) correct?
- Consumers who understand the services the financial service professional provides are likely to pay less for those services.
  - Consumers who know their financial service professional follows an investment process may be more likely to understand the process, which could result in an ongoing, mutually beneficial relationship for the financial service professional and consumer.
- I only
  - II only
  - Both I and II
  - Neither I nor II
35. According to the data in Figure 1, what is the percentage of consumers working with wealth managers who know whether their financial service professional utilizes an investment process?
- 75%
  - 69.6%
  - 85.1%
  - 74.6%