

Planning for Hobby Loss

1. Which statement(s) about planning for business loss deductions is (are) correct?
 - I. The IRS's definition of a business is very specific, and as such, it can be difficult for planners to decipher whether a client can take advantage of a business-loss deduction.
 - II. A key factor in determining whether an activity is a business or a hobby is whether the client's activities had a profit motive.

A. I only C. Both I and II
 B. II only D. Neither I nor II
2. All of the following statements about the factors used to evaluate whether a client entered into a business with the objective of making a profit are correct **EXCEPT**:
 - A. Businesses that are operated in a businesslike manner will be more likely to be found to have a profit motive.
 - B. The IRS will automatically determine that a business lacks a profit motive if the taxpayer/business owner is involved in the business fewer than 25 hours a week.
 - C. Under the expertise factor, the IRS is more likely to find a profit motive if the taxpayer conducts some amount of preparation while starting up a business and in ongoing operations of the business.
 - D. Two of the factors that the IRS will look at in determining whether a business has a profit motive are whether the business has a history of losing money and whether the business owner has run a successful business in the past.
3. True or False. Clients can demonstrate that they started their business with the intention of earning a profit if they are able to show that business assets are likely to appreciate in value.

A. True B. False
4. Which statement about financial status as one of the factors in determining a profit motive is correct?
 - A. Taxpayers who earn income in excess of \$100,000 from sources other than the business in question will be found automatically to lack a profit motive.
 - B. Taxpayers who have net worth of less than \$100,000 will be considered to lack a profit motive in any business venture.
 - C. Taxpayers who earn substantial amounts of money from other sources and are still involved with a failing business are likely to lack a profit motive.
 - D. Taxpayers who have a net worth of more than \$1 million will be considered to lack a profit motive in any business venture, if the business provides a substantial amount of personal enjoyment.

A New Method for Anticipating Changes in Investment Market Conditions

5. All of the following statements about the profit-to-willingness ratio (P/W ratio) are correct **EXCEPT**:
 - A. The P/W ratio shows how changes in the investment markets can be used to predict risk tolerance at the aggregate level.
 - B. The P/W ratio bridges the gap between the traditional economic view of the investment markets and the behavioral perspective.
 - C. The P/W ratio can be used to anticipate how much risk clients are willing to take in the future.
 - D. The P/W ratio was introduced by John Grable, Wookjae Heo, and Abed Rabhani in the *Journal of Financial Service Professionals* in June 2018.

6. Which statement(s) about the W/P derivative is (are) correct?
- I. Rather than predict risk tolerance scores, the W/P derivative equation can be used to anticipate or predict changes in the investment markets.
 - II. As outlined in equation 2, the authors indicate that by inversely combining (1) the change in market price over a given period and (2) investor financial risk-tolerance scores, a financial advisor can predict, to some extent, future market conditions.
- A. I only C. Both I and II
 B. II only D. Neither I nor II

IRS Issues Guidance on Two of the Changes Made to Section 162(m) by the Tax Cuts and Jobs Act

7. All the following statements about IRC Section 162(m) are correct **EXCEPT**:
- A. Section 162(m) was added to the Internal Revenue Code as a measure to slow the growth of executive pay.
 - B. The Tax Cuts and Jobs Act (TCJA) expanded the scope of Section 162(m) to address revenue loss resulting from the law's reduction of corporate tax rates from 35 percent to 21 percent.
 - C. The effectiveness of Section 162(m) has been called into question because of the built-in exclusion of "qualified performance-based compensation."
 - D. Section 162(m) generally imposes a \$5 million limit on the amount of compensation paid to executives of publicly traded corporations.

8. Which statement(s) regarding the definition of a covered employee for purposes of IRC Section 162(m) is (are) correct?
- I. Prior to the TCJA, covered employees included the chief executive officer, the chief financial officer, and the four other most highly compensated executive officers of a publicly traded corporation.
 - II. After the enactment of the TCJA, covered employees are defined to include the CEO and any other employee whose compensation exceeds \$120,000 on the last day of the taxable year.
- A. I only C. Both I and II
 B. II only D. Neither I nor II

9. All of the following statements about grandfathered compensation under Section 162(m) are correct **EXCEPT**:
- A. Qualified performance-based compensation will continue to be deductible compensation if it is payable pursuant to a written binding contract which was in effect on November 2, 2017.
 - B. Compensation must qualify as performance-based compensation to be grandfathered.
 - C. Grandfathered contracts that contain amendment provisions that allow the corporation to freeze or reduce benefits will only be grandfathered as to the portion of the benefit that is accrued as of November 2, 2017.
 - D. If compensation received by a covered employee would not have been deductible prior to the enactment of the TCJA, then even if it were accrued under a plan that meets the requirements of a grandfathered contract, it will continue to be nondeductible.

10. Under Notice 2018-68, all of the following are considered exceptions to what qualifies as a material modification **EXCEPT**:
- A. The adoption of a side agreement that provides for increased compensation can escape material modification treatment.
 - B. The failure to exercise a negative discretion does not cause a compensation payout to be considered materially modified.
 - C. In the case of compensation deferred under a grandfathered contract, an increase in compensation resulting from a reasonable rate of interest will not be considered a material modification.
 - D. The acceleration of the timing of compensation payable under a grandfathered contract will not constitute a material modification as long as the amount is discounted to reasonably reflect the time value of money.

Medicare Advantage Plans and the Evolution of Health Insurance

11. What percentage of Medicare beneficiaries are currently enrolled in Medicare Advantage plans?
- A. 22%
 - B. 35%
 - C. 38%
 - D. 46%
12. All of the following statements about Medicare Advantage plans are correct **EXCEPT**:
- A. Medicare Advantage plans are private plans that offer Medicare coverage in a regulated market.
 - B. The Omnibus Budget Reconciliation Act of 1993 created the program that became Medicare Advantage.
 - C. The Affordable Care Act (ACA) altered payments to Medicare Advantage plans such that they are based on regional benchmarks.
 - D. Insurers designing and marketing Medicare Advantage plans determine premiums, coverage, provider network contracts, and marketing.

13. True or False. Health care markets with greater Medicare Advantage market share have fewer inpatient stays and more outpatient care for all patients.
- A. True
 - B. False

Guideline-Premium-Tested Universal Life Insurance Policy Decisions: Caveat Emptor

14. Which statement(s) about the guideline premium test (GPT) is (are) correct?
- I. A life insurance policy that violates the GPT no longer enjoys the tax-deferred build-up of cash value, but will continue to experience the fully tax-free death benefit.
 - II. To avoid a violation of the GPT, a policy would either be restricted in the amount of premium that can be paid or would be required to return to the policyholder the amount of cash value causing the violation.
- A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
15. As illustrated by Table 2, what is the amount of annual premium required to support a \$270,006 life insurance policy in year 10?
- A. \$16,748.34
 - B. \$15,413.67
 - C. \$9,864.28
 - D. \$12,919.96

The Effects of the Tax Cuts and Jobs Act on Small Businesses

16. All of the following statements about small businesses in the United States are correct **EXCEPT**:
- A. The Small Business Association generally classifies companies with fewer than 500 employees as small businesses.
 - B. The number of employees who work for small businesses is over 50 percent of the working population.
 - C. For the most part, the small business tax changes introduced by the TCJA expire in 2027.
 - D. Approximately 95 percent of all small businesses are structured as pass-through entities.

17. All the following statements about changes introduced by the TCJA are correct **EXCEPT**:
- The TCJA retained the seven-bracket structure for individual tax rates, but the bracket ranges have been modified.
 - In 2018, the tax rate for a married couple filing a joint tax return and earning \$92,000 is 18 percent.
 - The increase in the standard deduction for taxpayers is designed to encourage taxpayers to choose the simpler standard deduction over itemizing on schedule A of the tax return.
 - Deductions, such as those for state and local income taxes and property taxes, are capped at \$10,000 under the TCJA.
18. Which statement(s) about the corporate taxes under the TCJA is (are) correct?
- The lowered corporate tax rate enacted by the TCJA leaves out the majority of small business owners because of the pass-through nature of their tax structure.
 - Taxpayers can deduct up to 21 percent of qualified business income (QBI) from pass-through entities.
- I only
 - II only
 - Both I and II
 - Neither I nor II
19. All of the following statements about qualified business income (QBI) are correct **EXCEPT**:
- The QBI deduction is “below the line” so it lowers taxable income, but not adjusted gross income.
 - The QBI deduction will not affect income limitations for other deductions or credits.
 - QBI is defined as net profits after all other business deductions have been claimed less any salaries or guaranteed payments to owners or partners.
 - If one owner/partner in a small business is subject to QBI limitations, the same limits will apply to all other owners/partners in that business.
20. A single specified service-based professional will be deemed a “high earner” by the IRS if he or she has income that exceeds what amount?
- \$157,500
 - \$182,000
 - \$315,000
 - \$415,000
21. All of the following statements about fringe benefit changes enacted by the TCJA are correct **EXCEPT**:
- Under the TCJA, the business-related entertainment expense has been eliminated.
 - There has been no change to the deduction for meal expenses while employees are traveling for business.
 - Meals provided to employees for their convenience on the employer’s property, such as an onsite cafeteria, are now 100 percent deductible, an increase of 20 percent from prior law.
 - The deduction for qualified transportation fringe benefits has been eliminated under the TCJA.
22. All of the following statements about financial services industry diversity initiatives are correct **EXCEPT**:
- Prudential’s Business Resource Groups (BRGs) are designed to promote individual professional development and include the Black Leadership Forum, the Hispanic Heritage Network, and the Military Veteran’s Network.
 - Citigroup has a diversity initiative that provides training for unconscious bias.
 - Vanguard’s 2017 Investment Stewardship Report speaks to the importance of meaningful progress over time in increasing the diversity of board composition.
 - Blackrock, Inc.’s CEO, Larry Fink, established a \$4 million program with the targeted objective of increasing the number of minority wealth managers at Blackrock by 25 percent by the year 2020.

Diversity Continues to Challenge the Financial Services Industry: Benefits, Financial Performance, Demographics, Impediments to Progress, and Best Practices

23. Which statement(s) about the potential benefits of a diverse workforce is (are) correct?
- I. A diverse workforce is more likely to identify the needs of underserved populations, enabling firms to explore new business models and technologies.
 - II. Just under 75 percent of financial services CEOs who have adopted a strategy to promote diversity believe it is helping to enhance collaboration, innovation, and customer satisfaction.
- A. I only C. Both I and II
 B. II only D. Neither I nor II
24. All of the following statements about challenges and best practices in recruiting women and minorities to jobs in the financial services industry are correct **EXCEPT**:
- A. Strong competition for diverse talent within the industry is a challenge to recruiting women and minorities.
 - B. One challenge to recruiting women and minorities is the lack of awareness of financial service career opportunities.
 - C. Establishing relationships with professional organizations that represent women and minorities is considered a best practice for recruiting from these groups.
 - D. A best practice established by Ernest & Young, among other large companies, is the requirement of at least one woman and one minority in senior leadership.

**Women and Diversity—
 Why the Conversation Must Continue in
 Financial Services**

25. All of the following statements about women, age, and diversity in the financial services profession are correct **EXCEPT**:
- A. According to the CFP Board, 23.16 percent of certificated CFPs are women.
 - B. According to Data USA for Personal Financial Advisors, in 2016, 84.2 percent of personal financial advisors were white.
 - C. According to published data, Asians comprise 10 percent of personal financial advisors and African Americans make up just over 5 percent of personal financial advisors.
 - D. According to the CFP Board, 72.14 percent of CFPs are aged 40 or older.
26. True or False. Cerulli Associates indicate that just over 35 percent of current advisors are expected to retire in the next 10 years and close to 50 percent are expected retire by 2035.
- A. True B. False
27. According to information from the Bureau of Labor Statistics, all the following statements about personal financial advisors are correct **EXCEPT**:
- A. Employment of financial advisors is expected to grow at a lower rate than previously expected over the next 10 years due to the increasing popularity of robo-advisory services.
 - B. Personal financial advisors are defined as providing advice on investments, insurance, mortgages, college savings, estate planning, taxes, and retirement to assist individuals with their finances.
 - C. The median average wage for a personal financial advisor was \$90,640 in 2017.
 - D. Projections are that there will be an increase of 40,400 personal financial advisors jobs/positions from 2016 to 2026.

28. According to the authors' research and interactions with students and financial service professionals, all of the following have been identified as possibly impacting the level of interest among students in a career as a financial advisor **EXCEPT**:
- Students are not aware of the opportunities that are available in this profession.
 - Students believe that all positions in financial services are sales related.
 - Trusted counselors who help students with career choices view the profession as a sales-oriented career.
 - Students perceive careers in financial services to be relatively low-paying positions without much opportunity for career fulfillment.
29. Which statement(s) about the Financial Planning Women and Diversity Symposium is (are) correct?
- The specific goal of the symposium is to increase the number of undergraduate students choosing financial planning as a degree choice.
 - The symposium was designed to highlight the benefits of a more diverse workforce in the financial services industry and the initiatives underway to address the lack of diversity.
- I only
 - II only
 - Both I and II
 - Neither I nor II
30. All of the following statements about the impact of the Women and Diversity Symposium on impressions of the financial services industry are correct **EXCEPT**:
- Following the symposium, survey information indicates that Caucasian attendees had a less favorable view of financial planning than they had prior to the meeting, but non-Caucasian attendees had a significantly more favorable view of the value of financial planning than before the meeting.
 - Following the symposium, survey information indicates that, in general, attendees had a stronger belief in the value of a financial planner.
 - Following the symposium, analysis of survey information indicates that females obtained a greater understanding of the process involved in the financial services industry and were more optimistic about career opportunities.
 - Prior to the symposium, survey information indicates that females responded more favorably than males to the statement "Financial planners generally work as a team with other professionals such as accountants, lawyers, registered investment advisors, and insurance experts," but after the symposium there was no significant difference between male and female respondents to this statement.