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Estate and Trust Income Taxation

Course #5185F/QAS5185F

Exam Packet

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ESTATE AND TRUST INCOME TAXATION (COURSE #5185F/QAS5185F)

COURSE DESCRIPTION

This course has two major components. Section one is designed to be a general overview of the responsibilities of the person in charge of the property (estate) of an individual who has died. The second section provides detailed line-by-line instructions regarding how to prepare an estate and trust income tax return. The course has numerous examples and completed forms required to file Form 1041. Uses the materials entitled *Estate and Trust Income Taxation*. No prerequisites. Course level: Basic. Course #5185F/QAS5185F - **12** CPE hours.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

ASSIGNMENT SUBJECT

1 Survivors, Executors, and Administrators

Study the materials for chapter 1
Complete the review questions at the end of the chapter
Answer the final exam questions 1 to 36

Objectives:

- To identify the responsibilities of the individual in charge of the estate of a decedent

ASSIGNMENT SUBJECT

2 Estate and Trust Income Tax Return Instructions for Tax Year 2009

Study the materials for chapter 2
Complete the review questions at the end of the chapter
Answer the final exam questions 37 to 60

Objectives:

- To be able to complete the returns required for both a trust and an estate, including the Form 1041 and Schedule K-1 (Form 1041)

ASSIGNMENT

3 Complete the Answer Sheet and Course Evaluation and mail to PES for credit

NOTICE

This course and test have been adapted from materials and information entitled *Estate and Trust Income Taxation.* This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since tax laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

Program publication date 4/13/10

ESTATE AND TRUST INCOME TAXATION
(COURSE #5185F/QAS5185F) – EXAM OUTLINE

COURSE EXPIRATION DATE: Per AICPA and NASBA standards, this course must be completed within one year from the date of purchase.

TEST FORMAT: The following final exam, consisting of 60 true/false and/or multiple choice questions, is based specifically on the material included in this course. The answer sheet must be completed and returned to PES for CPE certification. You will find the answer sheet at the back of this exam packet so that you may easily remove it and use it while taking your test.

LICENSE RENEWAL INFORMATION: The Estate and Trust Income Taxation course (#5185F/QAS5185F) qualifies for **12** CPE hours.

PROCESSING: Your exam will be graded promptly. You must score 70% or better to pass. When you pass, your certificate of completion will be mailed. If you do not pass, we will give you a courtesy call to inform you of this and then another answer sheet will be sent to you free of charge.

GRADING OPTIONS: Please choose only **one** of the following. There is no additional charge for any of these grading options. Make sure to fill out your answer sheet completely prior to submitting it.

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- **FAX** – Your exam will be graded and you will be contacted either via phone or fax with your results within 4 business hours of receipt. A copy of your graded exam and certificate of completion will be mailed to you the same day we receive it. Your certificate will be dated according to the fax date. If you choose to fax your exam, please do not mail it. Your fax will serve as the original. Please refer to the attached answer sheet for further instructions on fax grading. Fax number (916) 791-4099.

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ESTATE AND TRUST INCOME TAXATION
(COURSE #5185F/QAS5185F) – FINAL EXAM

The following questions are either true or false and/or multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. An administrator is usually appointed by the court if:

    a) no will exists
    b) no executor was named in a will
    c) the named executor cannot or will not serve
    d) any of the above

2. The IRS ordinarily has ______ from the date an income tax return is filed, or its due date, whichever is later, to charge any additional tax that is due.

    a) 5 years
    b) 3 years
    c) 18 months
    d) one year

3. Even if the executor is discharged from personal liability, the IRS will still be able to assess tax deficiencies against the executor to the extent that he or she still has any of the decedent's property.

    a) true
    b) false

4. The final income tax return of the decedent:

    a) must be prepared on a form for the year of death regardless of when during the year death occurred
    b) cannot be filed electronically
    c) is due within 90 days after death
    d) all of the above

5. Which of the following is <u>not</u> a factor that generally determines whether a final income tax return must be filed:

    a) filing status
    b) age
    c) number of dependents
    d) gross income

6. If the decedent accounted for income using the cash method, which of the following should be included in the decedent's final return:

    a) a dividend that was declared, but not yet received
    b) a dividend that was only available for use by the decedent with restrictions
    c) interest from coupon bonds that matured in the decedent's final tax year, even if they had not been cashed
    d) all of the above

7. Which of the following is true resulting from the death of a partner of a partnership:

    a) the death of a partner closes the partnership's tax year for that partner
    b) generally, the partnership tax year does not close for the rest of the partners
    c) the decedent's distributive share of partnership items must be figured as if the partnership's tax year ended on the date the partner died
    d) all of the above

8. If you do not itemize deductions on the final return, the amount of the standard deduction allowed is prorated for the year based on the date of death.

    a) true
    b) false

9. Which of the following is true regarding the deduction of losses of a decedent:

    a) you can deduct any unused net operating loss of the decedent on the estate's income tax return
    b) a net operating loss on the final tax return of the decedent cannot be carried back to prior years
    c) a decedent's net operating loss from a prior year can be deducted on the decedent's final income tax return
    d) all of the above

10. Which of the following is true regarding the tax benefits of survivors:

    a) a surviving spouse may qualify for special tax rates for the two years following a spouse's death
    b) if the decedent qualified as the surviving spouse's dependent, the survivor can claim an exemption for the dependent on a prorated basis based on the date of death
    c) a surviving spouse must file a joint return for the year of death
    d) all of the above

11. Income in respect of a decedent must be included in the income of:

    a) the decedent's estate
    b) the beneficiary
    c) any person to whom the estate properly distributes the rights to receive it
    d) any one of the above depending on the circumstances

12. If you transfer your right to income in respect of a decedent, you do not have to include any amount in your income you receive for the right.

    a) true
    b) false

13. Wages paid as income in respect of a decedent during the calendar year of death are subject to:

    a) social security and Medicare taxes
    b) federal income tax withholding
    c) both a and b above
    d) none of the above

14. Which of the following is true regarding the Form 1099-INT related to cashing a U.S. savings bond that you acquired from a decedent:

    a) the interest shown on the Form 1099-INT will be reduced by any interest reported by the decedent before death
    b) the Form 1099-INT may show more interest than you must include in your income
    c) the Form 1099-INT is only required if the interest portion of the payment received was greater than $100
    d) all of the above

15. If a beneficiary receives a lump-sum distribution from a traditional IRA he or she inherited:

    a) the entire IRA balance is taxable as income of the beneficiary
    b) the distribution is taxable in the year received as income in respect of a decedent up to the decedent's taxable balance
    c) the entire distribution is taxable in the year received as income in respect of a decedent
    d) it cannot be taxable as income in respect of the decedent

16. Qualified distributions from a Roth IRA are not subject to tax.

    a) true
    b) false

17. Individuals can claim a deduction for the estate tax paid on the income that a decedent had a right to receive:

    a) subject to the 2% limit on miscellaneous itemized deductions
    b) whether or not they itemize their deductions
    c) only in the same year in which the income in respect of the decedent must be included in the recipient's income
    d) all of the above

18. Which of the following is included in a recipient's income:

    a) property received as a gift
    b) income produced from property that was received as an inheritance
    c) property received from a decedent's estate in satisfaction of their right to the income of the estate
    d) both b and c above

19. Insurance proceeds from a decedent's life insurance policy paid by reason of his or her death generally are excluded from income if the beneficiary is:

    a) a family member
    b) a corporation
    c) a partnership
    d) any of the above

20. The basis in property inherited from a decedent is generally:

    a) zero
    b) the original cost of the property
    c) the basis the decedent had in the property
    d) the fair market value of the property at the date of the individual's death or on the alternate valuation date

21. If a person other than the decedent's spouse inherits a decedent's traditional IRA or Roth IRA, that person cannot treat the IRA as one established on his or her behalf.

    a) true
    b) false

22. Which of the following is <u>not</u> true regarding an estate:

    a) an estate comes into being with the death of the individual
    b) an estate exists for a limited number of years, generally up to three years after the decedent's death
    c) an estate must report the income earned by the assets within the estate during the period the estate is in existence
    d) an estate is a taxable entity separate from the decedent

23. Every domestic estate with gross income of ______ during a tax year must file a Form 1041.

    a) $600 or more
    b) $300 or more
    c) $50 or more
    d) $0 or more

24. Which of the following is true regarding an estate's taxable income:

    a) gross income of an estate excludes rents received during the tax year
    b) an estate may qualify for a deduction for estate taxes related to income in respect of a decedent
    c) the character of an asset in an estate is always the same as it was to the decedent
    d) all of the above

25. The basis used to figure gain or loss for property an estate receives from the decedent usually is:

    a) the decedent's adjusted basis in the property immediately before death
    b) its cost
    c) its fair market value at the date of death
    d) none of the above

26. If the first return of an estate is for a period of less than 12 months, (not due to a change in the accounting period), then the exemption deduction is:

    a) zero
    b) $50
    c) $50 for each month of the short year
    d) $600

27. Generally, an estate cannot claim a deduction for a loss that it sustains on the sale of property.

    a) true
    b) false

28. Expenses for administering an estate can be deducted:

    a) from the gross estate in figuring the federal estate tax on Form 706
    b) from the estate's gross income in figuring the estate's income tax on Form 1041
    c) either a or b above
    d) both a and b above

29. The separate shares rule must be used if:

    a) the estate has more than one beneficiary
    b) the economic interest of a beneficiary does not affect, and is not affected by, the economic interest of another beneficiary
    c) either a or b are true
    d) both a and b are true

30. Which of the following is true regarding funeral and medical expenses:

    a) funeral expenses are deductible for determining the taxable estate for federal estate tax purposes
    b) medical expenses are deductible in figuring the estate's taxable income
    c) a deduction can be taken for funeral expenses on Form 1041
    d) both a and b above

31. Which of the following is true regarding paying an estate's income tax liability:

    a) the penalty charged for not paying estimated taxes on time is $50 per month
    b) the estate's income tax must be paid in full when the return is filed
    c) an estate never has to make estimated tax payments
    d) you must pay estimated tax if the estate is expected to owe, after subtracting any withholding and credits, at least $600

32. If you are the beneficiary of an estate that must distribute all its income currently, you must report your share of the distributable net income whether or not you have actually received it.

    a) true
    b) false

33. An amount distributed to a beneficiary for inclusion in gross income:

    a) can be treated by the beneficiary as they choose
    b) retains the same character for the beneficiary that it had for the estate
    c) is entirely treated as capital gain
    d) is entirely treated as ordinary income

34. A distribution will <u>not</u> be an allowable deduction to the estate and will <u>not</u> be includible in the beneficiary's gross income if the distribution:

    a) is required by the terms of the will
    b) is a gift or bequest of a specific sum of money or property
    c) is paid out in three or fewer installments under the terms of the will
    d) all of the above

35. If an estate has unused loss carryovers or excess deductions for its last tax year, they cannot be claimed elsewhere.

    a) true
    b) false

36. For estate tax purposes, you file Form 706 if the death occurred in 2009 and the gross estate is more than:

    a) $1,000,000
    b) $2,000,000
    c) $3,500,000
    d) $7,000,000

37. The trustee of a domestic trust which is taxable as a trust under Code Sec. 641 must file an income tax return on Form 1041 for the trust if it has:

    a) any taxable income for the tax year
    b) gross income of $600 or more for the tax year, whether or not it has any taxable income
    c) a beneficiary who is a nonresident alien
    d) any of the above

38. A complex trust is a trust that:

    a) does not provide that any amounts are to be paid, permanently set aside, or used for charitable purposes
    b) does not distribute amounts allocated to the corpus of the trust
    c) does not qualify as a simple trust
    d) requires all income to be distributed currently

39. Which of the following is <u>not</u> true regarding filing an amended Form 1041:

    a) you must check the "Amended return" box
    b) attach a sheet that explains the reason for the amendments
    c) only adjust the boxes that changed; do not complete an entire return
    d) refigure the estate's or trust's tax liability

40. Which of the following should <u>not</u> be included on line 1, Interest Income:

    a) taxable interest from U.S. Treasury bills
    b) taxable interest from U.S. savings bonds
    c) taxable interest from accounts with banks and credit unions
    d) tax-exempt interest on municipal bonds

41. Qualified dividends:

    a) are not eligible for a lower tax rate than other ordinary income
    b) should not be allocated between the estate or trust and the beneficiary
    c) are reported on line 2b, Form 1041
    d) all of the above

42. State income taxes and business expenses that are allocable to tax-exempt interest are deductible.

    a) true
    b) false

43. Which of the following limits the amount that can be deducted on an estate or trust return:

    a) at risk limits
    b) passive activity loss and credit limitations
    c) transactions between related taxpayers
    d) all of the above

44. Which of the following is deductible as interest:

    a) interest on underpayments of federal, state, or local income taxes
    b) interest incurred on any qualified residence
    c) interest on personal notes for money borrowed from a bank
    d) interest on revolving charge accounts used to purchase personal use property

45. Which of the following other deductions are subject to the 2% floor:

    a) investment advisory fees for the production of income
    b) casualty and theft losses
    c) net operating loss deduction
    d) bond premiums

46. If an estate or trust has for its final year deductions (excluding the charitable deduction and exemption) in excess of its gross income:

    a) the excess can be taken as a deduction in the final year of the estate or trust
    b) the excess is lost as a deduction
    c) the excess is allowed as an itemized deduction to the beneficiaries succeeding to the property of the estate or trust
    d) none of the above

47. The fiduciary of an estate or trust may elect to treat as paid during the tax year any amount of gross income received during that tax year or any prior tax year that was paid in the next tax year for a charitable purpose.

    a) true
    b) false

48. Which of the following is <u>not</u> true regarding the income distribution deduction calculated on Schedule B (Form 1041):

    a) Schedule B should be completed if the estate was required to distribute income to beneficiaries during the tax year
    b) capital gains should be included on line 3 only if they are distributed
    c) on line 9 for income required to be distributed currently, you should not include the amount paid or permanently set aside for charitable purposes
    d) any deduction or loss that is applicable solely to one separate share of the trust or estate is not available to any other share of the same trust or estate

49. The maximum tax rate for estates and trusts for tax years beginning in 2009 is:

    a) 35%
    b) 33%
    c) 28%
    d) 25%

50. Under which of the following situations does an estate or trust need Schedule H (Form 1040) to determine if it owes Household Employment Taxes:

    a) the estate or trust paid any one household employee cash wages of $1,700 or more in 2009
    b) the estate or trust withheld federal income tax during 2009 at the request of any household employee
    c) the estate or trust paid total cash wages of $1,000 or more in any calendar quarter of 2009 to household employees
    d) any of the above

51. All salaries, wages, and compensation for personal services must be included on the return of the person who earned the income, even if the income was irrevocably assigned to a trust by a contract assignment or similar arrangement.

    a) true
    b) false

52. To have an accumulation distribution, the distribution must be less than the accounting income of the trust.

    a) true
    b) false

53. Which of the following is <u>not</u> true regarding the Schedule K-1:

    a) the fiduciary (or one of the joint fiduciaries) must file the K-1
    b) a copy of the K-1 should be given to each beneficiary, but no copies should be attached to the Form 1041 filed with the IRS
    c) the K-1 should be used to report the beneficiary's share of income, deductions, and credits from a trust or a decedent's estate
    d) grantor type trusts do not use K-1s

54. The beneficiary's income from the estate or trust must be included in the beneficiary's tax year during which the tax year of the estate or trust ends.

    a) true
    b) false

55. Schedule I, Alternative Minimum Tax, must be completed by an estate or trust that:

    a) is required to complete Form 1041, Schedule B
    b) has a share of alternative minimum taxable income exceeding $22,500
    c) claims a credit on line 2d on Form 1041, Schedule G, Tax Computation
    d) any of the above

56. Which of the following is true regarding the calculation of the alternative minimum tax for estates or trusts:

    a) for AMT purposes, the percentage of completion method of accounting generally cannot be used to calculate long-term contracts
    b) the $3,000 capital loss limitation for the regular tax applies separately for the AMT
    c) the rules for recognizing income from the exercise of incentive stock options is the same for regular and AMT purposes
    d) qualified residence interest is allowed

57. All items of property held by the estate or trust, whether or not connected with its trade or business, is a capital asset.

    a) true
    b) false

58. Which of the following is <u>not</u> true regarding the determination of long-term and short-term classification of the capital gains and losses on Schedule D (Form 1041):

    a) when figuring the length of the period the estate or trust held property, you should begin counting on the day it was acquired and include the day the estate or trust disposed of it
    b) use the trade dates for the date of acquisition and sale of stocks and bonds traded on an exchange or over-the-counter market
    c) the holding period for short-term capital gains and losses is one year or less
    d) property acquired from a decedent is considered as held for more than one year

59. If the FMV of property acquired by gift at the time it was transferred to a trust is less than the transferor's basis, then the FMV, rather than the donor's basis, is used for determining any loss on disposition.

    a) true
    b) false

60. If the sum of all the capital losses is more than the sum of all the capital gains, then these capital losses are allowed as a deduction only to the extent of the smaller of the net loss or:

a) $5,000
b) $3,000
c) $2,500
d) $1,000

Congratulations –
you've completed the exam!

ESTATE AND TRUST INCOME TAXATION #5185F/QAS5185F (12 CPE hours) – ANSWER SHEET (4/10)

Important Note: For certification, this answer sheet must be completed and submitted to PES for grading within one year from the date of purchase. Please use black ink and print for quicker processing – thank you.

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2.	O	O	O	O	22.	O	O	O	O	42.	O	O	O	O
3.	O	O	O	O	23.	O	O	O	O	43.	O	O	O	O
4.	O	O	O	O	24.	O	O	O	O	44.	O	O	O	O
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18.	O	O	O	O	38.	O	O	O	O	58.	O	O	O	O
19.	O	O	O	O	39.	O	O	O	O	59.	O	O	O	O
20.	O	O	O	O	40.	O	O	O	O	60.	O	O	O	O

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Estate and Trust Income Taxation #5185F/QAS5185F - Course Evaluation

Rate on a scale of 1-10 with 1 being poor and 10 being excellent.

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