CFP Board_CFP Exam

Volume: 443 Questions

Question No: 1
What must be considered with completing a needs analysis for a family saving for a child's tuition?

A. Where the child will go to college

B. Where the family lives

C. What year the child was born

D. The age the child will attend college

Answer: D

Explanation:
When completing a needs analysis for a family saving for a child's tuition the age the child will attend college must be included. In addition to what age the child will attend college, the parents' after-tax earnings rate, the inflation adjusted interest rate, the current cost of tuition, and the rate of tuition increase must also be evaluated.

Question No: 2
What term is also known as education IRAs?

A. Pell Grant

B. CollegeSure CD

C. Financial Aid

D. Coverdell Education Savings Accounts

Answer: D

Explanation:
Coverdell Education Savings Accounts is also known as education IRA's. If beneficiary does not attend college, the beneficiary can be changed to a member of the beneficiary's family if under the age of 30. This type of savings plan is used for undergraduate and graduate-level expenses. Parent or guardian establishes the account and can elect to maintain control over the account for education purposes. Any withdrawals from the Coverdell are paid to the beneficiary and are

not refunded to the parent or other person who establishes the account.

Question No: 3
What type of education funding is only for the first two years of undergraduate education?

A. Hope Credit

B. Lifetime Learning Credit

C. Education Learning Credit

D. Hope learning Credit

Answer: A

Explanation:
Hope Credit education funding is only for the first two years of undergraduate education. Qualified expenses include tuition; books and supplies qualify as tuition if the fees must be paid to the institution as a condition of enrollment. Room and board, and books and supplies are not qualified. The amount of credit is 100 percent of the first $1,200 for qualified tuition you paid for each eligible student and 50 percent of the next $1,200. The maximum amount is $1,800 times the number of eligible students.

Question No: 4
What educational savings plan vehicle is a gift to a child without the expense of a trust?

A. Uniform Transfers to Minors Act

B. CollegeSure CD

C. Financial Aid

D. Coverdell Education Savings Accounts

Answer: A

Explanation:
The Uniform Transfers to Minors Act is an educational savings plan vehicle that is a gift to a child without the expense of a trust. Parents transfer assets to children to reduce the income taxes on their earnings. Money transferred to a custodial account is considered an irrevocable gift. Once the child reaches the age stipulated by law, usually 18 or 21 years of age, the money is

the child’s to use as they please. The child is not required to attend college for the funds.

Question No: 5
What type of education funding is available for all years of undergraduate and graduate work?

A. Hope Credit

B. Lifetime Learning Credit

C. Education Learning Credit

D. Hope learning Credit

Answer: B

Explanation:
The Lifetime Learning Credit is available for all years of undergraduate and graduate work. Qualified expenses include tuition; books and supplies qualify as tuition if the fees must be paid to the institution as a condition of enrollment. Room and board and books and supplies do not qualify as expenses. The amount of the credit is 20 percent of the first $10,000 of qualified tuition paid for all eligible students. The maximum amount per family is $2,000.

Question No: 6
How much money may be deducted as interest on qualified education loans?

A. $1,500

B. $2,500

C. $3,500

D. $4,500

Answer: B

Explanation:
Interest on qualified education loans can be deducted up to $2,500. The deduction phases out when modified adjusted gross income exceeds certain limits. Voluntary payments of interest are also deductible. Deductible amounts must be reduced by any non-taxable education benefits received, such as employer-provided assistance and non-taxable distribution from a Coverdell education savings account. This deduction cannot be claimed in a; year in which a Hope Credit

or Lifetime Learning Credit has been claimed for the same student.

Question No: 7
As a funding strategy, what allows for a child to receive annual gift tax exclusion?

A. Section 2053(c) Minor's Trust

B. Section 6 (a) Parental Tax Exception

C. Section 2053 (c) Adult Trust

D. Section 5 - 3 Child Trust

Answer: A

Explanation:
As a funding strategy, Section 2053 (c) Minor's Trust allows a child to receive annual gift tax exclusion. This is a transferred trust property to be treated as a gift of a present interest to the child and so qualifies for the annual gift tax exclusion. The trust is used when 1) the granter's income tax bracket is high and the recipient's tax bracket is low and 2) the granter does not want an appreciating asset included in the gross estate. If income of the trust is distributed each year, it is taxable to the recipient. If income is accumulated, it is taxed to the trust. All of the trust property and accumulated income must be payable to the child when he or she reaches age 21.

Question No: 8
What is the second step in determining a client's goals for education?

A. Determine education goals

B. Create strategies to fund education goals

C. Analyze the current financial situation and education funding plan

D. Educate the client on implementing education funding plans

Answer: C

Explanation:
After you determine the client's education goals, you should analyze the client's current financial situation and their education funding plan, if any. After that step, you can create strategies and educate the client on implementing the strategies.

Question No: 9
If a client has a child, what should you assume about the child's education?

A. The child will go to a four-year college or university

B. The child will not attend college or a trade school

C. The child will receive a scholarship or otherwise fund his or her own education

D. Assume nothing

Answer: D

Explanation:
You should not make assumptions when analyzing a client's education needs. A child may or may not go to a four-year college or university. If not, the child may want to attend a vocational or trade school. Some students may be able to earn a scholarship or receive student loans, but that is not always the case.

Question No: 10
When planning for education financing, what should you NOT do?

A. Consider student loans

B. Consider scholarships

C. Under-prioritize educational goals

D. Over-prioritize educational goals

Answer: D

Explanation:
Sometimes, parents are paying off their own student loans, or they risk their own current or future financial security. Make sure that you do not over-prioritize funding the educational goals of a client's children.

Question No: 11
Of the following, what should you never use as a strategy for educational goals?

A. Work-study programs

B. Savings vehicles

C. Grants

D. None of the above

Answer: D

Explanation:
When considering strategies to reach a client's educational goals, consider all possibilities that the client is open to considering, including payments from parents and grandparents, savings vehicles, scholarships, grants, work-study, and student loans.

Question No: 12
What formula should you use to determine the future cost of a year of college?

A. Present cost of attendance X # of years of attendance

B. FV = PV (1+G)^N

C. PVGA = (PMT/(I-G))*(1-((1+G)/(1+I))^N)

D. FVA = (PMT/I)*((1+I)^N-1)

Answer: B

Explanation:
To figure the future cost of one year of college education, use the formula FV = PV(1+G)^N. This calculation figures the future value cost (FV), which includes tuition, fees, books, supplies, room, and board.

Question No: 13
Which of the following is a savings strategy for future education?

A. Student loans

B. 925 College Savings Plan

C. Scholarship

D. Variable Universal Life Insurance

Answer: D

Explanation:
There are several savings strategies for higher education expenses. You can use a 529 College Savings Plan (not 925), a Variable Universal Life Insurance Policy, or many other methods. Student loans and scholarships are not savings strategies; rather, they are strategies for paying current higher education expenses.

Question No: 14
What is an advantage of a 529 College Savings Plan?

A. Earnings withdrawn from a 529 College Savings Plan are never taxed

B. Though earnings withdrawn from a 529 College Savings Plan are always taxed, you can deduct contributions while saving

C. Earnings withdrawn from a 529 College Savings Plan are not taxed, as long as they are used for qualified education expenses

D. Only half the earnings withdrawn from a 529 College Savings Plan are taxed

Answer: C

Explanation:
If a client contributes amounts to a 529 College Savings Plan, and later withdraws the earnings, those amounts are not taxed if they are used for qualified educational expenses.

Question No: 15
What is the amount of additional tax on traditional or Roth IRA withdrawals, made before age 59 ½, that are NOT used for qualified higher education expenses (or another qualified expense)?

A. 3%

B. 5%

C. 10%

D. 15%

Answer: C

Explanation:
If an individual makes a withdrawal from a traditional or Roth IRA before reaching age 59 ½, that individual is subject to regular tax plus an additional 10% tax on the distributions. This does not apply to withdrawals used specifically for qualified education expenses.

Question No: 16
Which of the following is true regarding a Coverdell Education Savings Account?

A. The beneficiary must be the taxpayer

B. The beneficiary must be under the age of 21

C. The total balance in the account must be withdrawn before the beneficiary's 30th birthday

D. You cannot contribute more than $2,000 each tax year

Answer: D

Explanation:
The account's beneficiary must be under 18 when you set up a Coverdell Education Savings Account. The contributions each tax year cannot be more than $2,000, and the balance should be distributed before the beneficiary's 30th birthday.

Question No: 17
What is a disadvantage of a Crummey Trust?

A. Distributions used for education are considered as income to the student's parent

B. Distributions used for education are considered as income to the student

C. The trust can have multiple beneficiaries

D. The trust allows the parent or another person who sets it up to have some control over distributions

Answer: B

Explanation:
One disadvantage of a Crummey Trust is that the student must include any distributions as income. This may affect the amount of any financial aid, if any, the child would otherwise be able to receive.

Question No: 18
How do most full-time undergraduate students pay for a college education?

A. Financial aid

B. Gifts from parents

C. Scholarships

D. Education savings vehicles

Answer: A

Explanation:
The U.S. Department of Education keeps records of how students pay for undergraduate education. The majority of these students receive some form of financial aid.

Question No: 19
How do you find the amount of financial aid a student may be eligible to receive?

A. By filing a form with the student's income tax return

B. Free Application for Federal Student Aid

C. Expected Family Contribution Aid Request

D. Free Application for State Financial Aid

Answer: B

Explanation:
The United States government makes some financial aid programs available under the Higher Education Act of 1965. The amount of aid depends on the Expected Family Contribution, which you can figure by completing the Free Application for Federal Student Aid (FAFSA).

Question No: 20
Which of the following is NOT considered when using the regular formula to figure the Expected Family Contribution?

A. Dependency status

B. Number of children in college

C. Household size

D. Family business

Answer: D

Explanation:
The Expected Family Contribution calculation takes into account the dependency status, household size, number of children in college, and the cost of supporting the family. The calculation does make adjustments to exclude certain assets, including a family business.

Question No: 21
What percentage of a student’s net worth is considered to be available to pay education expenses?

A. 0%

B. 12%

C. 35%

D. 50%

Answer: C

Explanation:
When calculating the Expected Family Contribution under the regular method, 50% of the student’s income and 35% of his or her net worth is considered to be available to pay education expenses. 12% of the parents’ discretionary (not total) net worth is considered available.

Question No: 22
Who prepares the financial aid package available to the student?

A. U.S. Department of Education

B. The state in which the student lives

C. The parent

D. The school

Answer: D

Explanation:
The student should request that the information from the completed FAFSA be sent to the school he or she plans to attend. The school, then, will prepare the financial aid package, consisting of grants, loans, or work-study programs.

Question No: 23
What is the amount a parent or grandparent can pay to the child's educational provider before owing a gift tax in 2017?

A. $0

B. $14,000

C. $28,000

D. Unlimited

Answer: D

Explanation:
As long as the parent or grandparent pays the amounts directly to the education provider, he or she can pay an unlimited amount for tuition without owing the gift tax.

Question No: 24
What is the maximum American Opportunity Tax Credit amount?

A. $2,000

B. $2,500

C. $5,000

D. $10,000

Answer: B

Explanation:

The American Opportunity Tax Credit is available for the first four years of postsecondary education. The maximum credit is $2,500.

Question No: 25
Besides the Federal government, what type of organization may offer loans to pay for education?

A. The college

B. Non-profit organizations

C. Private organizations

D. All of the above

Answer: D

Explanation:
Many families may need to consider and obtain financing to pay for education. The Federal government, colleges, non-profit organizations, and private organizations all may offer student loans.

Question No: 26
How do loans differ from grants?

A. Grants must generally be paid back

B. Grants are generally based on financial need, but loans are typically not based on need

C. Grants are awarded to the parent, where loans are awarded to the student

D. Grants are awarded to the student, where loans are typically only awarded to the parent

Answer: B

Explanation:
While some types of loans are based on financial need, most are not. Grants, however, are often based on need.

Question No: 27
On which type of loan does the Federal government pay interest while the student is attending

school?

A. Subsidized Stafford loan

B. Unsubsidized Stafford loan

C. Federal Perkins loan

D. All of the above

Answer: A

Explanation:
Stafford loans are a type of loan administered by the U.S. Department of Education. With a subsidized loan, the Federal government pays the interest while the student is in school and for six months after graduation.

Question No: 28
Which type of loan is available for students with exceptional financial need?

A. Stafford loan

B. Federal Perkins loan

C. Parent PLUS loan

D. Graduate PLUS loan

Answer: B

Explanation:
With a Federal Perkins loan, the funds are dependent on exceptional financial need, and they are dispersed according to the student's financial need and the availability of funds at the college.

Question No: 29
Which type of student loan has an interest rate of 5%?

A. Federal Perkins loan

B. Parent PLUS loan

C. Graduate PLUS loan

D. Private loans

Answer: A

Explanation:
Because the Federal Perkins loan program is available for students with exceptional financial need, there is a fixed interest rate of 5%.

Question No: 30
Which of the following can be a consequence of not paying a student loan debt?

A. Federal and state taxes can be offset to pay a portion of the debt

B. The student can lose eligibility for further Federal student aid

C. The student’s wages can be garnished

D. All of the above

Answer: D

Explanation:
The consequences of defaulting on, or not paying, a student loan can be severe. They can include reports to the credit bureaus, the loan being called due immediately, tax refund offsets, and loss of eligibility for Federal student aid and services, and wages can be garnished.

Question No: 31
When dealing with property titling, what law is based on custom and general principles and in embodied in case law?

A. Community Law

B. Marriage Law

C. Common Law

D. Law of Matrimony

Answer: C

Explanation:
When dealing with property titling, Common Law is based on custom and general principles and is in embodied in case law. It is applied to situations not covered by statute. A husband and wife have equal ownership in all property under common law. The law deals with equitable distributions of property and distributions. Heirs receive a 50 percent step-up in basis at death under common law and 100 percent step-up in basis under community property.

Question No: 32
When dealing with property titling, what deals with property that has been acquired by the efforts of either spouse during their marriage while living in a community property state?

A. Community Property

B. Marriage Law

C. Common Law

D. Law of Matrimony

Answer: A

Explanation:
When dealing with property titling, community property deals with property that has been acquired by the efforts of either spouse during their marriage while living in a community property state. It does not include property acquired by only one of the spouses by gift, devise, bequest, or inheritance, or acquired by either spouse prior to their marriage - both spouses own community property equally. For a spouse domiciled in a community property state, only one-half of the value of that property is included in the decedent’s estate.

Question No: 33
Betsy’s husband just died. After 45 years of marriage she isn’t very upset. But she is concerned that her stepchildren from his prior marriage will force her to sell the house they bought their first year of marriage to get a portion of the sale price. What is true of Betsy’s situation?

A. The selling of her home is decided by what is said in her dead husband’s will.

B. The selling of her home is decided by what is said within her dead husbands trust.

C. At the death of a co-owner, the decedent’s interest automatically passes to the surviving owners.

D. All of the above.

Answer: C

Explanation:
At the death of a co-owner of a home purchased by a married couple the decedent's interest automatically passes to the surviving owners under joint tenancy with right of survivorship. The automatic right of survivorship inherent in joint tenancy prevails over other means of transfers at death including a will and trust instrument. In most states, one cotenant can unilaterally sever the joint tenancy without the knowledge or consent of the other tenants. Joint tenancies are commonly created among family members.

Question No: 34
Betsy and Mark is a married couple that just signed a document that can only be signed by them with respect to property. What did Betsy and Mark sign?

A. Joint tenancy with right of survivorship.

B. Tenancy in common.

C. Tenancy by the entireties.

D. Will

Answer: C

Explanation:
With respect to property, the tenancy by the entireties can only be signed by husband and wife. Tenancy by the entirety is like a joint tenancy in that it carries the right of survivorship, but it can be created only between husband and wife. It is unlike joint tenancy, in that neither spouse may transfer the property without the consent of the other. Additionally, where such a title is recognized, since it is available only to married couples, a divorce will cause a tenant by the entirety title to automatically convert into a tenant in common form of title.

Question No: 35
Nancy is afraid that she will be hit by a car and be disable or incapable to act on her own behalf. She wants to plan for her children's guardianship. What parties is not involved with the process?

A. The ward.

B. The judge.

C. The guardian.

D. The state.

Answer: B

Explanation:
The parties involved in a guardianship are the ward, the guardian, and the state. A guardianship is a state-imposed arrangement that results from an action brought by an interested party; it requires a finding such as “mental illness,” “incompetence,” or the like. Voluntary guardianship allows the ward to choose the guardian. It provides the protection of the court and state law, but it is relatively simple to dissolve and thus is often useful only as an interim arrangement in time of crisis or pending completion of other arrangements.

Question No: 36
Ted has millions of dollars and wants to spread his fortune to many different people when he dies. What is the preferred method for titling nonrelatives?

A. Joint tenancy with right of survivorship.

B. Tenancy in common.

C. Tenancy by the entireties.

D. Will

Answer: B

Explanation:
The preferred method for titling nonrelatives is via tenancy in common. Like joint tenancy, tenants in common interest are held by two or more persons, each having an undivided right to possess property. Unlike joint tenancy, tenants in common interests may be owned in unequal percentages, and when one owner dies the remaining owners do not automatically succeed in ownership. The decedent’s interest passes through his or her estate, by will or by the laws of intestate succession. The interest can also be transferred to the trustee of a trust and passed according to the provision of the trust.

Question No: 37
Ted has determined that he wants to give millions of dollars away after he dies. He doesn’t trust anyone so he decides to develop a trust. He already knows who he is giving his money too, what else must he determine?

A. The trustee

B. A lawyer will to take his money.

C. Who will sign the uniform Transfer to Minors Act.

D. He has determined all that he needs to.

Answer: A

Explanation:
Once it is determined who will receive a trust a trustee must be selected. This is to build a fiduciary relationship in which the trustee is holder of thee title to property, subject to an equitable obligation to keep or use the property for the benefit of the beneficiary. The trust instrument is a written agreement between the person creating and funding the trust and the trustee that sets forth for whose benefit the trust is created, how the trust estate is to be managed, the duration of the trust, and the distribution of the corpus when the trust terminates. A trust passes property outside of probate.

Question No: 38
Lindy wishes to leave a trust for her niece under the Uniform Transfer to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA). What should she know about these options?

A. UTMA was designed to replace UGMA.

B. A custodial gift may be created for only one person while a trust can provide for multiple beneficiaries.

C. UTMA allows any property interest to be transferred, including real property.

D. All of the above.

Answer: D

Explanation:
An individual wishing to leave a trust under the Uniform Transfer to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) should know that UTMA was designed to replace UGMA to allow for property interest to be transferred, including real property and that a custodial gift may be created for only one person while a trust can provide for multiple beneficiaries.

Question No: 39

Smith received documents that discuss the issues of Testate succession and Interstate succession that has him confused. What is this document about?

A. Law Operations

B. Tenancy in common

C. Probate

D. Ownership property

Answer: C

Explanation:
The terms Testate succession and Interstate succession have to do with probate. Probate is the process by which a court validates the will of a deceased individual. Probate also involves all other matters in regard to the settlement of estate of deceased person. Testate secession is when a person dies leaving a will and obligates the executor named in the will to dispose of the decedent’s property. Intestate succession is when a person dies without leaving a will and an administrator is appointed by the court to dispose of the decedent’s property and the state determines how the assets will be conveyed.

Question No: 40
Mr. Rich lived and died in Missouri and owns real estate in New Jersey. What should his will contain to address this issue?

A. Law Operations

B. Tenancy in common

C. Ancillary probate proceedings

D. Ownership property

Answer: C

Explanation:
When individuals live and die in one state while owning property in another state their will should contain ancillary probate proceedings. It creates a special probate proceeding in the state in which the property is held. The will should contain a provision that appoints an ancillary executor for disposing of the property.

Question No: 41
Tony wants to avoid both public proceedings and the need to determine the status of the principal when planning for incapacity planning. What is his best option for what he wants?

A. Conservatorship

B. Durable power of attorney

C. Living trust

D. None of the above

Answer: B

Explanation:
For individuals wanting to avoid both public proceeding and the need to determine the status of the principal when planning for incapacity planning, durable power of attorney is the best option. Additionally, a durable power of attorney avoid various legal expenses and delays inasmuch as court appointment of a fiduciary is unnecessary, it is relatively uncomplicated and inexpensive to create and is easy for the principal and agent to understand, and title to the assets remains with the principal.

Question No: 42
According to the Certified Financial Planner Board of Standards, Inc. who is to explain to clients the estate planning process?

A. Accountant

B. Lawyer

C. Financial Planner

D. Investment Broker

Answer: C

Explanation:
According to the Certified Financial Planner Board of Standards, Inc. the financial planner is to explain to clients the estate planning process. Planners must make their role clear and should set forth their responsibilities in an engagement letter, spelling out the services to be performed. Planners must also make the client aware of his or her own tasks, including gathering data, working with the planner to implement the plan, and inform the planner of any changes that