QBank Quiz December 1, 2017

Test ID: 59460280

Question #1 of 223

Question ID: 606825

In a variable life annuity with 10-year period certain, a contract holder receives:

- ✓ **A)** a minimum of 10 years of variable payments, followed by additional variable payments for life.
- ✗ **B)** variable payments for 10 years, followed by fixed payments for life.
- ✗ **C)** 10 years of variable payments.
- ✗ **D)** fixed payments for 10 years, followed by variable payments for life.

Explanation

The owner of a life annuity with 10-year period certain will receive payments for life, subject to a minimum of 10 years. If the contract holder dies before the period expires, the remaining payments are made to the beneficiary. An example would be if a life annuity with 10-year period certain contract holder died after 5 years, payments would continue for 5 more years to the beneficiary and then stop.

Reference: 12.3.2.2 in the License Exam Manual

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Question ID: 606832

A client has purchased a nonqualified variable annuity from a commercial insurance company. Before the contract is annuitized, your client, currently age 60, withdraws some funds for personal purposes. What is the taxable consequence of this withdrawal to your client?

- ✗ **A)** A 10% penalty plus the payment of ordinary income tax on funds withdrawn in excess of the owner's basis.
- ✓ **B)** Ordinary income taxation on the earnings withdrawn until reaching the owner's cost basis.
- ✗ **C)** Capital gains taxation on the earnings withdrawn in excess of the owner's basis.
- ✗ **D)** A 10% penalty plus the payment of ordinary income tax on all of the funds withdrawn.

Explanation

Contributions to a nonqualified annuity are made with the owner's after-tax dollars. Distributions from such an annuity are computed on a LIFO basis with the income taxed first. Once the cost basis is reached, any further withdrawals are a nontaxable return of principal. Since the client is older than 59½ at the time of distribution, the additional 10% penalty tax is not incurred.

Reference: 12.3.3 in the License Exam Manual

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Question ID: 606878

The term "wildcatting" refers to:

- ✗ **A)** limiting your investment portfolio to IPOs.
- ✗ **B)** small-cap mutual fund diversification.
- ✓ **C)** drilling for oil or gas where none has occurred previously.
- ✗ **D)** buying new-construction real estate for speculative appreciation value.

Explanation

In an oil and gas drilling program, the term "wildcatting" is used to describe the most speculative type of program, which is drilling where none has occurred before (i.e., in an unproven location).

Reference: 13.2.2.4 in the License Exam Manual

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Question ID: 606835

Your customer in his early 30s has received a modest inheritance from a relative. Listing tax-deferred growth as an objective for retirement income, which of the following investments is most suitable?

- ✗ **A)** Corporate debt securities
- ✗ **B)** Tax-free municipal bonds
- ✓ **C)** A variable annuity
- ✗ **D)** Growth mutual funds

Explanation

Variable annuities offer tax-deferred growth and are suitable for achieving supplemental retirement income. Ideally they should be funded with readily available cash rather than using funds liquidated from existing investments. None of the other investments listed here offer tax-deferred growth.

Reference: 12.3.4 in the License Exam Manual

Question #5 of 223

Question ID: 606840

Limited partners have the right to do all of the following EXCEPT

- ✓ **A)** choose the assets for the partnership
- ✗ **B)** inspect and copy partnership records
- ✗ **C)** sue the GP for damages if he acts outside of his authority
- ✗ **D)** vote to remove the GP

Explanation

All of these are rights of the LP except choosing the assets to be purchased for the partnership which is a function of the general partner.

Reference: 13.1.4 in the License Exam Manual

Question #6 of 223

Question ID: 606883

The primary tax benefit of an income oil and gas program is:

- ✗ **A)** intangible drilling costs.
- ✗ **B)** tangible drilling costs.
- ✗ **C)** depreciation.
- ✓ **D)** depletion.

Explanation

In an income program, the partnership is buying producing oil and gas wells. There are no drilling costs involved in these programs. While there may be a small amount of depreciation as a tax benefit, the primary benefit is depletion which is taken once the oil and gas have been sold.

Reference: 13.2.2.6 in the License Exam Manual

Question #7 of 223

Question ID: 606820

A joint life with last survivor annuity:

I. covers more than one person.
II. continues payments as long as one annuitant is alive.
III. continues payments only as long as all annuitants are still alive.
IV. guarantees payments for a certain period of time.

- ✗ **A)** II and IV.
- ✗ **B)** III and IV.
- ✓ **C)** I and II.
- ✗ **D)** I and III.

Explanation

A joint life with last survivor contract covers multiple annuitants and ceases payments at the death of the last surviving annuitant.

Reference: 12.3.2.3 in the License Exam Manual

Question #8 of 223

Question ID: 606815

If a 42-year-old customer has been depositing money in a variable annuity for 5 years, and he plans to stop investing but has no intention of withdrawing any funds for at *least* 20 years, he is holding:

- ✗ **A)** accumulation shares.
- ✗ **B)** annuity units.
- ✓ **C)** accumulation units.
- ✗ **D)** mutual fund units.

Explanation

The customer, in the accumulation stage of the annuity, is holding accumulation units. The value of the customer's account is converted into annuity units if and when the customer decides to annuitize the contract.

Reference: 12.2.1 in the License Exam Manual

Question #9 of 223

Question ID: 606829

A joint-and-last-survivor annuity is a payout option where:

- ✗ **A)** payments continue until the death of the primary owner.
- ✓ **B)** two people are covered and payments continue until the second death.
- ✗ **C)** payments continue for a pre-determined period of time.
- ✗ **D)** payments continue until age 70-½.

Explanation

In a joint-and-last-survivor option, the annuity payment is made jointly to both parties while both are alive. When the first party dies, the annuity payment is made to the survivor. When the second party dies, all payments cease.

Reference: 12.3.2.3 in the License Exam Manual

Question #10 of 223

Question ID: 606789

Regulations regarding how contributions are made to tax-qualified plans relate to which of the following ERISA requirements?

- ✗ **A)** Reporting and disclosure.
- ✗ **B)** Vesting.
- ✓ **C)** Funding.
- ✗ **D)** Nondiscrimination.

Explanation

Funding covers how an employer contributes to, or funds, a retirement plan.

Reference: 11.6 in the License Exam Manual

Question #11 of 223

Question ID: 721474

Which of the following is NOT generally associated with an existing real estate DPP?

- ✓ **A)** Appreciation potential
- ✗ **B)** Known history of income and expenses
- ✗ **C)** Lower risk than other types of real estate programs
- ✗ **D)** Immediate income stream

Explanation

Appreciation potential is generally not associated with existing real estate programs because most appreciation occurs in the earliest years for real estate assets.

Reference: 13.2.1 in the License Exam Manual

Question #12 of 223

Question ID: 606868

In the case of a real estate direct participation limited partnership program, nonrecourse financing will:

- ✓ **A)** increase a limited partners original cost basis.
- ✗ **B)** be added to a limited partners sales proceeds at the time the partnership is dissolved.
- ✗ **C)** have no effect on a limited partners original cost basis.
- ✗ **D)** decrease a limited partners original cost basis.

Explanation

For real estate limited partnerships, nonrecourse loans are included in the limited partners cost basis. In this way, the loans increase the partners original cost basis by the amount of the partner's debt liability for the loan.

Reference: 13.2.4.2.2 in the License Exam Manual

Question #13 of 223

Question ID: 606711

A grandchild inherits his grandfather's IRA from which mandatory distributions had already begun. With regard to future distributions, which option is allowed?

- ✗ **A)** The grandchild must wait until age 59½ to begin taking distributions.
- ✗ **B)** The grandchild may wait until age 79½ and begin mandatory distributions.
- ✗ **C)** A lump sum distribution liquidating the account must be taken immediately upon inheritance.
- ✓ **D)** The grandchild must begin taking minimum required distributions based on his own life expectancy.

Explanation

When a grandchild inherits an IRA from which mandatory distributions have already begun, payout must continue but is now based on the life expectancy of the new owner.

Reference: 11.2 in the License Exam Manual

Question #14 of 223

Question ID: 606779

The amount paid into a defined contribution plan is set by the:

- ✗ **A)** employee's age.
- ✓ **B)** trust agreement.
- ✗ **C)** employer's profits.
- ✗ **D)** ERISA-defined contribution requirements.

Explanation

A defined contribution plan's trust agreement contains a section explaining the formula(s) used to determine the contributions to the retirement plan.

Reference: 11.5.2 in the License Exam Manual

Question #15 of 223

Question ID: 606855

Which of the following govern the sale of a publicly offered direct participation program?

I. FINRA
II. Securities Act of 1933
III. The Investment Company Act of 1940
IV. The Internal Revenue Service

- ✗ **A)** II and III
- ✗ **B)** III and IV
- ✓ **C)** I and II
- ✗ **D)** II and IV

Explanation

The sale of a publicly registered DPP, like any other newly issued nonexempt security, is governed by the Securities Act of 1933, FINRA, and any applicable blue-sky (state) securities laws. While IRS tax code is applicable to DPPs, the IRS does not govern the sale of the securities.

Reference: 13.1.1.2 in the License Exam Manual

Question #16 of 223

Question ID: 606746

All of the following statements concerning IRA contributions are true EXCEPT:

- ✓ **A)** you may make contributions for the past year after April 15, provided you have filed an extension on a timely basis.
- ✗ **B)** between January 1 and April 15, you may make contributions for the current year, the past year, or both.
- ✗ **C)** if you file your tax on January 15, you may deduct your IRA contribution even if it is not made until April 15.
- ✗ **D)** you may contribute to this year's IRA from January 1 of this year until April 15 of next year.

Explanation

You may contribute to an IRA only until the first tax filing deadline (April 15) even if you filed an extension.

Reference: 11.2 in the License Exam Manual

Question #17 of 223

Question ID: 606747

All of the following are benefits of a traditional IRA EXCEPT that:

- ✗ **A)** contributions may be tax deductible.
- ✗ **B)** funds may be withdrawn without penalty for certain exemptions.
- ✓ **C)** no penalty is charged for failing to withdraw funds after age 70½.
- ✗ **D)** earnings accumulate on a tax-deferred basis.

Explanation

Required minimum distributions must begin the year after the account owner reaches age 70½.

Reference: 11.2.2 in the License Exam Manual

Question #18 of 223

Question ID: 606807

Variable annuity salespeople must register with all of the following EXCEPT:

- ✗ **A)** the state insurance department.
- ✗ **B)** the SEC.
- ✗ **C)** FINRA.
- ✓ **D)** the state banking commission.

Explanation

Variable annuity salespeople must be registered with FINRA and the state insurance department. Registration with FINRA is de facto registration with the SEC; no registration is required by the state banking commission.

Reference: 12.1.2 in the License Exam Manual

Question #19 of 223

Question ID: 606710

Qualified distributions from Roth IRAs are:

- ✗ **A)** tax deferred.
- ✓ **B)** tax free.
- ✗ **C)** taxable only to the extent of earnings.
- ✗ **D)** 100% taxable.

Explanation

If a withdrawal from a Roth IRA is a qualified distribution, the withdrawal is tax free. A qualified distribution is made after a 5-year holding period and after the taxpayer has reached age 59½.

Reference: 11.2.4 in the License Exam Manual

Question #20 of 223

Question ID: 606891

All of the following are types of oil and gas direct participation programs EXCEPT:

- ✗ **A)** income.
- ✗ **B)** combination.
- ✗ **C)** developmental.
- ✓ **D)** minimum guarantee wildcat.

Explanation

Exploratory programs drill wildcat wells in areas where there are no proven reserves of oil and gas. The chances of success are relatively slim, so there are no guarantees. The other three choices describe types of oil and gas programs.

Reference: 13.2.2.4 in the License Exam Manual

Question #21 of 223

Question ID: 606865

All of the following are characteristics of both oil and gas, and real estate limited partnerships, EXCEPT:

- ✗ **A)** deferral of benefits.
- ✓ **B)** depletion.
- ✗ **C)** depreciation.
- ✗ **D)** limited liability.

Explanation

A depletion allowance makes up for the using up of a natural resource. Real estate limited partnerships do not have depletion allowances. Both real estate and oil and gas partnerships offer limited liability, depreciation allowances, and deferred receipt of income and capital gains.

Reference: 13.2.2.3 in the License Exam Manual

Question #22 of 223

Question ID: 606863

What are the advantages of oil and gas direct participation programs?

- ✓ **A)** All of these.
- ✗ **B)** Potential cash flow and/or income.
- ✗ **C)** IDC.
- ✗ **D)** Depletion.

Explanation

An oil and gas limited partnership has the advantages of intangible drilling cost (IDC), depletion, depreciation, and the potential for cash flow and/or income. Such a program would also usually have the advantage of the deductions of operating expenses. For the exam, intangible drilling costs and depletion are advantages to an oil and gas program that are available to no other limited partnership.

Reference: 13.2.2 in the License Exam Manual

Question #23 of 223

Question ID: 606843

Written verification of the financial status of the customer is needed for all of the following EXCEPT:

- ✓ **A)** real estate investment trusts.
- ✗ **B)** real estate limited partnerships.
- ✗ **C)** equipment leasing limited partnerships.
- ✗ **D)** oil and gas limited partnerships.

Explanation

Real estate investment trusts (REITs) do not require proof of financial status for investment. Limited partnerships and other DPPs do.

Reference: 13.1.2 in the License Exam Manual

Question #24 of 223

Question ID: 606793

All of the following must meet the nondiscrimination provisions of the Employee Retirement Income Security Act (ERISA) EXCEPT:

- ✗ **A)** 401(k) plans.
- ✗ **B)** Keogh plans.
- ✓ **C)** deferred compensation plans.
- ✗ **D)** profit-sharing plans.

Explanation

Deferred compensation plans are nonqualified and therefore do not have to meet the nondiscrimination provisions of ERISA.

Reference: 11.6 in the License Exam Manual

Question #25 of 223

Question ID: 606817

Which of the following statements regarding variable annuities are TRUE?

I. The number of accumulation units is always fixed throughout the accumulation period.
II. The number of accumulation units can rise during the accumulation period.
III. The number of annuity units is fixed at the time of annuitization.
IV. The number of annuity units rises once annuitization begins.

- ✗ **A)** I and III.
- ✓ **B)** II and III.
- ✗ **C)** I and IV.
- ✗ **D)** II and IV.

Explanation

The number of variable annuity accumulation units can rise during the accumulation period when additional units are being purchased. When a variable annuity contract is annuitized, the number of annuity units is fixed.

Reference: 12.2.1 in the License Exam Manual

Question #26 of 223

Question ID: 721460

Which of the individuals described below would NOT be permitted to open an IRA?

- ✗ **A)** A self-employed attorney who already has a Keogh plan established

✓ **B)** An individual with current income consisting of dividends and capital gains only

✗ **C)** A divorced person whose sole income is alimony and child support from a former spouse

✗ **D)** A corporate officer who is covered by a company sponsored 401(k) plan

Explanation

An IRA contribution may be made only from earned income. While dividends and interest are investment income, alimony has been deemed to represent earned income. Individuals may contribute to an IRA even if they are already covered by a corporate pension plan or Keogh plan. However, although a contribution can be made, it may or may not be deductible, depending on the individual's income.

Reference: 11.2.1 in the License Exam Manual

Question #27 of 223

Question ID: 606765

A self-employed individual has 2 full-time employees and makes the maximum allowable contribution to his own Keogh (HR-10 plan). What percentage of each employee's earned income must he contribute to their plans as eligible employees?

✓ **A)** 25%

✗ **B)** 10%

✗ **C)** There is no requirement to contribute to the employees' plans

✗ **D)** 15%

Explanation

When a self-employed individual makes the maximum contribution to his own Keogh (HR-10 plan), he must contribute 25% of any eligible employees' earned income to their plans.

Reference: 11.3.1 in the License Exam Manual

Question #28 of 223

Question ID: 606826

If your customer invests in a variable annuity and chooses to annuitize at age 65, which of the following statements are TRUE?

I. She will receive the annuity's entire value in a lump-sum payment.
II. She may choose to receive monthly payments for the rest of her life.
III. The accumulation unit's value is used to calculate the total value of the account.
IV. The annuity unit's value represents a guaranteed return.

✗ **A)** II and IV.

✓ **B)** II and III.

✗ **C)** I and IV.

✗ **D)** I and III.

Explanation

When a variable contract is annuitized (distributed in regular payments, not as a lump sum), the number of accumulation units is multiplied by the unit value to arrive at the account's current value. An annuity factor is taken from the annuity table, which considers, for example, the investor's sex and age. This factor is used to establish the dollar amount of the first annuity payment. Future annuity payments will vary according to the separate account's performance.

Reference: 12.3.1 in the License Exam Manual

Question #29 of 223

Question ID: 721456

All of the following statements regarding nonqualified deferred compensation plans are true EXCEPT:

✗ **A)** Employees have no right to plan benefits if the business fails.

✓ **B)** Plans must be nondiscriminatory and cannot favor employees serving in certain capacities.

✗ **C)** Board members are not eligible for these plans as they are not considered employees.

✗ **D)** Benefits payable to employees at retirement are taxable.

Explanation

Needing no IRS approval, nonqualified deferred compensation plans may be discriminatory and offered only to certain employees such as key executives. An agreement between a company and an employee in which the employee agrees to defer some income until retirement, the benefits payable at retirement would be taxable at that time. Board members are not considered to be employees and therefore not eligible for these plans.

Reference: 11.1.2.1 in the License Exam Manual

Question #30 of 223

Question ID: 606777

A retiree is paid an annual amount equal to 30% of the average of his last 3 years' salary. Which of the following retirement plans offers this type of payment?

- ✓ **A)** Defined benefit.
- ✗ **B)** Defined contribution.
- ✗ **C)** Deferred compensation.
- ✗ **D)** Profit-sharing.

Explanation

A defined benefit retirement plan establishes, in advance, the payout to be received by the retiree.

Reference: 11.5.1 in the License Exam Manual

Question #31 of 223

Question ID: 606808

Which of the following are defined as securities?

I. Fixed annuities.
II. Variable Annuities.
III. Options.
IV. CDs insured by the FDIC.

- ✓ **A)** II and III.
- ✗ **B)** II and IV.
- ✗ **C)** I and IV.
- ✗ **D)** I and III.

Explanation

A security is any investment for profit with management performed by a third party. In addition, an element of risk must be present. Fixed annuities are not considered securities as return is guaranteed by the insurance company issuer. Similarly, CDs are insured, thereby eliminating risk and guaranteeing a return.

Reference: 12.1.2 in the License Exam Manual

Question #32 of 223

Question ID: 606717

A pension plan might invest in each of the following EXCEPT:

- ✗ **A)** corporate bonds.
- ✗ **B)** variable annuities.
- ✓ **C)** tax-free municipal bonds.
- ✗ **D)** equities.

Explanation

It is inappropriate to place tax-free investments into a tax-deferred plan because there is no benefit to the deferral.

Reference: 11.2.1.1 in the License Exam Manual

Question #33 of 223

Question ID: 606800

For a retired person, which of the following investments would provide the greatest protection against inflation?

- ✗ **A)** Corporate bonds.
- ✗ **B)** Fixed annuities.
- ✓ **C)** Variable annuities.
- ✗ **D)** Municipal bonds.

Explanation

Fixed income instruments, like bonds and fixed annuities, are subject to purchasing power risk. Variable annuities provide protection from inflation because their monthly income can increase depending on the separate account's performance.

Reference: 12.1.2 in the License Exam Manual

Question #34 of 223

Question ID: 606719

A 45-year-old employment counselor has a Keogh plan for himself and three full-time employees who have been working for him for the past 4 years. If he earns $150,000 this year and contributes the maximum amount allowed to his Keogh plan, how much may he invest in an IRA?

- ✗ **A)** He may have an IRA but may not make a contribution for this year.
- ✓ **B)** He may contribute 100% of earned income or the maximum allowable IRA limit, whichever is less.
- ✗ **C)** He may not have an IRA.
- ✗ **D)** He may invest any amount up to 100% of his earned income.

Explanation

Regardless of how much is invested in a Keogh plan, an investor may still invest in an IRA if he has earned income. The maximum contribution to an IRA is 100% of earned income or the maximum allowable limit, whichever is less. In this individual's case, however, the contribution would probably be nondeductible.

Reference: 11.2.1 in the License Exam Manual

Question #35 of 223

Question ID: 606758

Each of the following individuals is eligible to participate in a Keogh plan EXCEPT:

- ✗ **A)** an engineer employed by a corporation who earns $5,000 making public speeches in her spare time.
- ✗ **B)** a self-employed doctor in private practice.
- ✗ **C)** a securities analyst employed by a major research organization who makes $2,000 giving lectures in his spare time.
- ✓ **D)** an executive of a corporation who receives $5,000 in stock options from his company.

Explanation

Individuals with income from self-employment may participate in Keogh plans. Stock options, capital gains, dividends, and interest are not considered income earned from self-employment.

Reference: 11.3 in the License Exam Manual

Question #36 of 223

Question ID: 606695

All of the following are true regarding nonqualified deferred compensation plans EXCEPT:

- ✗ **A)** the plans need not be offered to all employees.
- ✗ **B)** income taxes on compensation are not due until constructive receipt.
- ✓ **C)** employees may use accumulated funds as collateral for a bank loan.
- ✗ **D)** IRS approval is not needed for deferred compensation plans.

Explanation

Deferred compensation is a promise made by an employer to defer a certain amount of an employee's salary upon retirement. The employee has no rights to the money until retirement, death, or disability, and thus cannot use it as collateral.

Reference: 11.1.2.1 in the License Exam Manual

Question #37 of 223

Question ID: 606804

All of the following statements concerning a variable annuity are correct EXCEPT:

- ✗ **A)** the invested money will be professionally managed according to the issuers' investment objectives.
- ✗ **B)** a majority vote from the shareholders is required to change the investment objectives.
- ✗ **C)** separate account may consist of mutual funds.
- ✓ **D)** variable annuities will protect an investor against capital loss.

Explanation

As the name implies, the investment performance of a variable annuity's portfolio (separate account) can vary, and the investor bears the risk of any potential decline in its value. Many variable annuities invest the separate account in mutual funds.

Reference: 12.1.4.1 in the License Exam Manual

Question #38 of 223

Question ID: 606906

A customer buys a real estate limited partnership interest by contributing $20,000 and signing a nonrecourse note for $50,000. The customer's beginning basis is:

- ✓ **A)** 70,000.
- ✗ **B)** 20,000.
- ✗ **C)** 30,000.
- ✗ **D)** 50,000.

Explanation

Generally, nonrecourse debt does not add to basis because the limited partner is not responsible (at risk) for the repayment of the debt. However, in real estate partnerships, the at-risk rules do not apply, and therefore, add to basis in this type of partnership.

Reference: 13.2.6 in the License Exam Manual

Question #39 of 223

Question ID: 606744

What is the total amount that may be invested in a Coverdell Education Savings Account in 1 year?

- ✗ **A)** The current maximum per couple.
- ✓ **B)** The current maximum per child.
- ✗ **C)** The current maximum per parent.
- ✗ **D)** The current maximum per family member.

Explanation

An indexed maximum contribution may be invested in each child's Coverdell Education Savings Account every year. For instance, if a couple has 3 children, they may invest the current maximum into each of 3 accounts.

Reference: 11.2.5.1 in the License Exam Manual

Question #40 of 223

Question ID: 606775

Which of the following statements are TRUE regarding tax-deferred, noncontributory, defined benefit plans?

I. Contribution amounts are fixed.
II. Contribution amounts vary.
III. Benefit payments are fixed.
IV. Benefit payments vary.

- ✗ **A)** II and IV.
- ✗ **B)** I and IV.
- ✓ **C)** II and III.
- ✗ **D)** I and III.

Explanation

In an employer-sponsored defined benefit plan, the contribution amounts vary according to the assumptions used. The benefit amount, however, will be fixed per person based on a formula combining age, years of service, salary, etc.

Reference: 11.5.1 in the License Exam Manual

Question #41 of 223

Question ID: 606805

If an investor has a fixed-annuity contract with an insurance company, which of the following risks is assumed by the investor?

- ✗ **A)** Mortality risk.
- ✗ **B)** Investment risk.
- ✗ **C)** Value of each annuity unit each month.
- ✓ **D)** Purchasing power risk.

Explanation

An investor who purchases a fixed annuity contract assumes purchasing-power risk. Fixed annuities pay a fixed monthly benefit which loses purchasing power if there is inflation.

Reference: 12.1.1 in the License Exam Manual

Question #42 of 223

Question ID: 606768

Payments received by the owner of a 403(b) plan are:

- ✓ **A)** 100% taxable.
- ✗ **B)** not taxable.
- ✗ **C)** taxable only to extent of earnings.
- ✗ **D)** taxable only to extent of the owner's cost basis .

Explanation

When TSA funds are withdrawn, they are fully taxed at ordinary income rates. Funds were contributed pretax and earnings accumulate tax deferred. Because no taxes were ever paid, the full withdrawal is taxable.

Reference: 11.4 in the License Exam Manual

Question #43 of 223

Question ID: 606715

Which of the following statements regarding Coverdell ESAs is TRUE?

- ✗ **A)** Contributions are tax deductible, and distributions are always taxable.
- ✓ **B)** Contributions are not tax deductible, and distributions are tax free when used for qualified educational expenses.
- ✗ **C)** Contributions are not tax deductible, and distributions for any reason are tax free.
- ✗ **D)** Contributions are tax deductible, and distributions for any reason are tax free.

Explanation

Coverdell ESAs offer after-tax contributions of up to $2,000 per student per year for children under age 18. Distributions are tax free as long as the funds are used for education.

Reference: 11.2.5.1 in the License Exam Manual

Question #44 of 223

Question ID: 721457

An individual, age 40, at a median income level and covered by an employer sponsored retirement plan wants to save more for retirement. Which of the following is the most suitable recommendation?

- ✗ **A)** An investment account utilizing only tax-free municipal bond mutual funds
- ✓ **B)** A Roth IRA, as long as the individual's income level does not exceed the maximum allowed to make a contribution (phase-out schedule)
- ✗ **C)** A traditional IRA as there will be no limit to the amount of the contribution that can be deducted
- ✗ **D)** A hedge fund utilizing high risk, high potential yield strategies

Explanation

Given the limited information the Roth IRA is the most suitable as long as the investor's income level does not limit via the phase-out schedule what can be contributed to the IRA. Dollars invested will grow and distributions will be tax free as long as the dollars have been in the account for five years once the IRA owner has reached age 59 1/2. Because the individual is covered by an employer-sponsored plan we know that the contribution to a traditional IRA may not be fully tax-deductible if at all and the earnings would be taxable when distributed. Growth in an investment account would be taxable and the utilization of tax-free municipal bonds with low yields are unlikely to accommodate saving for retirement. Hedge funds utilizing high risk investment strategies are inappropriate for retirement saving.

Reference: 11.2.4 in the License Exam Manual

Question #45 of 223

Question ID: 606841

A limited partner assisting the general partner to solicit new investors.

- ✗ **A)** is permitted if no compensation is paid.
- ✓ **B)** could jeopardize his limited partner status.
- ✗ **C)** is permitted if stated in the partnership agreement.
- ✗ **D)** is permitted if done within 90 days of his acceptance as limited partner.

Explanation

If limited partners, either individually or as a group, become too involved with the business of the partnership, they could be considered to be general partners and lose their limited liability.

Reference: 13.1.4 in the License Exam Manual

Question #46 of 223

Question ID: 606860

Once the IRS determines that a tax shelter is abusive, it may do all of the following EXCEPT:

- ✗ **A)** disallow all deductions.
- ✗ **B)** charge the taxpayer with intent to defraud.
- ✓ **C)** sentence the abuser to a prison sentence.
- ✗ **D)** charge interest on back taxes.

Explanation

The IRS does not have the authority to hand out prison sentences.

Reference: 13.1.1.1 in the License Exam Manual

Question #47 of 223

Question ID: 606772

Which of the following are qualified plans?

I. Payroll deduction.
II. Deferred compensation.
III. Defined benefit.
IV. Keogh.

- ✗ **A)** I and II.
- ✗ **B)** I and III.
- ✓ **C)** III and IV.
- ✗ **D)** II and IV.

Explanation

Defined benefit and Keogh plans are funded with pretax contributions and are thus qualified plans. Payroll deduction and deferred compensation plans are funded with after-tax contributions and are thus nonqualified plans.

Reference: 11.5.1 in the License Exam Manual

Question #48 of 223

Question ID: 606810

A variable annuity's separate account is:

I. used for the investment of funds paid by contract holders.
II. used to escrow late or otherwise delinquent premium payments.
III. required to be located off of the company's premises.
IV. regulated under both securities and insurance laws.

- ✗ **A)** I and III.
- ✗ **B)** II and III.
- ✗ **C)** II and IV.
- ✓ **D)** I and IV.

Explanation

The separate account is used for both variable life insurance and variable annuity investments. The nature of the securities invested in-bonds and growth stocks-makes it necessary that sales representatives and their principals be licensed in securities as well as insurance.

Reference: 12.1.2.1.1 in the License Exam Manual

Question #49 of 223

Question ID: 606794

Which of the following would make an employee ineligible to participate in a company's qualified retirement plan?

- ✗ **A)** He is not a member of the company's management team.
- ✗ **B)** He has been with the company for only 2 years.
- ✓ **C)** He is only 20 years old.
- ✗ **D)** He works only 1,200 hours a year for the company.

Explanation

Under the Employee Retirement Income Security Act, anyone over the age of 21, management or not, who has been with the company for at least 1 year, and who works 1,000 or more hours per year for the company, must be allowed to participate in the company's qualified plan.

Reference: 11.6 in the License Exam Manual

Question #50 of 223

Question ID: 606781

An employer-sponsored retirement plan that pays a specific benefit to participants at their normal retirement age is a:

- ✗ **A)** section 401(k) plan.
- ✓ **B)** defined benefit plan.
- ✗ **C)** defined contribution plan.
- ✗ **D)** supplemental employee retirement plan.

Explanation

A traditional defined benefit plan promises to pay a specific benefit to a participant at his normal retirement age as specified by the plan document.

Reference: 11.5.1 in the License Exam Manual

Question #51 of 223

Question ID: 606866

Which statements regarding oil and gas limited partnerships are TRUE?

I. Developmental programs are more risky than exploratory programs.
II. Exploratory programs are more risky than developmental programs.
III. Successful developmental programs provide higher returns than exploratory programs.
IV. Successful exploratory programs provide higher returns than developmental programs.

- ✗ **A)** II and III.
- ✗ **B)** I and III.
- ✗ **C)** I and IV.
- ✓ **D)** II and IV.

Explanation

Exploratory oil and gas direct participation programs drill in areas where there are no proven oil reserves. While the chances of success are relatively small, successful exploratory wells provide large returns to investors. Developmental programs drill in areas adjacent to sites where proven oil reserves exist; while the probability of success is favorable, the returns will not be as great as a successful exploratory program.

Reference: 13.2.2.5 in the License Exam Manual

Question #52 of 223

Question ID: 606703

Which of the following investments would be *most* suitable for an IRA?

- ✗ **A)** Uncovered call on a stock whose price is extremely stable.
- ✗ **B)** Short sale of a stock which has just started what is expected to be a prolonged decrease in price.
- ✗ **C)** Highly rated GO bond.
- ✓ **D)** Technology company whose stock shows a high beta.

Explanation

Short sales, uncovered calls, and municipal bonds are all inappropriate for individual retirement accounts.

Reference: 11.2.1.1 in the License Exam Manual

Question #53 of 223

Question ID: 606770

Which of the following individuals are eligible to participate in a tax-sheltered annuity?

I. Maintenance engineer at a state university.
II. Student in a public school system.
III. Minister.
IV. Office clerk at a small corporation.

- ✗ **A)** III and IV.
- ✓ **B)** I and III.
- ✗ **C)** II and IV.
- ✗ **D)** I and II.

Explanation

Employees of 501(c)(3) and 403(b) organizations (which include charities, religious groups, sports organizations, and school systems) qualify for tax-sheltered annuities (TSAs).

Reference: 11.4 in the License Exam Manual

Question #54 of 223

Question ID: 606791

All of the following qualified plans are covered by ERISA guidelines EXCEPT:

- ✗ **A)** 401(k) plans.
- ✗ **B)** profit-sharing plans.
- ✓ **C)** public sector plans.
- ✗ **D)** private sector plans.

Explanation

Public sector plans are not covered by ERISA guidelines. Corporate and certain union retirement plans are subject to ERISA guidelines.

Reference: 11.6 in the License Exam Manual

Question #55 of 223

Question ID: 606799

If the owner of a variable annuity dies during the accumulation period, any death benefit will:

- ✗ **A)** be paid to the issuing company to complete the plan.
- ✗ **B)** be returned to the separate account.
- ✗ **C)** be paid to any legal heirs as recognized by the annuitant's state of domicile.
- ✓ **D)** be paid to a designated beneficiary.

Explanation

The accumulation period of a variable annuity may continue for many years. If the annuitant should die during that time, any death benefit would be paid to a beneficiary designated by the annuitant at the time the annuity was purchased.

Reference: 12.1.2.1.2 in the License Exam Manual

Question #56 of 223

Question ID: 606718

Which of the following securities is the *least* suitable recommendation for a qualified retirement account plan account?

- ✗ **A)** Blue-chip common stock.
- ✓ **B)** Investment-grade municipal bond.
- ✗ **C)** Treasury bill.
- ✗ **D)** A rated corporate bond.

Explanation

Municipal bonds provide tax-exempt interest payments and, consequently, offer lower yields. Because earnings in a qualified retirement plan account grow tax deferred, the municipal bond is not a suitable investment. In addition, they will be fully taxed on withdrawal.

Reference: 11.2.1.1 in the License Exam Manual

Question #57 of 223

Question ID: 606734

A registered representative (RR) is explaining the characteristics of a Coverdell ESA to a customer. Which of the following statements regarding this type of savings account is CORRECT?

I. Contributions are tax deductible.
II. Contributions are not tax deductible.
III. When used for qualified educational expenses, withdrawals are taxable.
IV. When used for qualified educational expenses, withdrawals are not taxable.

- ✓ **A)** II and IV.
- ✗ **B)** II and III.
- ✗ **C)** I and IV.

✗ **D)** I and III.

Explanation

Contributions to a Coverdell Education Saving Account (ESA) are made with after- tax dollars. Distributions used for qualified educational expenses are tax free.

Reference: 11.2.5.1 in the License Exam Manual

Question #58 of 223

Question ID: 606698

Which of the following plans is NOT required to meet the nondiscrimination provisions of ERISA?

- ✗ **A)** 401(k) plans.
- ✓ **B)** Deferred compensation plans.
- ✗ **C)** Keogh plans.
- ✗ **D)** 403(b) plans.

Explanation

Deferred compensation plans, by design, are nonqualified and not subject to ERISA. Therefore, they may discriminate as to which persons may participate.

Reference: 11.1.2.1 in the License Exam Manual

Question #59 of 223

Question ID: 606699

All of the following statements regarding 529 plans are true EXCEPT:

- ✗ **A)** anyone can make a contribution on behalf of a beneficiary.
- ✗ **B)** a beneficiary of a 529 plan may also be the beneficiary of a Coverdell Education Savings Account.
- ✓ **C)** contributions are made with pretax dollars at the federal level.
- ✗ **D)** earnings accumulate tax free if the money is used for qualified educational purposes.

Explanation

Contributions are made with after-tax dollars. Withdrawals are tax free at the federal level if used for qualified higher education expenses.

Reference: 11.2.5.2 in the License Exam Manual

Question #60 of 223

Question ID: 606774

Compared to defined contribution plans, defined benefit plans give the highest return to employees who:

I. are highly compensated.
II. receive lower compensation.
III. have fewer years until retirement
IV. have many years left until retirement

- ✓ **A)** I and III.
- ✗ **B)** I and IV.
- ✗ **C)** II and III.
- ✗ **D)** II and IV.

Explanation

Highly compensated employees who have fewer years until retirement will experience advantages over other employees with this type of plan. Their retirement benefits are predefined and generally linked to the compensation level they attained while employed. After a short time with the company, a person may qualify for benefits comparable to those it would have taken many years to attain under a defined contribution plan.

Reference: 11.5 in the License Exam Manual

Question #61 of 223

Question ID: 606867

A customer with a moderate income from a secure job is in the 28% tax bracket. She has a small diversified portfolio and has $10,000 she would like to invest in a limited partnership. If she is willing to accept only a moderate amount of risk, which of the following limited partnerships would be the *most* appropriate recommendation?

- ✓ **A)** Oil and gas income program.
- ✗ **B)** New construction real estate limited partnership.
- ✗ **C)** Raw land real estate limited partnership.
- ✗ **D)** Exploratory oil and gas drilling program.

Explanation

The customer is not in a high tax bracket and would not be able to take full advantage of the tax benefits produced by an exploratory oil and gas program or by new construction real estate limited partnerships. A raw land real estate partnership is usually speculative. Of the answers listed, the income and moderate risk from an oil and gas income program would be of greatest benefit to this investor.

Reference: 13.2.2.6 in the License Exam Manual

Question #62 of 223

Question ID: 606871

An investor purchased an interest in a limited partnership, paying $10,000 in cash and signing a recourse note to the partnership under a letter of credit for $40,000. Which of the following statements are TRUE?

I. The investor's tax basis will be $10,000.
II. The investor's tax basis will be $50,000.
III. The investor's maximum loss will be $10,000.
IV. The investor's maximum loss will be $50,000.

- ✗ **A)** II and III.
- ✗ **B)** I and III.
- ✓ **C)** II and IV.
- ✗ **D)** I and IV.

Explanation

A recourse note means that the limited partner agrees to pay the note no matter what happens. He is legally liable for the $40,000, which makes both his tax basis and maximum loss potential $50,000.

Reference: 13.2.6 in the License Exam Manual

Question #63 of 223

Question ID: 606764

All of the following are true of an HR-10 Plan EXCEPT:

- ✗ **A)** the plan is subject to maximum contribution amounts.
- ✗ **B)** this is a qualified plan subject to the requirement of having an IRS-approved plan document in place.
- ✗ **C)** the plan allows a self-employed person to create and maintain a retirement plan.
- ✓ **D)** the plan does not require a sole proprietor making a contribution to his HR-10 plan to make contributions for eligible employees.

Explanation

This is a qualified form of retirement plan. A self-employed person must also make contributions on behalf of any eligible employees if he is making a contribution on his own behalf.

Reference: 11.3.1 in the License Exam Manual

Question #64 of 223

Question ID: 606897

If a limited partnership interest is sold, the gain or loss in the sale is the difference between the sales proceeds and the:

- ✗ **A)** total of the deductible losses taken by the investor.
- ✗ **B)** total of tax preference items allocated to the investor.
- ✗ **C)** original basis.
- ✓ **D)** adjusted basis.

Explanation

The adjusted basis is a limited partner's cost basis at any point in time. Gain or loss on the sale of the partnership is determined by comparing the sales proceeds to the adjusted basis.

Reference: 13.2.6 in the License Exam Manual

Question #65 of 223

Question ID: 606833

Your customer, still working, informs you that she will be funding a variable annuity you have recommended from 2 sources: a refinancing of her primary home where she will be able to draw out equity that has built up since it was purchased 15 years ago, and cashing out another variable annuity that she recently purchased within the past 2 years without a lifetime income rider like the one you have recommended. Based only on these facts, the variable annuity recommendation is

- ✗ **A)** suitable regardless of funding sources
- ✓ **B)** not suitable
- ✗ **C)** suitable if she has enough equity in the home to fund the variable annuity without cashing out the other VA contract
- ✗ **D)** not suitable because a lifetime income rider is only for someone who is already retired

Explanation

Based on the information given in the question, the VA recommendation would not be suitable. Refinancing a home to draw out equity has been identified by FINRA as an abusive sales tactic regarding the sales of VAs. Cashing out life insurance policies or VAs where steep surrender charges are likely to exist, particularly in the earlier years of those contracts, is also considered abusive. Life income riders are best suited for those who anticipate a lengthy retirement and are generally not yet retired when making the VA purchase.

Reference: 12.3.2.1 in the License Exam Manual

Question #66 of 223

Question ID: 641118

As a requirement of investing in a particular business investment, your customer has just signed a statement attesting to his annual income, net worth, and affirming that the risks associated with the investment are understood. The signed statement, once submitted with the intended investment amount, will either be approved or disapproved. Approval allows the investor to subscribe to the investment. Which of the following investments would have such a requirement?

- ✗ **A)** A collateralized mortgage obligation
- ✓ **B)** A direct participation program
- ✗ **C)** A hedge fund
- ✗ **D)** A variable annuity

Explanation

Investors purchasing limited partnership participations or DPPs are required to sign a subscription agreement. In part the investor would be attesting to annual income, net worth and that they understand the risks associated with the type of program they are investing in. While suitability would be a factor for each of the investments listed, they do not require this type of statement be signed by the customer.

Reference: 13.1.2.1.3 in the License Exam Manual

Question #67 of 223

Question ID: 606901

A limited partner (LP) invests $100,000 in a limited partnership with a nonrecourse note for $300,000. The partnership liquidates and the LP receives $100,000. His loss for tax purposes is:

- ✓ **A)** 0.
- ✗ **B)** 200,000.
- ✗ **C)** 300,000.

✗ **D)** 100,000.

Explanation

Limited partners are liable for their investments and any shares of recourse debt. They are not liable for nonrecourse debt. Because the limited partner received the full amount of his original investment at the liquidation of the partnership, he has no loss to declare.

Reference: 13.2.6 in the License Exam Manual

Question #68 of 223

Question ID: 606788

The requirements of ERISA apply to pension plans established by:

✗ **A)** public entities only.
✗ **B)** municipal governments.
✓ **C)** private sector organizations only.
✗ **D)** both public and private sector organizations.

Explanation

ERISA was established to protect the retirement funds of employees working in the private sector only. It does not apply to employees of public sector entities, such as city and state governments.

Reference: 11.6 in the License Exam Manual

Question #69 of 223

Question ID: 606738

An employee not covered under his company's pension plan has been contributing to a traditional IRA for 5 years. If he leaves his current job, starts a new job, and is covered under the new corporation's pension plan, which of the following statements is TRUE?

✗ **A)** Contributions to his IRA must stop; the money in the account will be frozen, but interest and dividends can accrue tax-free until he retires.
✗ **B)** His traditional IRA must be closed.
✗ **C)** The money in his IRA must be combined with any money he will receive from the pension plan.
✓ **D)** Contributions to his traditional IRA may continue.

Explanation

An employee covered under a qualified retirement plan may continue to own and contribute to an IRA. The contributions to a traditional IRA may not be fully tax-deductible, depending on the amount of compensation earned, but the employee benefits from the tax deferral of IRA earnings.

Reference: 11.2.1 in the License Exam Manual

Question #70 of 223

Question ID: 721461

All of the following regarding savings incentive match plans for employees (SIMPLEs) are true EXCEPT

✓ **A)** employers cannot make matching contributions for employees
✗ **B)** SIMPLEs are retirement plans for small businesses with fewer than 100 employees
✗ **C)** employee contributions are pretax
✗ **D)** catch-up contributions for those age 50 and older are permitted

Explanation

SIMPLEs are retirement plans for businesses with fewer than 100 employees that have no other retirement plan in place. The employee makes pretax contributions into a SIMPLE up to an annual contribution limit which can include catch-up contributions for those age 50 and older. The employer is permitted to make matching contributions for employees.

Reference: 11.5.2.2 in the License Exam Manual

Question #71 of 223

Question ID: 606858

A general partner may do all of the following EXCEPT:

- ✗ **A)** act as an agent for the partnership in managing partnership assets.
- ✗ **B)** make general management decisions regarding the partnership.
- ✗ **C)** sell property to the limited partnership.
- ✓ **D)** borrow money from the partnership.

Explanation

All these situations offer the potential for conflicts of interest. However, the general partner is not forbidden by law to engage in any of these acts, except for borrowing money-the general partner may never borrow money from the partnership.

Reference: 13.1.4 in the License Exam Manual

Question #72 of 223

Question ID: 606854

A client invests $100,000 in a tax shelter as a limited partner, giving him a 10% interest in the program. However, the general partners cannot meet the program's expenses. A mortgage balance remains of $3 million, and the property of the program is liquidated for $1 million. How much does the investor get back from his original investment?

- ✓ **A)** 0.
- ✗ **B)** 10,000.
- ✗ **C)** 33,000.
- ✗ **D)** 100,000.

Explanation

The limited partner will not receive any return of his investment. In a failed program, the partnership's creditors are paid first with any sale proceeds, before the limited partners receive any money. Because the limited partners had not signed a recourse agreement, even though the partnership still owes $2 million on the mortgage, the limited partners are not liable for any money beyond their original investments.

Reference: 13.1.3 in the License Exam Manual

Question #73 of 223

Question ID: 606769

A teacher has a 403(b) plan and the school system he works for has deposited $10,000 into his plan over a 12-year period. At retirement, if the teacher withdraws the total value of $16,000, on what amount does he pay tax?

- ✗ **A)** 6,000.
- ✓ **B)** 16,000.
- ✗ **C)** 10,000.
- ✗ **D)** 8,000.

Explanation

A 403(b) plan is a qualified retirement plan; contributions to the plan are made before taxes and the growth of the contract is tax-deferred. Any distribution from a 403(b) plan is fully taxable to the participant at the ordinary income tax rate.

Reference: 11.4 in the License Exam Manual

Question #74 of 223

Question ID: 606806

All of the following statements regarding variable annuities are true EXCEPT:

- ✗ **A)** variable annuities may only be sold by registered representatives.
- ✗ **B)** insurance companies keep variable annuity funds in separate accounts from other insurance products.
- ✗ **C)** variable annuities are classified as insurance products.
- ✓ **D)** variable annuities offer the investor protection against capital loss.

Explanation

A variable annuity is both an insurance and a securities product. An annuitant assumes the investment risk of a variable annuity and is not protected by the insurance company from capital losses.

Reference: 12.1.4.1 in the License Exam Manual

Question #75 of 223

Question ID: 606864

Which of the following statements describes an oil and gas blind pool offering?

- ✓ **A)** Money is raised without a specific property being stated, and the GP selects the investments.
- ✗ **B)** An unknown number of representatives participates in the sale of known partnership units.
- ✗ **C)** The oil exploration occurs in an area that is not adjacent to any known oil reserves.
- ✗ **D)** The income from producing wells is purchased at a discount from the present value of the projected future flows.

Explanation

A blind pool offering, also known as a nonspecified program, involves an investment in a program without specific prospects or properties being identified.

Reference: 13.2.4.3 in the License Exam Manual

Question #76 of 223

Question ID: 606824

John is the annuitant in a variable plan, and Sue is the beneficiary. Upon John's death during the accumulation period, Sue takes a lump-sum payment. What is her total tax liability?

- ✗ **A)** None, because it is the proceeds from a life insurance company.
- ✓ **B)** The proceeds minus John's cost basis taxed as ordinary income at Sue's tax rate.
- ✗ **C)** The entire amount is taxed as ordinary income, because it is not life insurance.
- ✗ **D)** The ordinary income on the proceeds over the cost basis plus 10% of the net gain (if any) if Sue is younger than 59-½ years old.

Explanation

Annuity death benefits are generally paid in a lump sum. The beneficiary is taxed at ordinary income rates during the year the lump sum is received. The amount taxed is the amount of the lump-sum payment minus the deceased's cost basis in the investment.

Reference: 12.3.3 in the License Exam Manual

Question #77 of 223

Question ID: 606809

An 18-year-old, unmarried high school student sought a safe investment for a $30,000 bequest until after she graduated from college. Her intent was to use the funds for the down payment on a house after graduation. Her agent recommended she choose a variable annuity as a safe haven for the funds. This recommendation is:

- ✗ **A)** suitable due to the relative safety of the investment.
- ✗ **B)** unsuitable because the return on something as conservative as a variable annuity tends to be low.
- ✗ **C)** suitable due to the death benefit features of a variable annuity.
- ✓ **D)** unsuitable because her situation exposes her to surrender charges and early withdrawal penalties in exchange for insufficient benefits.

Explanation

This customer has no spouse or dependents, which negates the value of the death benefit. The funds are not liquid due to the surrender fees, and there is also a 10% penalty on withdrawals before age 59-½.

Reference: 12.1.2.1.2 in the License Exam Manual

Question #78 of 223

Question ID: 606721

To avoid tax and penalty, an IRA may be rolled over once each:

- ✗ **A)** 5 years, by the end of the calendar year.
- ✗ **B)** 3 years, within 90 days.
- ✗ **C)** quarter, by the end of the calendar quarter.
- ✓ **D)** year, within 60 days.

Explanation

IRA rollovers, which must be completed within 60 days, may be done no more often than once a year.

Reference: 11.2.3.1 in the License Exam Manual

Question #79 of 223

Question ID: 606766

Which of the following is a tax-qualified retirement plan for employees of nonprofit organizations?

- ✗ **A)** SEP IRA.
- ✗ **B)** Keogh plan.
- ✓ **C)** 403(b).
- ✗ **D)** 401(k) payroll deduction plan.

Explanation

Under Section 403(b) of the Internal Revenue Code, employees of nonprofit organizations (such as hospitals and schools) may make tax-deductible contributions from their paychecks into a retirement plan operated through their employer.

Reference: 11.4 in the License Exam Manual

Question #80 of 223

Question ID: 606724

What is the latest date that an IRA participant may make an IRA deposit for the current year?

- ✗ **A)** July 15 of the following year, if extensions have been filed.
- ✗ **B)** December 31 of the current year.
- ✗ **C)** April 15 of the current year.
- ✓ **D)** April 15 of the following year.

Explanation

Contributions to IRAs can be made up to April 15 of the year following the year for which the contribution is being made.

Reference: 11.2 in the License Exam Manual

Question #81 of 223

Question ID: 606887

A blind pool offering:

- ✗ **A)** generates nonallocated income.
- ✗ **B)** is one in which the properties are purchased on a lottery basis.
- ✓ **C)** is one in which 25% or more of the properties are not specified.
- ✗ **D)** is connected with oil and gas leases.

Explanation

Many times, large real estate or oil and gas programs are offered in the form of a blind pool. In a blind pool, 25% or more of the specific properties (in real estate) or sites (in oil and gas) have not been identified at the time of the offering. When investing in a blind pool, the participants are relying on the expertise of the program sponsor to select locations that will prove profitable.

Reference: 13.2.4.3 in the License Exam Manual

Question #82 of 223

Question ID: 606740

All of the following statements about SEP IRAs are true EXCEPT

- ✓ **A)** catch-up contributions for employees age 50 or older are not permitted with SEPs
- ✗ **B)** the retirement account is usually set up at a bank or other financial institution
- ✗ **C)** SEP IRAs allow employers to make contributions
- ✗ **D)** SEP IRAs are established for small business owners and their employees

Explanation

An employee age 50 or older is permitted to make catch-up contributions to a SEP.

Reference: 11.2.6 in the License Exam Manual

Question #83 of 223

Question ID: 606812

Universal variable life policies

I. have investment risk that is assumed by the investor
II. do not have a separate account
III. can be sold by someone with only an insurance license
IV. are purchased primarily for their insurance features

- ✓ **A)** I and IV
- ✗ **B)** III and IV
- ✗ **C)** II and III
- ✗ **D)** I and II

Explanation

Universal variable life policies are insurance company products that should be purchased primarily for the insurance features they offer rather than as an investment. Because they have a separate account in which the investor assumes the investment risk, they can only be sold by individuals with both insurance and securities licenses.

Reference: 12.1.4.1 in the License Exam Manual

Question #84 of 223

Question ID: 606780

An unfunded pension liability is generally associated with which type of corporate retirement plan?

- ✗ **A)** 401(k).
- ✓ **B)** Defined benefit.
- ✗ **C)** Profit sharing.
- ✗ **D)** Defined contribution.

Explanation

An unfunded liability is one that has been incurred but does not have to be paid until a future date, and for which sufficient money to meet the obligation has not been set aside. Defined benefit plans guarantee a specific payout in the future and require an actuary to determine the monies that must be set aside today to meet this future obligation. If sufficient monies are not set aside or if poor investment performance wipes out a portion of these funds, an unfunded liability results.

Reference: 11.5.1.1.1 in the License Exam Manual

Question #85 of 223

Question ID: 606763

A 61-year-old wanting to take a lump-sum distribution from his Keogh will:

- ✗ **A)** incur a 10% penalty.
- ✓ **B)** be taxed at ordinary income rates.

- ✗ **C)** incur a 50% penalty.
- ✗ **D)** be taxed at long-term capital gains rates.

Explanation

The distribution described here would be taxed as ordinary income. A 10% penalty would apply if the individual were under age 59½.

Reference: 11.3.1 in the License Exam Manual

Question #86 of 223

Question ID: 606879

Which of the following is *least* likely to be part of an equipment leasing partnership?

- ✗ **A)** Computers.
- ✗ **B)** Aircraft.
- ✓ **C)** Oil well casing and piping.
- ✗ **D)** Railroad cars.

Explanation

Casing and piping are materials used in oil and gas well drilling programs.

Reference: 13.2.3 in the License Exam Manual

Question #87 of 223

Question ID: 606814

Once a variable annuity has been annuitized:

- ✗ **A)** each annuity unit's value is fixed, but the number of annuity units varies with time.
- ✗ **B)** each annuity unit's value and the number of annuity units vary with time.
- ✗ **C)** the number of annuity units is fixed, and their value remains fixed.
- ✓ **D)** each annuity unit's value varies with time, but the number of annuity units is fixed.

Explanation

During the payout period, payments are based on a fixed number of annuity units established when the contract was annuitized. The value of an annuity unit varies from month to month according to the performance of the separate account in comparison to the assumed interest rate.

Reference: 12.2.1 in the License Exam Manual

Question #88 of 223

Question ID: 721458

How often will the IRS allow a Health Savings Account (HSA) to be funded via an IRA distribution without paying federal taxes or penalties on the distribution?

- ✗ **A)** Once each calendar year.
- ✗ **B)** Never, taxes and penalties for early distributions are always due.
- ✗ **C)** There are no funding limits when HSAs are funded from another qualified account.
- ✓ **D)** One time.

Explanation

Health Savings Accounts (HSAs) are qualified employer sponsored plans. The IRS allows a one-time funding distribution from an IRA to a qualified HSA without paying federal taxes or penalties on the IRA distribution.

Reference: 11.2.3.3 in the License Exam Manual

Question #89 of 223

Question ID: 721469

A customer is receiving annuitized payments from a variable annuity. The annuitized payments are viewed for tax purposes as

✗ **A)** exempt from taxes

✗ **B)** earnings only and taxable

✗ **C)** all return of cost basis and nontaxable

✓ **D)** part earnings and part cost basis

Explanation

Annuitized payments from a variable annuity are viewed for tax purposes as part earnings and part cost basis. The earnings are taxable but the cost basis is returned tax free.

Reference: 12.3.3 in the License Exam Manual

Question #90 of 223

Question ID: 606821

A 45-year-old investor takes a lump-sum distribution from a nonqualified variable annuity. How is the distribution taxed?

I. The entire amount is taxed as ordinary income.
II. The growth portion is taxed as ordinary income.
III. The growth portion is taxed as a capital gain.
IV. The growth portion is subject to a 10% penalty.

✗ **A)** II and III.

✓ **B)** II and IV.

✗ **C)** I and IV.

✗ **D)** III and IV.

Explanation

On withdrawals from a nonqualified annuity, taxes are paid only on the amount that exceeds cost basis (the amount paid into the annuity). In this case, the investor is taking a lump-sum distribution before reaching age 59-½ and must pay an additional 10% penalty on the taxable amount.

Reference: 12.3.3 in the License Exam Manual

Question #91 of 223

Question ID: 606723

Which of the following regarding a Roth IRA are TRUE?

I. The contributions are nondeductible.
II. Contributions must cease at age 70½.
III. Withdrawals must begin at age 70½.
IV. Withdrawals after age 59½ can be tax free.

✗ **A)** II and III.

✗ **B)** II and IV.

✗ **C)** I and III.

✓ **D)** I and IV.

Explanation

With a Roth IRA, the contributions are not deductible from current income. Withdrawals after age 59½ are tax free, provided the account has been open for at least 5 years. There is no age at which withdrawals must begin or contributions must cease.

Reference: 11.2.4 in the License Exam Manual

Question #92 of 223

Question ID: 606732

If a 40-year-old customer earns $65,000 a year and his 38-year-old spouse earns $40,000 a year, how much may they contribute to IRAs?

✗ **A)** Only the higher wage earner may contribute to an IRA.

✗ **B)** They may contribute up to the maximum annual allowable dollar limit split evenly between both accounts.

✓ **C)** They may each contribute 100% of earned income or the maximum annual allowable dollar limit, whichever is less, to an IRA.

✗ **D)** They may not contribute because their combined income is too high.

Explanation

No matter how much income individuals or couples receive, they may contribute to their IRAs if they have earned income. Each is entitled to contribute 100% of earned income up to the maximum allowed. However, if either or both of them are covered under a qualified plan, limits may exist on the deductibility of the contributions.

Reference: 11.2.1 in the License Exam Manual

Question #93 of 223

Question ID: 606905

A nonleveraged direct participation program has all of the following risks EXCEPT:

✓ **A)** rate risk.

✗ **B)** legislative risk.

✗ **C)** management risk.

✗ **D)** liquidity risk.

Explanation

If debt is not used by the partnership, rate risk does not exist.

Reference: 13.2.4 in the License Exam Manual

Question #94 of 223

Question ID: 606894

Which of the following *best* describes an intangible drilling cost?

✓ **A)** Labor, fuel, or drilling rig rental.

✗ **B)** Exploratory well drilling.

✗ **C)** Proven reserve of oil or gas.

✗ **D)** Tax liability.

Explanation

Intangible drilling costs are the noncapital costs of putting in a well. They are currently deductible expenses, like fuel, wages, and rent. An intangible drilling cost is one which, after expenditure, has no salvage value.

Reference: 13.2.2.1 in the License Exam Manual

Question #95 of 223

Question ID: 606741

Which of the following permits the highest annual contributions?

✗ **A)** A traditional nondeductible IRA.

✗ **B)** A traditional spousal IRA for which the contribution has been deducted.

✗ **C)** A Coverdell Education Savings Account.

✓ **D)** A SEP IRA.

Explanation

Under most circumstances, the annual contribution to a SEP IRA will be higher than those allowed for ESAs or traditional or Roth IRAs.

Reference: 11.2.6 in the License Exam Manual

Question #96 of 223

Question ID: 606892

Depletion allowances in oil and gas programs are based on the amount of oil:

- ✓ **A)** sold.
- ✗ **B)** lost to shrinkage.
- ✗ **C)** extracted.
- ✗ **D)** in reserve.

Explanation

Depletion allowances are allowed to compensate for a mineral resource, which is considered accomplished when it is sold.

Reference: 13.2.2.3 in the License Exam Manual

Question #97 of 223

Question ID: 606786

Under ERISA, all of the following retirement plans must set standards for vesting, eligibility, and funding EXCEPT:

- ✗ **A)** profit-sharing plans.
- ✓ **B)** deferred compensation plans.
- ✗ **C)** corporate pension plans.
- ✗ **D)** Keogh plans.

Explanation

Deferred compensation plans are not qualified plans and may be discriminatory. Keogh, profit-sharing, and corporate pension plans must meet set standards for vesting, eligibility, and funding under ERISA.

Reference: 11.6 in the License Exam Manual

Question #98 of 223

Question ID: 606749

Which of the following statements CORRECTLY describe a Roth IRA?

I. The maximum annual contribution is 100% of earned income or a maximum allowable dollar limit, whichever is greater.
II. The maximum annual contribution is 100% of earned income or a maximum allowable dollar limit, whichever is less.
III. Contributions are tax deductible.
IV. Contributions are not tax deductible.

- ✓ **A)** II and IV.
- ✗ **B)** II and III.
- ✗ **C)** I and IV.
- ✗ **D)** I and III.

Explanation

The maximum annual contribution to a Roth IRA is 100% of earned income, not to exceed a maximum allowable dollar limit. Contributions are made with after-tax dollars.

Reference: 11.2.4 in the License Exam Manual

Question #99 of 223

Question ID: 721459

Someone considering saving for retirement in a Roth IRA could correctly be told that

I. contributions are made with pretax dollars
II. earnings accumulate tax free
III. distributions are not taxable if a holding period is satisfied
IV. cost basis is always taxable at the time of distribution

- ✓ **A)** II and III
- ✗ **B)** II and IV
- ✗ **C)** I and III

✗ **D)** I and II

Explanation

Contributions to Roth IRAs are made with after-tax dollars and distributions are received tax free (both cost basis and earnings) if holding period requirements are met.

Reference: 11.2.4 in the License Exam Manual

Question #100 of 223

Question ID: 606856

A general partner is considered to have a conflict of interest with the business of a limited partnership if he:

- ✗ **A)** manages the business.
- ✗ **B)** acts as agent for the business.
- ✗ **C)** loans money to the business.
- ✓ **D)** borrows money from the business.

Explanation

The general partner manages the business and acts as agent for the business. The general partner may loan money to the partnership at a reasonable rate of interest, but may not borrow from the partnership.

Reference: 13.1.4 in the License Exam Manual

Question #101 of 223

Question ID: 606895

A customer invests $20,000 in a DPP and signs a recourse note for $50,000. During the first year of operation, the customer receives a cash distribution from the partnership of $15,000. At year end, the customer receives a K-1 statement reporting his share of partnership losses of $75,000. How much of the loss may the customer deduct from passive income?

- ✗ **A)** 0.
- ✗ **B)** 35,000.
- ✓ **C)** 55,000.
- ✗ **D)** 75,000.

Explanation

A limited partner can only deduct partnership losses to the extent of his basis. To determine basis, add the original investment ($20,000). to any recourse debt assumed by the investor ($50,000). Recourse debt adds to basis as the partner is liable for this amount. Cash distributions received reduce basis ($15,000). At year end, the investor's basis and the amount he can deduct from passive income is $55,000.

Reference: 13.2.4.2.1 in the License Exam Manual

Question #102 of 223

Question ID: 606792

Under ERISA, a plan trustee wishing to write uncovered calls may do so:

- ✗ **A)** if explicitly allowed in the plan document.
- ✓ **B)** under no circumstances.
- ✗ **C)** if approved by the IRS in writing.
- ✗ **D)** without restriction.

Explanation

ERISA prohibits retirement plan trustees from making investments that are excessively speculative; an uncovered call writer has unlimited risk.

Reference: 11.6 in the License Exam Manual

Question #103 of 223

Question ID: 606890

An investor with a large salary as well as unearned investment income is two years from retirement. If he wants to shelter a portion of his income, which of the following programs would provide him with substantial initial write-offs?

- ✗ **A)** Raw land.
- ✓ **B)** An oil and gas drilling program.
- ✗ **C)** An oil and gas income program.
- ✗ **D)** Existing housing.

Explanation

Oil and gas drilling programs pass through IDCs (intangible drillings costs), which the partners may use to reduce passive income.

Reference: 13.2.2.1 in the License Exam Manual

Question #104 of 223

Question ID: 606819

Changes in payments on a variable annuity correspond *most* closely to fluctuations in the:

- ✗ **A)** prime rate.
- ✓ **B)** value of underlying securities held in the separate account.
- ✗ **C)** cost of living.
- ✗ **D)** Dow Jones Industrial Average.

Explanation

Payments from a variable annuity depend on the securities' value in the separate account's underlying investment portfolio.

Reference: 12.3.1 in the License Exam Manual

Question #105 of 223

Question ID: 606739

Which of the following can be rolled over into an IRA?

I. Another IRA
II. Balances from savings accounts
III. Corporate profit-sharing plan
IV. Judgments from law suit settlements

- ✗ **A)** III and IV
- ✗ **B)** I and IV
- ✓ **C)** I and III
- ✗ **D)** II and III

Explanation

Assets from any qualified corporate plan or from another IRA may be rolled over into an IRA.

Reference: 11.2.3 in the License Exam Manual

Question #106 of 223

Question ID: 721475

Some limited partnership programs provide potential tax credits to partners. Which of the following typically provide potential tax credits?

I. Rehabilitation of historic properties
II. Equipment leasing
III. Developmental oil and gas programs
IV. Government-assisted housing programs

- ✗ **A)** II and III
- ✗ **B)** III and IV
- ✗ **C)** I and II

✓ **D)** I and IV

Explanation

Historic rehabilitation and government-assisted housing are two programs that offer potential tax credits. Tax credits are no longer available for equipment leasing and while developmental oil and gas programs offer high IDCs, these are not ITCs (investment tax credits).

Reference: 13.2.1 in the License Exam Manual

Question #107 of 223

Question ID: 606735

One of your customers set up a Section 529 plan for a child of one of his neighbors and contributed to it for some years. When the child reached age 17, it was obvious that he had no plans to pursue higher education and your customer decided to redesignate the account. Which of the following would be a permissible new beneficiary?

- ✗ **A)** The winner of an informal essay contest to be held among high-school aged children in the neighborhood.
- ✗ **B)** One of the donor's own grandchildren.
- ✓ **C)** The original beneficiary's younger sister.
- ✗ **D)** One of the children of another of your customer's neighbors.

Explanation

There are few restrictions on who may be the first beneficiary of a Section 529 plan. However, if the beneficiary is redesignated, the new beneficiary must be a close family member of the first.

Reference: 11.2.5.2 in the License Exam Manual

Question #108 of 223

Question ID: 606728

Your client who has not yet attained the age of 59 ½ wants to take a withdrawal from his traditional IRA. Not being disabled or meeting any other qualifying reason allowing for an early withdrawal you explain that the amount taken will be subject to a penalty of:

- ✗ **A)** 5%.
- ✗ **B)** 25%.
- ✓ **C)** 10%.
- ✗ **D)** 15%.

Explanation

Except in the case of death, disability, or certain other qualifying reasons, withdrawals made before the account owner reaches age 59½ are subject to one-time penalties of 10% of the gross amounts withdrawn in addition to ordinary income taxes.

Reference: 11.2.2 in the License Exam Manual

Question #109 of 223

Question ID: 606767

A schoolteacher has a 403(b) tax-qualified deferred retirement plan, into which she has deposited $100,000 over a 12-year period. At retirement, if the teacher withdraws the total value of the account (now $220,000), how much of the withdrawal will be subject to taxation as ordinary income?

- ✗ **A)** 0.
- ✓ **B)** 220,000.
- ✗ **C)** 100,000.
- ✗ **D)** 120,000.

Explanation

The retirement plan is qualified, which means that contributions were made with pretax dollars. The teacher must pay taxes on the total value of the account when withdrawn.

Reference: 11.4 in the License Exam Manual

Question #110 of 223

Question ID: 606853

Which of the following would NOT be a valid use of the partnership democracy?

- ✗ **A)** Consenting to a legal judgment against the partnership.
- ✗ **B)** Removing the general partner.
- ✓ **C)** Deciding which partnership assets should be liquidated to pay creditors.
- ✗ **D)** Consenting to an action of a general partner that is contrary to the agreement of limited partnership.

Explanation

Deciding which partnership assets should be liquidated to pay creditors involves limited partners in the active management of partnership affairs. This would result in their being treated as general partners with respect to liability, and possible loss of limited partner status.

Reference: 13.1.4 in the License Exam Manual

Question #111 of 223

Question ID: 606842

An investor in a limited partnership generating passive losses can offset these against:

I. passive income from other partnerships.
II. rental income from direct investments in real estate.
III. dividends received from listed securities.
IV. capital gains from sale of unlisted securities.

- ✓ **A)** I and II.
- ✗ **B)** III and IV.
- ✗ **C)** II and III.
- ✗ **D)** I and III.

Explanation

Passive losses can be deducted from passive income and income from certain real estate investments; it cannot be deducted from active or portfolio (investment) income.

Reference: 13.1.1.2 in the License Exam Manual

Question #112 of 223

Question ID: 606790

All of the following statements regarding a qualified pension plan are true EXCEPT

- ✗ **A)** it must comply with nondiscrimination rules
- ✗ **B)** it must cover all of its eligible employees
- ✗ **C)** it requires advance approval from the IRS
- ✓ **D)** growth in the account is tax-free

Explanation

Growth in qualified pension plans, as well as other qualified plans, is tax deferred, not tax-free. All growth is taxable at the time of distribution.

Reference: 11.6 in the License Exam Manual

Question #113 of 223

Question ID: 606729

Distribution from a traditional IRA can begin at age 59½ and must begin no later than:

- ✗ **A)** 15 years from the individual's date of retirement.
- ✗ **B)** age 65.
- ✗ **C)** an age as determined by IRS life expectancy tables using the account holders year of birth.
- ✓ **D)** age 70½.

Explanation

The owner of a traditional IRA has until April 1 of the year after the year in which he turns age 70½ to begin withdrawing from the account.

Reference: 11.2.2 in the License Exam Manual

Question #114 of 223

Question ID: 606861

The document attesting to the formation of a limited partnership, filed with designated authorities, is called:

- ✗ **A)** the subscription agreement.
- ✓ **B)** the certificate of limited partnership.
- ✗ **C)** the registration statement.
- ✗ **D)** the offering memorandum.

Explanation

The Uniform Limited Partnership Act requires that two or more persons sign and swear to a certificate of limited partnership. It is filed with the state and is a public document available for review.

Reference: 13.1.2.1.1 in the License Exam Manual

Question #115 of 223

Question ID: 606787

The primary purpose for creating ERISA was to:

- ✗ **A)** promote a retirement fund for government employees.
- ✗ **B)** provide all employees, both government and nongovernment, with an additional source of retirement income in the event that the Social Security system defaults.
- ✓ **C)** protect employees from the mishandling of retirement funds by corporations and unions.
- ✗ **D)** establish a means for self-employed persons to provide for their own retirement.

Explanation

ERISA was created to protect the retirement funds of union members and employees of large corporations. ERISA guidelines state that all qualified retirement plans must be in writing, segregate funds from corporate or union assets, make prudent investments, report to participants annually, and not be discriminatory. All of these activities are audited under ERISA.

Reference: 11.6 in the License Exam Manual

Question #116 of 223

Question ID: 606755

Which two statements are true regarding Section 529 college savings plans?

I. Contributions are considered gifts under federal law.
II. Contributions are tax deductible under federal law.
III. Earnings generated are taxable each year.
IV. Earnings generated are tax deferred.

- ✓ **A)** I and IV.
- ✗ **B)** I and III.
- ✗ **C)** II and IV.
- ✗ **D)** II and III.

Explanation

Under federal law, contributions made into Section 529 plans are considered gifts and are not deductible at the federal level. Furthermore, earnings generated each year are tax deferred and, on withdrawal, are tax free at the federal level-if used for college-related expenses.

Reference: 11.2.5.2 in the License Exam Manual

Question #117 of 223

Question ID: 606875

Regarding the use of the term" direct participation programs" when referring to tax-sheltered investments, which of the following is NOT a DPP?

- ✗ **A)** A real estate limited partnership.
- ✓ **B)** A real estate investment trust.
- ✗ **C)** An oil and gas limited partnership.
- ✗ **D)** An equipment leasing limited partnership.

Explanation

DPPs include any form of business that allows for the direct pass-through of tax consequences to participants. REITs do not allow for the pass-through of losses.

Reference: 13.2 in the License Exam Manual

Question #118 of 223

Question ID: 606903

A direct participation program shows the following operations results:

Revenues: $3 million.
Operating expense: $1 million.
Interest expense: $200,000.
Management fees: $200,000.
Depreciation: $3 million.

Profit or loss for the year is:

- ✗ **A)** income $1.6 million.
- ✓ **B)** loss $1.4 million.
- ✗ **C)** income $2.7 million.
- ✗ **D)** loss $3 million.

Explanation

Taxable income for a partnership is determined as follows:

Gross revenue $3 million.
Less operating expense -$1.2 million.
Net revenue $1.8 million.
Less interest -$200,000.
Less depreciation $3 million.
Taxable loss = $1.4 million.

Reference: 13.2.6 in the License Exam Manual

Question #119 of 223

Question ID: 606754

Your customer, a resident of New York, wants to open up a Section 529 plan for his 10-year-old son. Because his son wants to attend Notre Dame, your customer wants to start a plan sponsored by the state of Indiana. You should:

- ✗ **A)** open the plan as instructed by your customer.
- ✓ **B)** explain that the potential state tax benefits available to residents of New York may not be available when opening an out-of-state plan.
- ✗ **C)** not open the plan.
- ✗ **D)** explain that the potential federal tax benefits available to residents of New York may not be available when opening out-of-state plans.

Explanation

Many states offer tax benefits to residents who open 529 plans in their home state. These benefits are generally not available when opening out-of-state plans. Federal tax benefits are available regardless of the state where the plan is opened.

Reference: 11.2.5.2 in the License Exam Manual

Question #120 of 223

Question ID: 606720

Under a Keogh plan, which of the following is NOT an acceptable investment?

- ✗ **A)** Unit investment trust.
- ✗ **B)** U.S. government bond.
- ✗ **C)** International bond fund.
- ✓ **D)** Rare oil painting.

Explanation

Investments not permitted in Keogh plans are commodities, collectibles and antiques, precious metals (other than U.S. government-issued gold and silver coins), and uncovered options.

Reference: 11.2.1.1 in the License Exam Manual

Question #121 of 223

Question ID: 606834

Your customer is interested in a variable annuity but is unclear on some of the details regarding different specifications and riders that can be attached to the contract. He makes the following four statements, all of which are true EXCEPT

- ✗ **A)** a lifetime withdrawal benefit (LWB) or lifetime income benefit is generally in the form of a rider attached to the contract which will come at a cost to the annuitant
- ✗ **B)** a lifetime withdrawal benefit (LWB) or lifetime income benefit will make a periodic payment even if the account balance falls to zero
- ✓ **C)** with guaranteed minimum withdrawal benefits (GMWBs) a lifetime of periodic payments is guaranteed
- ✗ **D)** with guaranteed minimum withdrawal benefits (GMWBs) the periodic payments can be monthly, quarterly or annually

Explanation

With guaranteed minimum withdrawal benefits (GMWBs) a lifetime of periodic payments is not guaranteed because payments stop when the annuitant has received an amount equal to the principal account value or the contract term ends. Each of the remaining statements are true.

Reference: 12.3.2.4 in the License Exam Manual

Question #122 of 223

Question ID: 606748

To avoid penalty, a rollover of an IRA may occur no more frequently than:

- ✗ **A)** semiannually.
- ✗ **B)** every 5 years.
- ✗ **C)** quarterly.
- ✓ **D)** annually.

Explanation

Securities or funds may be rolled over by the account holder from one IRA to another only once every year. Direct transfers from one account to another, where the account holder does not receive the funds during the transfer, are not restricted in frequency.

Reference: 11.2.3.1 in the License Exam Manual

Question #123 of 223

Question ID: 606872

All of the following statements are true of the risks of investing in an oil and gas limited partnership EXCEPT:

- ✗ **A)** income programs have fewer tax benefits than exploratory programs.
- ✗ **B)** wells may not have sufficient reserves to return drilling costs.

- ☓ **C)** development programs may involve acquisition of expensive leases.
- ✓ **D)** development programs have higher risk than exploratory programs.

Explanation

Exploratory programs have the highest risks, rewards, and tax benefits. Development wells are drilled to develop a reserve that is already known to be present.

Reference: 13.2.2.5 in the License Exam Manual

Question #124 of 223

Question ID: 606885

A taxpayer's *most* advantageous tax benefit is:

- ✓ **A)** a tax credit.
- ☓ **B)** a tax deduction.
- ☓ **C)** straight-line depreciation.
- ☓ **D)** a depletion allowance.

Explanation

A tax credit reduces a person's tax liability dollar for dollar. Deductions, depreciation and depletion reduce taxable income.

Reference: 13.2.4.2.2 in the License Exam Manual

Question #125 of 223

Question ID: 606845

All of the following documentation is necessary for a publicly subscribed limited partnership EXCEPT:

- ☓ **A)** Certificate of Limited Partnership.
- ✓ **B)** cash flow analysis.
- ☓ **C)** partnership agreement.
- ☓ **D)** subscription agreement.

Explanation

The certificate gives public information about the partnership and is filed in the home state. The partnership agreement spells out the roles of the general and limited partners. The subscription agreement is the instrument by which the limited partners invest.

Reference: 13.1.2.1 in the License Exam Manual

Question #126 of 223

Question ID: 606752

A member firm’s customer is requesting that IRA contributions converted from a traditional IRA to a Roth IRA now be moved back to a traditional IRA. This is

- ☓ **A)** called a re-characterization and is permitted under all circumstances and within any time frame
- ☓ **B)** called a rollover and allowed by the IRS as long all requirements are met
- ☓ **C)** never allowed under any circumstances
- ✓ **D)** called a re-characterization and is allowed by the IRS so long as certain requirements are met

Explanation

The IRS allows an individual to re-characterize contributions made to one type of IRA as if they had been made to another type of IRA as long as the requirements as to when the re-characterization can occur have been met.

Reference: 11.2.4.1 in the License Exam Manual

Question #127 of 223

Question ID: 606857

A registered representative must obtain written verification of an investor's net worth for which of the following investments?

- ✓ **A)** Direct participation program.
- ✗ **B)** Mutual fund.
- ✗ **C)** Real estate investment trust.
- ✗ **D)** Variable contract.

Explanation

Before an investor can become a limited partner, the investor must provide a written verification of net worth. The investor is accepted as a limited partner only when the general partner signs the subscription agreement.

Reference: 13.1.2.1.3 in the License Exam Manual

Question #128 of 223

Question ID: 606762

If your 40-year-old client wants to withdraw funds from her Keogh, her withdrawal will be taxed as:

- ✗ **A)** capital gains.
- ✓ **B)** ordinary income plus 10% penalty.
- ✗ **C)** ordinary income.
- ✗ **D)** capital gains plus a 10% penalty.

Explanation

An early withdrawal from a Keogh is taxed in the same way as an early withdrawal from an IRA - as ordinary income plus a 10% penalty.

Reference: 11.3.1 in the License Exam Manual

Question #129 of 223

Question ID: 606701

Which of the following would be the *least* appropriate investment in a traditional IRA for a 67-year-old client?

- ✗ **A)** Corporate bonds.
- ✗ **B)** Common stock.
- ✓ **C)** Variable annuities.
- ✗ **D)** Treasury notes.

Explanation

Why buy a tax-deferred product in a tax-deferred account? A variable annuity will provide no additional tax savings and will likely increase the expense of the IRA. In addition to sales and surrender charges, variable annuities may impose other charges such as mortality and expense risk charges, administrative fees, etc. In less than 4 years, your client will have to begin making withdrawals regardless of any surrender charges the annuity may impose.

Reference: 11.2.1.1 in the License Exam Manual

Question #130 of 223

Question ID: 606902

A direct participation program shows the following operation results:

Revenues: $3 million
Operating expense: $1 million
Interest expense: $200,000
Management fees: $200,000
Depreciation: $3 million

Cash flow from program operation is:

- ✗ **A)** $1.4 million.
- ✓ **B)** $1.6 million.
- ✗ **C)** $3 million.

✗ **D)** a loss.

Explanation

Cash flow for a partnership is calculated in the following fashion:

Gross revenue $3 million
Less operating exp -$1.2 million
Less debt interest -$200,000
Less depreciation $3 million

= Net income -1.4 million (loss)

To complete the cash flow calculation add back in depreciation of $3 million

= Cash flow = $1.6 million.

Reference: 13.2.5 in the License Exam Manual

Question #131 of 223

Question ID: 606702

Which statements are TRUE regarding funding for education?

I. Distributions from a Coverdell ESA may be used for college only.
II. Distributions from a Coverdell ESA may be used for both college and secondary education.
III. Distributions from a Section 529 plan may be used for college only.
IV. Distributions from a Section 529 plan may be used for both college and secondary education.

✗ **A)** II and IV.
✗ **B)** I and III.
✓ **C)** II and III.
✗ **D)** I and IV.

Explanation

Under Coverdell rules, an eligible educational institution includes colleges as well as elementary or secondary schools. Distributions from Section 529 plans are limited to higher education only.

Reference: 11.2.5 in the License Exam Manual

Question #132 of 223

Question ID: 606839

Programs allowing for the direct pass-through of losses and income to investors include all of the following EXCEPT:

✗ **A)** new construction real estate direct participation programs.
✗ **B)** S corporations.
✓ **C)** REITs.
✗ **D)** oil and gas drilling direct participation programs.

Explanation

REITs allow for the direct pass-through of income but not losses. The other choices are forms of business which allow for pass-through of income and losses.

Reference: 13.1 in the License Exam Manual

Question #133 of 223

Question ID: 606742

Which of the following statements regarding Coverdell Education Savings Accounts are TRUE?

I. After-tax contributions of up to an indexed maximum per student per year are allowed.
II. Contributions may not be made for students past their 18th birthday.

III. If the account value is not used for educational purposes, it can be rolled over into a traditional IRA.
IV. Distributions are always taxable.

- ✗ **A)** III and IV.
- ✗ **B)** II and IV.
- ✓ **C)** I and II.
- ✗ **D)** I and III.

Explanation

Coverdell Education Savings Accounts allow after-tax contributions of up to $2,000 per student, per year, for children until their 18th birthday. If the accumulated value in the account is not used by age 30, the funds must be distributed and subject to income tax and a 10% penalty, or rolled over into a different Coverdell ESA for another family member.

Reference: 11.2.5.1 in the License Exam Manual

Question #134 of 223

Question ID: 606882

In a functional allocation oil and gas program, which of the following statements are TRUE?
I. The general partner picks up all tangible drilling costs.
II. The general partner picks up all intangible drilling costs.
III. The limited partners pick up all tangible drilling costs.
IV. The limited partners pick up all intangible drilling costs.

- ✗ **A)** II and III.
- ✓ **B)** I and IV.
- ✗ **C)** III and IV.
- ✗ **D)** I and II.

Explanation

In a functional allocation program, the general partner picks up all tangible drilling costs while the limited partners pick up all intangible drilling costs. As intangible drilling costs are deductible as incurred, this type of program benefits the limited partners. Tangible drilling costs, however, are deductible pro rata over the estimated life of the well.

Reference: 13.2.2.7 in the License Exam Manual

Question #135 of 223

Question ID: 606716

Under what circumstances would the fiduciary of a qualified corporate retirement plan be permitted to write covered calls on the securities in the portfolio?

- ✗ **A)** Under no circumstances
- ✗ **B)** If specifically approved by the SEC
- ✓ **C)** If this strategy is consistent with the objectives of the plan
- ✗ **D)** If specifically approved by the covered employees

Explanation

As covered calls are not considered to be a speculative option strategy they would be permitted as long as the strategy is deemed prudent and is consistent with the objectives of the plan. No outside approval is required.

Reference: 11.2.1.1 in the License Exam Manual

Question #136 of 223

Question ID: 606796

All of the following statements about variable annuities are true EXCEPT:

- ✓ **A)** a minimum rate of return is guaranteed.
- ✗ **B)** such an annuity is designed to combat inflation risk.
- ✗ **C)** the number of annuity units becomes fixed when the contract is annuitized.
- ✗ **D)** the rate of return is determined by the underlying portfolio's value.

Explanation

The return on a variable annuity is not guaranteed; it is determined by the underlying portfolio's value. Variable annuities are designed to combat inflation risk. The number of annuity units becomes fixed when the contract is annuitized; it is the value of each unit that fluctuates.

Reference: 12.1.2.1.1. in the License Exam Manual

Question #137 of 223

Question ID: 606782

When does pension payment liability affect the credit rating of a municipality?

- ✗ **A)** When funds are invested presently to meet future pension needs.
- ✗ **B)** When the return on funds invested to meet future needs exceeds anticipated payments.
- ✓ **C)** When funds needed to make payments exceed funds available.
- ✗ **D)** Pension liability cannot affect the rating of municipal debt.

Explanation

The credit rating for a municipality's debt would be adversely affected if funds needed to make payments exceeded funds available. This is an unfunded pension liability and can result if monies set aside to make future payments are not enough or if poor investment decisions deplete the funds.

Reference: 11.5.1.1.1 in the License Exam Manual

Question #138 of 223

Question ID: 606760

IRAs and Keogh plans are similar in each of the following ways EXCEPT:

- ✗ **A)** distributions without penalty may begin as early as age 59-½.
- ✓ **B)** the maximum allowable cash contribution is the same.
- ✗ **C)** taxes on earnings are deferred.
- ✗ **D)** rollovers are allowed once every 12 months and must be completed within 60 days.

Explanation

Both IRAs and Keogh plans have maximum annual allowable contribution limits but they are significantly higher in a Keogh Plan.

Reference: 11.3.1 in the License Exam Manual

Question #139 of 223

Question ID: 606803

Variable annuities must be registered with:

I. the state banking commission.
II. the state insurance commission.
III. the SEC.
IV. FINRA.

- ✓ **A)** II and III.
- ✗ **B)** II and IV.
- ✗ **C)** I and III.
- ✗ **D)** III and IV.

Explanation

A variable annuity is a combination of 2 products: an insurance contract and a mutual fund. Therefore, variable annuities must be registered with the state insurance commission and the Securities and Exchange Commission.

Reference: 12.1.2 in the License Exam Manual

Question #140 of 223

Question ID: 606713

All of the following statements regarding 529 plans are true EXCEPT:

- ✓ **A)** the income level of the contributor can affect the annual contribution amount.
- ✗ **B)** states impose very high overall contribution limits.
- ✗ **C)** contributions to a 529 plan may be subject to gift taxation.
- ✗ **D)** the assets in the account are controlled by the account owner, not the child.

Explanation

Unlike Coverdell ESAs, the income level of the contributor will not affect annual contributions under a Section 529 plan.

Reference: 11.2.5.2 in the License Exam Manual

Question #141 of 223

Question ID: 606778

A corporate profit-sharing plan must be set up under a(n):

- ✗ **A)** conservatorship.
- ✓ **B)** trust.
- ✗ **C)** administrator.
- ✗ **D)** beneficial ownership.

Explanation

All corporate pension and profit-sharing plans must be set up under trust agreements. A plan's trustee assumes fiduciary responsibility for the plan.

Reference: 11.5.2.1 in the License Exam Manual

Question #142 of 223

Question ID: 606700

A married couple are both employed by firms that cover them under the company pension plans, and each earns approximately $150,000 annually. If they both open a traditional IRA and make the maximum contribution, how much of their contribution could they deduct?

- ✗ **A)** Both may deduct the entire contribution.
- ✗ **B)** Neither is eligible to make a contribution in any amount (deductible or not).
- ✗ **C)** One spouse only is eligible to deduct their entire contribution.
- ✓ **D)** They are ineligible to deduct any contribution made.

Explanation

While each are eligible to make the maximum contribution, at this income level, neither spouse, both covered under employer sponsored plans, would be eligible to deduct their contributions to their respective IRAs.

Reference: 11.2.1 in the License Exam Manual

Question #143 of 223

Question ID: 606783

Your client wishes to convert a 401k plan administered by your broker/dealer into a Roth 401k plan. Which of the following statements regarding a 401k conversion is TRUE?

- ✗ **A)** All taxes are waived by the IRS at the time of conversion.
- ✗ **B)** Taxes are due on the funds rolled over when distributions from the new Roth 401k are made.
- ✓ **C)** Taxes will be due on the funds when the rollover takes place.
- ✗ **D)** In the new Roth 401k the funds will grow tax deferred.

Explanation

Like a traditional IRA to Roth IRA conversion, 401(k) account holders pay the taxes on the funds when they are rolled over into the Roth 401(k). There is no waiver from the IRS. In the Roth 401(k), the funds now grow tax free and they can be withdrawn without tax liability in the future.

Reference: 11.5.2.3.3 in the License Exam Manual

Question #144 of 223

Question ID: 606795

An investor who has purchased a nonqualified variable annuity has the right to:

I. vote on proposed changes in investment policy.
II. approve changes in the plan portfolio.
III. vote for the investment adviser.
IV. withdraw funds without any tax consequences.

- ✓ **A)** I and III.
- ✗ **B)** II and III.
- ✗ **C)** II and IV.
- ✗ **D)** I and IV.

Explanation

Owners of variable annuities, like owners of mutual fund shares, may vote on changes in investment policy and for an investment adviser. Withdrawals from a nonqualified variable annuity are made on a LIFO basis, so the taxable earnings are considered taken out before principal.

Reference: 12.1.4 in the License Exam Manual

Question #145 of 223

Question ID: 606722

Your customer opens a Coverdell ESA for his niece. In order to meet qualified education expenses of $9,000, she takes a distribution of $10,000. The amount of the distribution in excess of her education expenses that represents earnings in the account will be

- ✓ **A)** taxable to the niece, the beneficiary of the plan
- ✗ **B)** nontaxable to either party
- ✗ **C)** taxable to the uncle, the donor to the plan
- ✗ **D)** automatically reinvested back into the plan

Explanation

Any excess distribution representing earnings that is not used to meet qualified education expenses is taxable to the beneficiary who took the distribution.

Reference: 11.2.5.1 in the License Exam Manual

Question #146 of 223

Question ID: 606827

All of the following investment strategies offer either fully or partially tax-deductible contributions to individuals who meet eligibility requirements EXCEPT:

- ✗ **A)** IRAs.
- ✗ **B)** defined contribution plans.
- ✓ **C)** variable annuities.
- ✗ **D)** Keogh plans.

Explanation

Contributions to a nonqualified variable annuity are not tax deductible. Contributions to an IRA may be tax deductible, depending on the individual's earnings and participation in a company-sponsored qualified retirement plan.

Reference: 12.3.3 in the License Exam Manual

Question #147 of 223

Question ID: 606876

A sharing arrangement in which only deductible costs are apportioned to the investor with the sponsor bearing all capitalized costs is called a(n):

- ✗ **A)** overriding royalty arrangement.
- ✗ **B)** reversionary sharing arrangement.
- ✓ **C)** functional allocation.
- ✗ **D)** carried interest.

Explanation

Functional allocation is a sharing arrangement in which the general partner pays for all tangible drilling costs (capitalized costs) and the limited partners pay for all intangible drilling costs (deductible costs).

Reference: 13.2.2.7 in the License Exam Manual

Question #148 of 223

Question ID: 606801

A customer has an investment objective of keeping pace with inflation while assuming moderate risk. Which of the following recommendations would *best* meet the customer profile?

- ✗ **A)** IPO.
- ✗ **B)** Universal variable life policy.
- ✗ **C)** Money market fund.
- ✓ **D)** Variable annuity.

Explanation

Insurance companies introduced the variable annuity as an opportunity to keep pace with inflation. For this potential advantage, the investor, rather than the insurance company, assumes the investment risk. A universal variable life policy should be purchased primarily for its insurance features, not its investment features.

Reference: 12.1.2 in the License Exam Manual

Question #149 of 223

Question ID: 606904

An individual who invests in an undeveloped land limited partnership would be *most* interested in:

- ✓ **A)** appreciation.
- ✗ **B)** depletion.
- ✗ **C)** depreciation.
- ✗ **D)** operating expense deductions.

Explanation

Investors seek appreciation when investing in undeveloped land limited partnerships.

Reference: 13.2.1 in the License Exam Manual

Question #150 of 223

Question ID: 606737

A customer would like to set aside some money for his grandson's college education in an IRA account. Which of the following regarding a Coverdell Education Savings Account (ESA) is TRUE?

- ✗ **A)** The customer may make annual contributions until the grandson graduates from college.
- ✓ **B)** The funds must be distributed by the time the grandchild attains age 30, unless they are rolled over.
- ✗ **C)** The maximum contribution permitted is $3,000 annually.
- ✗ **D)** The customer may take a deduction for the amount contributed.

Explanation

The maximum annual contribution to an ESA is $2,000. Contributions are not deductible and must cease when the beneficiary reaches age 18. Any unused balance must be rolled over or distributed by the time the beneficiary attains age 30. Amounts not used for one child may be rolled over tax free to the account of another child of the same family only once during any 12-month period.

Reference: 11.2.5.1 in the License Exam Manual

Question #151 of 223

Question ID: 606736

All of the following are TRUE concerning a Coverdell Education Savings Account (ESA) EXCEPT

- ✓ **A)** unused balances may be used for any purpose the beneficiary chooses
- ✗ **B)** the beneficiary may be the contributor's child or grandchild or child of a friend of the contributor
- ✗ **C)** a beneficiary's unused balance may be rolled over to an ESA account for another child
- ✗ **D)** the maximum annual contribution is $2,000 per beneficiary

Explanation

The maximum contribution permitted for any beneficiary is $2,000 per year. The beneficiary need not be related to the contributor(s). ESA accounts may be rolled over to change investment vehicles or to change beneficiaries. Account balances may be used for education only.

Reference: 11.2.5.1 in the License Exam Manual

Question #152 of 223

Question ID: 606802

An important basic characteristic of common stocks that makes them a suitable type of investment for the separate account of variable annuities is:

- ✗ **A)** the safety of the principal invested.
- ✓ **B)** changes in common stock prices tend to be more closely related to changes in the cost of living than changes in bond prices.
- ✗ **C)** the yield is always higher than mortgage yields.
- ✗ **D)** the yield is always higher than bond yields.

Explanation

Because common stocks are not fixed dollar investments, they have the opportunity to keep pace with inflation.

Reference: 12.1.2.1.1 in the License Exam Manual

Question #153 of 223

Question ID: 606830

The holder of a variable annuity receives the largest monthly payments under which of the following payout options?

- ✗ **A)** Joint and last survivor annuity.
- ✗ **B)** Life annuity with period certain.
- ✗ **C)** Joint tenants annuity.
- ✓ **D)** Life annuity.

Explanation

Life annuity has the largest payout because less risk is assumed by the insurance company; there is no beneficiary in the event the annuitant dies.

Reference: 12.3.2.1 in the License Exam Manual

Question #154 of 223

Question ID: 606849

All of the following are required by limited partnerships EXCEPT:

- ✗ **A)** certificate of limited partnership.
- ✗ **B)** partnership agreement.
- ✓ **C)** SEC approval.
- ✗ **D)** subscription agreement.

Explanation

The SEC does not approve limited partnerships or any other securities. In public offerings of limited partnerships (as opposed to private placements), federal registration and a prospectus are required.

Reference: 13.1.2.1 in the License Exam Manual

Question #155 of 223

Question ID: 606899

Which of the following are part of the depreciable basis of a limited partner in a real estate DPP?

I. Land.
II. Buildings.
III. Architect's fees incurred in designing the buildings.
IV. Air conditioning equipment.

- ✗ **A)** II and III.
- ✗ **B)** I and IV.
- ✓ **C)** II and IV.
- ✗ **D)** I and III.

Explanation

Only fixed plant (buildings) and equipment can be depreciated. Land as well as any up-front costs charged to the limited partners cannot be depreciated. Those non-depreciable costs, however, are part of the limited partner's beginning basis but not part of the depreciable basis.

Reference: 13.2.1 in the License Exam Manual

Question #156 of 223

Question ID: 606727

Which of the following statements regarding Roth IRAs are TRUE?

I. Contributions are made with pretax dollars.
II. Earnings can accumulate tax free.
III. Distributions are not taxable if an age requirement and holding period are met.
IV. Distributions in excess of growth are always taxable.

- ✗ **A)** I and IV.
- ✗ **B)** II and IV.
- ✓ **C)** II and III.
- ✗ **D)** I and III.

Explanation

Contributions to Roth IRAs are made with after-tax dollars. Distributions are received tax free if the account holder is at least 59½ and has held the account for at least 5 years.

Reference: 11.2.4 in the License Exam Manual

Question #157 of 223

Question ID: 606694

One of your customers has maintained a traditional IRA for the past 15 years. Some of his annual contributions were not tax deductible due to his income level and participation in another qualified plan. At age 60, the customer elects to make a lump-sum withdrawal. Which of the following statements is TRUE?

- ✗ **A)** The entire withdrawal is taxable as ordinary income.
- ✓ **B)** The portion representing principal from the nondeductible contributions is tax free, while the balance is taxable as ordinary income.
- ✗ **C)** The portion representing earnings and principal from the nondeductible contributions is tax free, while the balance is taxable as ordinary income.
- ✗ **D)** The portion representing earnings from the nondeductible contributions is tax free, while the balance is taxable as ordinary income.

Explanation

All earnings, whether from deductible or nondeductible contributions, are tax deferred. Therefore, all earnings are taxable as ordinary income on withdrawal. Only the nondeductible contribution is returned tax free.

Reference: 11.1.1 in the License Exam Manual

Question #158 of 223

Question ID: 606773

Which of the following types of retirement plans would be *most* beneficial to a young employee of a corporation?

- ✓ **A)** Defined contribution pension plan.
- ✗ **B)** Defined benefit pension plan.
- ✗ **C)** Profit-sharing plan.
- ✗ **D)** Keogh plan.

Explanation

The most beneficial corporate pension plan for a younger employee would be the defined contribution plan. The employee has many years to go in the workforce, so the investments made with the defined contributions will have a maximum time period to grow.

Reference: 11.5.2 in the License Exam Manual

Question #159 of 223

Question ID: 606733

Which of the following investment activities are suitable for an individual retirement account?

I. Writing uncovered calls.
II. Writing covered calls.
III. Buying puts on stock held long.
IV. Writing naked puts.

- ✓ **A)** II and III.
- ✗ **B)** I and IV.
- ✗ **C)** II and IV.
- ✗ **D)** I and II.

Explanation

Writing uncovered calls and writing naked puts subject the investor to a high degree of risk and are considered unsuitable activities.

Reference: 11.2.1.1 in the License Exam Manual

Question #160 of 223

Question ID: 606828

All of the following characteristics are shared by both a mutual fund and a variable annuity's separate account EXCEPT:

- ✓ **A)** the payout plans provide the client income for life.
- ✗ **B)** the investment portfolio is managed professionally.
- ✗ **C)** the client may vote for the board of directors or board of managers.
- ✗ **D)** the client assumes the investment risk.

Explanation

Only variable annuities have payout plans that provide the client income for life.

Reference: 12.3.2 in the License Exam Manual

Question #161 of 223

Question ID: 721467

When one is calculating cost basis for a nonqualified variable annuity they are using

- ✗ **A)** the pre-tax dollars contributed
- ✗ **B)** the dollars contributed minus any gains at the time of payout
- ✓ **C)** the after-tax dollars contributed
- ✗ **D)** the earnings in excess of dollars contributed

Explanation

For a nonqualified variable annuity, cost basis for the annuitant would use the after-tax dollars contributed.

Reference: 12.3.3 in the License Exam Manual

Question #162 of 223

Question ID: 606907

All of the following would flow through as a loss to limited partners EXCEPT:

- ✗ **A)** depletion.
- ✗ **B)** interest payments on recourse debt.
- ✓ **C)** principal repayment on recourse debt.
- ✗ **D)** accelerated depreciation.

Explanation

Principal repayments are not deductible for tax purposes. The interest is deductible.

Reference: 13.2.6 in the License Exam Manual

Question #163 of 223

Question ID: 606851

The managing partner of a limited partnership has responsibility for all of the following EXCEPT:

- ✓ **A)** providing unlimited capital for the partnership business.
- ✗ **B)** organizing the business.
- ✗ **C)** managing the operations.
- ✗ **D)** paying partnership's debts.

Explanation

The general partner organizes and manages the partnership; he assumes unlimited liability, paying all partnership debts. However, it is the limited partners who provide the bulk of the capital.

Reference: 13.1.2.1.3 in the License Exam Manual

Question #164 of 223

Question ID: 606889

A customer bought a 10% interest in a real estate limited partnership by investing $100,000. The partnership buys a $4 million property with the funds, making a down payment of $800,000 and financing the balance with a nonrecourse mortgage of $3.2 million. Subsequently, the partnership cannot meet the mortgage payment; the lender forecloses when the remaining mortgage balance is $3 million, auctioning off the property for $1 million. How much of the investment will the customer recover?

- ✗ **A)** 10,000.
- ✗ **B)** 32,000.
- ✓ **C)** 0.
- ✗ **D)** 100,000.

Explanation

The real estate limited partnership raised only $1,000,000 (10% interest equals $100,000). The partnership incurred excess liabilities. While the customer isn't liable for any of the excess liabilities, as a limited partner the customer is liable for the entire $100,000 invested. Because the customer is liable for the entire $100,000 invested, none of it will be recovered.

Reference: 13.2.6 in the License Exam Manual

Question #165 of 223

Question ID: 606838

All of the following statements are true with respect to a limited partnership subscription agreement EXCEPT:

- ✓ **A)** the general partner's signature grants the limited partners power of attorney to conduct the partnership's affairs.
- ✗ **B)** the investor's signature indicates that he has read the offering document.
- ✗ **C)** the general partner endorses the subscription agreement, signifying that a limited partner is acceptable.
- ✗ **D)** the investor's registered representative must verify that the investor has provided accurate information.

Explanation

A limited partner's signature on the subscription agreement grants the general partner power of attorney to conduct the partnership's affairs. The subscription agreement for a limited partnership is deemed accepted when the general partner signs the subscription agreement.

Reference: 13.1.2.1.3 in the License Exam Manual

Question #166 of 223

Question ID: 606798

A registered representative explaining variable annuities to a customer would be CORRECT in stating that:

I. a variable annuity guarantees an earnings rate of return.
II. a variable annuity does not guarantee an earnings rate of return.
III. a variable annuity guarantees payments for life.
IV. a variable annuity does not guarantee payments for life.

- ✗ **A)** I and IV.
- ✗ **B)** I and III.
- ✓ **C)** II and III.
- ✗ **D)** II and IV.

Explanation

A variable annuity does not guarantee an earnings rate because earnings will depend on the performance of the separate account. However, it does guarantee payments for life (mortality).

Reference: 12.1.2 in the License Exam Manual

Question #167 of 223

Question ID: 606873

All of the following are primary objectives in a DPP EXCEPT:

- ✗ **A)** deferment of taxes.
- ✗ **B)** deductions against other income.
- ✗ **C)** long-term capital gains.
- ✓ **D)** short-term capital gains.

Explanation

DPPs are used to defer present income into the future and take advantage of time.

Reference: 13.2.4 in the License Exam Manual

Question #168 of 223

Question ID: 606859

If a customer subscribes to a $20,000 public limited partnership interest, which of the following is the maximum underwriting compensation that may be charged?

- ✗ **A)** 1,850.

- ✗ **B)** 4,000.
- ✗ **C)** 18,000.
- ✓ **D)** 2,000.

Explanation

The FINRA rules for limited partnership offerings limit underwriting compensation to 10% of the total money raised (10% of $20,000 is $2,000).

Reference: 13.1.2 in the License Exam Manual

Question #169 of 223

Question ID: 606785

Buying municipal bonds would normally NOT be considered suitable for

- ✗ **A)** a mutual fund portfolio
- ✗ **B)** a corporation's investment account
- ✗ **C)** an individual investor
- ✓ **D)** a defined benefit plan portfolio

Explanation

A defined benefit plan is a form of qualified tax-deferred corporate pension plan. Tax-free municipal bonds would never be considered suitable for a tax-deferred account. An individual investor, a mutual fund portfolio and a corporate investment account could call benefit from receiving tax-free municipal bond interest.

Reference: 11.5.1 in the License Exam Manual

Question #170 of 223

Question ID: 606712

A distribution has been made from a Coverdell Education Savings account in the amount of $12,000 when the educational expenses were only $10,000. The amount distributed beyond the educational expenses will be:

- ✗ **A)** completely taxable to the donor.
- ✓ **B)** taxable to the beneficiary on any portion of the excess representing earnings.
- ✗ **C)** taxable to the donor on any portion of the excess representing earnings.
- ✗ **D)** a tax-free distribution.

Explanation

If a distribution exceeds education expenses, a portion representing earnings will be taxable to the beneficiary and may be subject to an additional 10% penalty tax.

Reference: 11.2.5.1 in the License Exam Manual

Question #171 of 223

Question ID: 606822

A customer has contributed $1,000 a year for 10 years to his tax-deferred nonqualified variable annuity. The value of the separate account is now $30,000. If the customer takes a withdrawal of $10,000, what are the tax consequences?

- ✗ **A)** Two-thirds of the withdrawal is taxable as ordinary income.
- ✓ **B)** The entire $10,000 is taxable as ordinary income.
- ✗ **C)** There is no tax as the withdrawal is considered return of capital.
- ✗ **D)** Any tax due is deferred.

Explanation

The $30,000 contract value represents $10,000 of contributions and $20,000 of earnings. When a partial withdrawal is made from an annuity, the earnings are considered to be taken out first for tax purposes (or LIFO). Therefore, ordinary income taxes will apply to the entire $10,000. In addition, if the customer is not at least 59-½, there will be a tax penalty of an additional 10%.

Reference: 12.3.3 in the License Exam Manual

Question #172 of 223

Question ID: 606704

One of your customers, age 52, wishes to open an IRA. His annual income is over $200,000 and consists entirely of income from rental real estate and income from a trust fund. What amount may your customer contribute this year to his IRA?

- ✓ **A)** 0.
- ✗ **B)** 4000.
- ✗ **C)** 3500.
- ✗ **D)** 5000.

Explanation

To open an IRA, a person needs earned income. Income from rental real estate is passive income while income from a trust fund is portfolio income. This customer has no earned income.

Reference: 11.2 in the License Exam Manual

Question #173 of 223

Question ID: 606707

Minimum distributions from a traditional IRA must begin:

- ✗ **A)** a year after the owner turns 59½.
- ✓ **B)** by April 1, the year after the owner turns 70½.
- ✗ **C)** once the owner retires.
- ✗ **D)** as soon as the owner turns 70½.

Explanation

Minimum distributions from a traditional IRA must begin by April 1 of the year after the owner turns 70½.

Reference: 11.2.2 in the License Exam Manual

Question #174 of 223

Question ID: 606753

One of your customers, age 45, estimates that his annual earnings will be below the Roth IRA contribution ceiling limit and makes his Roth contribution early in the year. To his pleasant surprise, he receives a year-end bonus in December of that year, but, unfortunately, it puts his earnings over the Roth IRA earnings limit for allowing contributions. As the customer's registered representative, and given these circumstances, you could suggest that the customer

- ✗ **A)** leave the contribution in the Roth because a bonus does not impact the allowable earnings limit for making contributions to a Roth IRA
- ✗ **B)** take out the contribution in the form of a withdrawal
- ✓ **C)** re-characterize the Roth contribution made into a traditional IRA
- ✗ **D)** roll over the Roth into a traditional IRA

Explanation

Given the circumstances, the best suggestion would be to re-characterize the contribution to a traditional IRA so that the rules for contributing to a Roth IRA will not have been broken, as earnings applicable would include bonuses. Taking the money out in the form of a withdrawal would not have allowed the amount to be there for the required 5 years nor would the customer have reached the age of 59 ½ yet; therefore, the withdrawal would be taxable. A rollover allows retirement money to move from one qualified plan to another but does not address re-characterizing the contributions made.

Reference: 11.2.4.1 in the License Exam Manual

Question #175 of 223

Question ID: 606731

If your 50-year-old client wants to withdraw funds from his traditional IRA, the early withdrawal will be taxed as:

- ✓ **A)** ordinary income plus a 10% penalty.
- ✗ **B)** ordinary income.

- ✗ **C)** capital gains.
- ✗ **D)** capital gains plus a 10% penalty.

Explanation

An early withdrawal from an IRA is taxed as ordinary income plus a 10% penalty.

Reference: 11.2.2 in the License Exam Manual

Question #176 of 223

Question ID: 606870

Which of the following *best* describes the advantages of an oil and gas income program as compared with other types of oil and gas programs?

- ✓ **A)** Lowest risk of capital.
- ✗ **B)** No depletion allowances.
- ✗ **C)** Greatest risk of capital.
- ✗ **D)** Highest tax write-off.

Explanation

Oil and gas income programs own producing wells and pass through their depletion allowances. There is little risk compared to other programs, such as exploration.

Reference: 13.2.2 in the License Exam Manual

Question #177 of 223

Question ID: 606877

An investor wanting to know about the tax consequences of a direct participation program (DPP) should know which asset types can be depleted or depreciated. All of the following asset types can be depleted or depreciated EXCEPT:

- ✗ **A)** gas.
- ✗ **B)** oil.
- ✗ **C)** buildings.
- ✓ **D)** crops.

Explanation

Oil and gas are examples of asset types that can be depleted, whereas buildings are a depreciable asset. Farm crops are considered to be renewable assets.

Reference: 13.2.4.2.1 in the License Exam Manual

Question #178 of 223

Question ID: 606697

If a corporation begins a nonqualified retirement plan, which of the following statements is TRUE?

- ✗ **A)** The employer must abide by all ERISA requirements.
- ✗ **B)** Employer contributions are tax deductible.
- ✓ **C)** Employee contributions grow tax deferred if they are invested in an annuity.
- ✗ **D)** Employee contributions are tax deductible.

Explanation

Earnings accumulate tax deferred if the plan is funded by an investment vehicle that offers tax deferral, such as an annuity contract. Tax has been paid on all amounts the employees and the employer contribute to the plan. Nonqualified plans need not comply with all ERISA requirements.

Reference: 11.1.2 in the License Exam Manual

Question #179 of 223

Question ID: 721477

A customer wanting to invest in an oil and gas limited partnership wants to know what her cost basis would be for tax purposes. While there can be a number of variables, cost basis for a limited partner is best defined as

- ✗ **A)** recourse debt – cash contributions
- ✗ **B)** cash investment made – distributions
- ✗ **C)** noncash contribution + nonrecourse debt – recourse debt
- ✓ **D)** cash investment made + recourse debt – distributions

Explanation

Cost basis for a limited partner is defined as investment made (cash contributions) + recourse debt (debt the LP is responsible for) – distributions. Nonrecourse debt would only be included for real estate programs. Real estate programs are the only types where LPs can be responsible for both recourse and nonrecourse debt.

Reference: 13.2.6 in the License Exam Manual

Question #180 of 223

Question ID: 606730

A customer who has just started an IRA will be vested:

- ✓ **A)** immediately.
- ✗ **B)** in 5 years.
- ✗ **C)** at age 70.
- ✗ **D)** in 2 years.

Explanation

Investors are always vested immediately in their IRAs.

Reference: 11.2.1 in the License Exam Manual

Question #181 of 223

Question ID: 606706

Two customers in their twenties, married only a few years, should select which investment for their IRAs?

- ✗ **A)** High yield bond funds.
- ✓ **B)** Growth-oriented mutual funds.
- ✗ **C)** Oil and gas exploration limited partnerships.
- ✗ **D)** High-tech funds.

Explanation

A growth mutual fund may be appropriate for a young couple's IRA account; all other selections incur high risk that is not appropriate for a retirement account.

Reference: 11.2 in the License Exam Manual

Question #182 of 223

Question ID: 606896

Depletion allowances apply to all of the following EXCEPT:

- ✗ **A)** oil and gas.
- ✓ **B)** real estate.
- ✗ **C)** copper mining.
- ✗ **D)** timber.

Explanation

Depletion is applicable to natural resources such as mining or timber. It is not applicable to real estate. However, buildings can be depreciated.

Reference: 13.2.2.3 in the License Exam Manual

Question #183 of 223

Question ID: 721476

Which of the different sharing arrangements for limited partnerships between the general partners (GPs) and the limited partners (LPs) is generally considered the most common?

- ✗ **A)** Net operating profits interest
- ✗ **B)** Carried interest
- ✓ **C)** Functional allocation
- ✗ **D)** Overriding royalty interest

Explanation

While both LPs and GPs share equally in the revenues with a functional allocation arrangement, it is most commonly used because it gives the best tax benefits to each. The LPs receive the immediate tax write-offs from the IDCs, whereas the GPs receive continued write-offs from the tangible costs over the course of several years.

Reference: 13.2.2.7 in the License Exam Manual

Question #184 of 223

Question ID: 606759

When operating a Keogh plan, a self-employed individual must make contributions for

- ✗ **A)** all employees scheduled to work for 1,000 hours per year or more
- ✗ **B)** part-time employees who have worked for the company for 3 or more years
- ✓ **C)** full-time employees who are at least 21 years old and have worked for the company for at least one year
- ✗ **D)** all employees

Explanation

Employees must be covered under a Keogh plan if they are at least 21 years old, have been employed a minimum of 1 year, and work full-time (at least 1,000 hours per year). Keogh plans do not include employees who are under 21 or have just started working with the employer.

Reference: 11.3.1 in the License Exam Manual

Question #185 of 223

Question ID: 606709

A distribution from a corporate pension plan to be rolled over into an IRA must be completed within how many days to maintain its tax-deferred status?

- ✗ **A)** 90.
- ✗ **B)** 45.
- ✓ **C)** 60.
- ✗ **D)** 30.

Explanation

Rollovers from pension plans into IRAs must be accomplished within 60 days in order to retain tax-deferred status.

Reference: 11.2.3.1 in the License Exam Manual

Question #186 of 223

Question ID: 654901

A customer setting up a 529 plan for her son wants to know if the 529 plan from one state can be rolled over to the 529 plan of another state later. Which is the correct response?

- ✗ **A)** Yes, there are no restrictions on 529 plan rollovers from one states plan to another.
- ✗ **B)** No, 529 plan rollovers are not permitted.
- ✓ **C)** Yes, but no more than once every 12 months.
- ✗ **D)** Yes, but only within the first six months of the plans inception.

Explanation

Rollovers from one states plan to another states plan are permitted but no more than once every twelve months.

Reference: 11.2.5.2 in the License Exam Manual

Question #187 of 223

Question ID: 606714

All of the following are true regarding Section 529 college savings plans EXCEPT:

- ✗ **A)** not subject to income limitations.
- ✗ **B)** high contribution limits.
- ✗ **C)** tax-free withdrawal at the federal level for qualified education expenses.
- ✓ **D)** tax-deductible contributions at the federal level.

Explanation

Contributions are made with after-tax dollars and are not deductible.

Reference: 11.2.5.2 in the License Exam Manual

Question #188 of 223

Question ID: 606696

Which of the following statements regarding qualified retirement plans are TRUE?

I. Contributions are made with pretax dollars.
II. Contributions are made with after-tax dollars.
III. Distributions are 100% taxable.
IV. Distributions are taxable only to the extent of earnings.

- ✗ **A)** II and IV.
- ✗ **B)** I and IV.
- ✓ **C)** I and III.
- ✗ **D)** II and III.

Explanation

With qualified plans, participants receive a tax deduction for contributions to their plan. As earnings accumulate tax-deferred, distributions, which consist of tax-deferred earnings and contributions for which the participant received a tax deduction, are 100% taxable.

Reference: 11.1.1 in the License Exam Manual

Question #189 of 223

Question ID: 606705

Which of the following statements about a Coverdell Education Savings Account (ESA) is NOT true?

- ✗ **A)** Contributions of $2,000 per child per year are allowed.
- ✗ **B)** Contributions can be made to this type of plan and a Section 529 plan in the same year for the same beneficiary.
- ✗ **C)** The funds grow income tax deferred and, if used for elementary, secondary, or college educational expenses, the earnings are tax free.
- ✓ **D)** Contributions are tax deductible, subject to a modified AGI phaseout.

Explanation

Contributions to an ESA are not tax deductible.

Reference: 11.2.5.1 in the License Exam Manual

Question #190 of 223

Question ID: 606846

In a DPP, a general partner is all of the following EXCEPT

- ✗ **A)** a key executive who makes day to day business decisions

- ✗ **B)** one who appoints the property manager
- ✓ **C)** one who has limited liability
- ✗ **D)** one who buys and sells the program's property

Explanation

A general partner of a limited partnership is a key executive of the program who purchases and sells the property and/or appoints someone to manage the property. The general partner does not have limited liability. By not allowing the general partner to have limited liability, the program is able to rule out limited liability as a corporate characteristic.

Reference: 13.1.4 in the License Exam Manual

Question #191 of 223

Question ID: 606726

Each of the following are permitted to open an IRA EXCEPT:

- ✗ **A)** a divorced mother whose sole income is alimony and child support.
- ✗ **B)** a self-employed attorney who has a Keogh plan.
- ✓ **C)** an individual whose sole income consists of dividends and capital gains.
- ✗ **D)** a corporate officer covered by a 401(k) plan.

Explanation

An IRA contribution can be made only from earned income. Dividends and interest are investment income, but alimony is considered compensation for purposes of an IRA by the IRS even though it is not deemed to be earned income. Individuals can contribute to an IRA even if they are already covered by a corporate pension plan or Keogh plan. However, although a contribution can be made, it may or may not be deductible depending on the individual's income.

Reference: 11.2 in the License Exam Manual

Question #192 of 223

Question ID: 606771

Which of the following would NOT be eligible for a tax-sheltered 403(b) annuity?

- ✗ **A)** Employee of a county high school.
- ✗ **B)** Custodian at a municipal public school.
- ✗ **C)** Professor at a land grant college.
- ✓ **D)** Student at a private college.

Explanation

All of the individuals listed meet the requirement of being a school system employee except for the student, who is a client, rather than an employee, of the school system.

Reference: 11.4 in the License Exam Manual

Question #193 of 223

Question ID: 606880

Which of the following real estate limited partnerships allows tax credits to the investor?

- ✗ **A)** Existing property.
- ✗ **B)** Raw land.
- ✓ **C)** Historic rehabilitation.
- ✗ **D)** New construction.

Explanation

Raw land partnerships seek appreciation. Existing property and new construction partnerships seek passive income and tax deductions from business operations. Historic rehabilitation partnerships allow not just deductions but actual tax credits.

Reference: 13.2.1 in the License Exam Manual

Question #194 of 223

Question ID: 606881

Which of the following types of oil and gas limited partnership programs is the riskiest?

✓ **A)** Exploratory.
✗ **B)** Existing property.
✗ **C)** Income.
✗ **D)** Developmental.

Explanation

For oil and gas partnerships, exploratory programs are considered most risky because they involve drilling new wells in areas where oil has not yet been discovered. These programs would be followed by developmental and finally income programs being the least risky. Existing property is a type of real estate program.

Reference: 13.2.2.4 in the License Exam Manual

Question #195 of 223

Question ID: 606811

A separate account will invest in a number of different securities. The separate account is NOT likely to invest in:

✗ **A)** corporate stock.
✗ **B)** money market funds.
✓ **C)** municipal bonds.
✗ **D)** equity funds.

Explanation

The earnings on dollars invested into a variable annuity accumulate tax deferred, which is why variable annuities are popular products for retirement accumulation. As with all tax-deferred accounts, municipal bonds are not appropriate investments because interest earned on municipals is already tax exempt at the federal level.

Reference: 12.1.4.2 in the License Exam Manual

Question #196 of 223

Question ID: 606848

In the partnership agreement of a limited partnership, all of the following would be disclosed EXCEPT:

✗ **A)** how the operating profits will be distributed.
✗ **B)** how the general partners will be compensated.
✓ **C)** the procedures for the annual election of general partners.
✗ **D)** what matters the limited partners can vote on under the democracy provisions.

Explanation

Limited partners have limited liability. General partners have unlimited liability. Only in specific situations can the limited partners elect a new general partner. Such situations would include the resignation, death, incapacity, or removal of the general partner.

Reference: 13.1.2.1.2 in the License Exam Manual

Question #197 of 223

Question ID: 606852

If your client's real estate limited partnership goes bankrupt, which of the following are paid before your client?

I. Fellow limited partners.
II. Bank that holds the mortgage on the property.
III. Bank that holds the unsecured loans on the property.
IV. General partner.

✗ **A)** I and II.
✗ **B)** III and IV.
✓ **C)** II and III.
✗ **D)** I and III.

Explanation

Creditors, both secured and unsecured, have priority over partners. Your client's fellow limited partners are paid at the same time as your client; the general partner receives his money last.

Reference: 13.1.3 in the License Exam Manual

Question #198 of 223

Question ID: 606761

A 52-year-old dentist has a balance of $150,000 in his Keogh plan, composed of $100,000 of contributions and $50,000 of earnings. If the dentist withdrew $100,000 from the Keogh plan, which of the following statements are TRUE?

I. The entire withdrawal is taxable.
II. The entire withdrawal is not taxable.
III. The entire withdrawal is subject to a 10% penalty tax.
IV. Only the portion of the withdrawal representing earnings ($50,000) is subject to a 10% penalty.

✓ **A)** I and III
✗ **B)** II and III
✗ **C)** I and II
✗ **D)** III and IV

Explanation

Contributions to qualified plans are made with pretax dollars and earnings grow on a tax-deferred basis, so the cost basis is zero. Therefore, any distributions will be taxed as ordinary income. In addition, there is a 10% penalty on withdrawals made prior to reaching age 59-½.

Reference: 11.3.1 in the License Exam Manual

Question #199 of 223

Question ID: 606888

When analyzing a DPP investment, a method that takes into account the revenues and expenses is:

✗ **A)** technical analysis.
✗ **B)** fundamental analysis.
✗ **C)** liquidity analysis.
✓ **D)** cash flow analysis.

Explanation

Revenues and expenses are cash items and would be analyzed by cash flow analysis.

Reference: 13.2.4.1 in the License Exam Manual

Question #200 of 223

Question ID: 606797

A prospectus for a variable annuity contract:

I. must provide full and fair disclosure.
II. is required by the Securities Act of 1933.
III. must be filed with FINRA.
IV. must precede every sales presentation.

✗ **A)** II and IV.
✗ **B)** III and IV.
✗ **C)** I and III.
✓ **D)** I and II.

Explanation

A variable annuity is a security and must be registered with the SEC, not FINRA. As part of the registration requirements, a prospectus must be filed and distributed to prospective investors. Distribution can take place before or during any solicitation for sale.

Reference: 12.1.2 in the License Exam Manual

Question #201 of 223

Question ID: 606836

A registered representative recommends a variable annuity with an income rider to a client. The client's investment objectives, tax bracket, investment experience and risk tolerance all align well with a VA recommendation. The client agrees to purchase the contract and informs the RR that he will be cashing out a VA he purchased 2 years ago to fund the new contract and will forward the check as soon as he receives it. Based on this information the RR should:

- ✗ **A)** contact the issuer of the clients existing VA contract to facilitate the clients surrender of the contract.
- ✗ **B)** suggest to the client that perhaps a loan or refinancing his vacation home might be a better way to fund the contract purchase.
- ✗ **C)** complete all paper work to purchase the annuity contract and obtain the clients signature immediately.
- ✓ **D)** reevaluate whether the recommendation for the VA contract is still suitable based on the clients proposed funding of the investment.

Explanation

Funding a VA contract by cashing out either life insurance policies or existing VA contracts, especially those held for a short period of time is not suitable. These contracts come with high surrender charges. Suggesting that loans or drawing equity from a home to fund VA contracts have also been targeted as abusive sales practices. Of the answer choices given the best would be to reevaluate the recommendation based on the new information tendered by the client.

Reference: 12.3.4 in the License Exam Manual

Question #202 of 223

Question ID: 606831

Your client owns a variable annuity contract with an AIR of 4%. In March, the actual net return to the separate account was 8%. If this client is in the payout phase, how would his April payment compare to his March payment?

- ✗ **A)** It cannot be determined until the April return is calculated.
- ✗ **B)** It will be lower.
- ✓ **C)** It will be higher.
- ✗ **D)** It will stay the same.

Explanation

If the separate account of a variable annuity with an AIR of 4% had actual net earnings of 8% in March, the April payment will be higher than the March payment.

Reference: 12.3.1 in the License Exam Manual

Question #203 of 223

Question ID: 606757

Under Keogh plan provisions, a full-time employee is defined as one working at *least* how many hours per year?

- ✗ **A)** 500.
- ✗ **B)** 2000.
- ✓ **C)** 1000.
- ✗ **D)** 100.

Explanation

Full time employment is defined as 1,000 hours or more per year, regardless of the number of days, weeks, or months worked.

Reference: 11.3.1 in the License Exam Manual

Question #204 of 223

Question ID: 606850

Which of the following registers the securities and packages the program for a limited partnership?

- ✗ **A)** Property manager.
- ✓ **B)** Syndicator.
- ✗ **C)** General partner.
- ✗ **D)** Limited partners.

Explanation

A syndicator handles the registration of the limited partnership units.

Reference: 13.1.2 in the License Exam Manual

Question #205 of 223

Question ID: 606816

An accumulation unit in a variable annuity contract is:

- ✗ **A)** fixed in value until the holder retires.
- ✓ **B)** an accounting measure used to determine the contract owner's interest in the separate account.
- ✗ **C)** an accounting measure used to determine payments to the owner of the variable annuity.
- ✗ **D)** none of these.

Explanation

When money is deposited into the annuity, it is purchasing accumulation units.

Reference: 12.2.1 in the License Exam Manual

Question #206 of 223

Question ID: 606847

If a limited partner in a real estate direct participation program becomes involved in the management of the office building acquired by the partnership, which of the following is TRUE?

- ✓ **A)** That limited partner's limited liability is jeopardized.
- ✗ **B)** There are no adverse consequences if, in performing management functions, the limited partner's expertise benefits the program.
- ✗ **C)** The limited partner's participation is disallowed and the program continues as before, but the remaining partners are required to prorate the remaining unit.
- ✗ **D)** This is allowed, but only with a majority vote of the other limited partners and written approval of the sponsor.

Explanation

While the limited partners usually have limited liability, that benefit can be lost if a limited partner engages in certain activities, including (1) the day-to-day management of the property, (2) representing himself as a general partner, and (3) financial control of the partnership.

Reference: 13.1.4 in the License Exam Manual

Question #207 of 223

Question ID: 606725

A businessowner pays himself a salary of $80,000 per year. He employs his spouse and pays her $45,000 per year. What is the maximum contribution that they may make to their traditional IRAs?

- ✗ **A)** No traditional IRA contributions can be made by businessowners or their spouses.
- ✗ **B)** They can contribute 100% of the lower income to one IRA only.
- ✗ **C)** They cannot make contributions, because their joint incomes are too high.
- ✓ **D)** They can each contribute 100% of earned income or the maximum allowable limit, whichever is less, to their individual IRAs.

Explanation

They both may make annual contributions of 100% of earned income up to the maximum allowable limit, whichever is less, to their own respective IRAs.

Reference: 11.2 in the License Exam Manual

Question #208 of 223

Question ID: 606900

The principal tax benefit of investing in an exploratory oil and gas drilling program is derived from:

- ✓ **A)** intangible drilling costs.
- ✗ **B)** depreciation expenses.
- ✗ **C)** capital appreciation.
- ✗ **D)** recapture.

Explanation

Intangible drilling costs (IDCs), which are a significant portion of all drilling costs, are a major tax advantage to a limited partner and are tax deductible in the year in which they are incurred. IDCs are costs that, after incurred, hold no salvage or ongoing value. Examples are labor and geological survey.

Reference: 13.2.2.1 in the License Exam Manual

Question #209 of 223

Question ID: 606869

Intangible drilling costs would include all of the following EXCEPT:

- ✗ **A)** wages.
- ✗ **B)** land surveys.
- ✗ **C)** fuel.
- ✓ **D)** casing.

Explanation

Intangible drilling costs are the costs of drilling a well other than the costs for capital equipment (e.g., pumps, casing). They are incidental to and necessary for the drilling activity and include wages, fuel, repairs, hauling, supplies, surveys, tests, and drilling mud.

Reference: 13.2.2.1 in the License Exam Manual

Question #210 of 223

Question ID: 606745

Which of the following statements regarding both traditional and Roth IRAs is TRUE?

- ✗ **A)** Withdrawals at retirement are tax free.
- ✗ **B)** Distributions must begin in the year after the owner reaches age 70½.
- ✗ **C)** Contributions are tax deductible.
- ✓ **D)** Contribution limits are the same.

Explanation

The common factor for both traditional and Roth IRAs is that contribution limits are identical.

Reference: 11.2.1 in the License Exam Manual

Question #211 of 223

Question ID: 606886

All of the following are oil and gas program sharing arrangements EXCEPT:

- ✗ **A)** reversionary working interest.
- ✓ **B)** all or none underwriting arrangement.
- ✗ **C)** disproportionate sharing.
- ✗ **D)** functional allocation.

Explanation

Functional allocation, disproportionate sharing, and reversionary working interest are all types of oil and gas sharing arrangements. All or none is a type of best efforts underwriting agreement.

Reference: 13.2.2.7 in the License Exam Manual

Question #212 of 223

Question ID: 606837

A registered representative's (RR) customer is speaking of a variable life insurance contract he owns. He makes several statements regarding the contract. Which of the following is NOT an accurate statement concerning a variable life insurance contract?

- ✗ **A)** The portion of the premium invested in the insurance company's general account is used to provide for the minimum guaranteed amount of the death benefit.
- ✓ **B)** The death benefit cannot ever be more than the guaranteed benefit.
- ✗ **C)** There is no guarantee regarding the investment results of the separate account.
- ✗ **D)** The policy provides a minimum guaranteed death benefit.

Explanation

The minimum guaranteed death benefit is provided by that portion of the payment invested in the insurance company's general account. The remainder of the premium is invested in the separate account. While there is no guarantee on how investments in the separate account will perform, depending on its investment performance, the separate account could provide for a larger death benefit than the minimum guaranteed amount.

Reference: 12.4 in the License Exam Manual

Question #213 of 223

Question ID: 606751

For individual retirement accounts, the IRS mandates that if distributions do not begin by April 1 of the year after the individual turns age 70 ½, a 50% insufficient distribution penalty applies. The amount to be withdrawn each year is based on IRS life expectancy tables. These IRA distribution concepts are known as

I. required beginning date (RBD)
II. required minimum distribution (RMD)
III. lock-up provisions
IV. vesting

- ✗ **A)** II and IV
- ✗ **B)** II and III
- ✗ **C)** III and IV
- ✓ **D)** I and II

Explanation

For individual retirement accounts, the IRS mandates that distributions must begin by April 1 of the year after the individual turns age 70 ½. This is known as the "required beginning date" (RBD). The amount to be withdrawn each year is based on IRS life expectancy tables. This is known as the "required minimum distribution" (RMD).

Reference: 11.2.2 in the License Exam Manual

Question #214 of 223

Question ID: 606898

When conducting a discussion with a client about the merits of investing in a DPP, all of the following could be tax advantages EXCEPT:

I. accelerated depreciation.
II. depletion allowances.
III. recapture of depreciation.
IV. tangible drilling expenses.

- ✗ **A)** I and II.
- ✗ **B)** I and IV.
- ✓ **C)** III and IV.

✗ **D)** II and III.

Explanation

Depreciation is the deduction against income representing the cost recovery of certain fixed assets. When one of those assets is sold for more than the straight-line depreciated value, the excess is recaptured as ordinary income. Only intangible drilling expenses benefit the limited partner.

Reference: 13.2.4.2 in the License Exam Manual

Question #215 of 223

Question ID: 606708

In an IRA, a 6% penalty will be levied if the account owner:

✓ **A)** makes an excess contribution.
✗ **B)** fails to make a contribution by April 15.
✗ **C)** makes a premature withdrawal.
✗ **D)** changes the beneficiary designation more than once during any calendar year.

Explanation

Excess contributions to an IRA are subject to a 6% penalty tax.

Reference: 11.2 in the License Exam Manual

Question #216 of 223

Question ID: 606874

A working interest in an oil and gas partnership entitles the holder to:
I. a portion of the revenue.
II. responsibility for part of the expense of extraction.
III. royalty interest in the revenue.
IV. royalty interest in revenue after deducting certain expenses.

✗ **A)** I and III.
✗ **B)** II and IV.
✓ **C)** I and II.
✗ **D)** III and IV.

Explanation

A working interest is a right to revenues from production, but it also carries the responsibility for extraction costs. A royalty interest carries no responsibility for extraction costs.

Reference: 13.2.2.7 in the License Exam Manual

Question #217 of 223

Question ID: 606776

Which of the following plans requires an actuary's services?

✗ **A)** Defined contribution.
✗ **B)** 401(k).
✗ **C)** Profit-sharing.
✓ **D)** Defined benefit.

Explanation

In a defined benefit plan the payout is established, and employers must contribute annually to assure payment of the benefit amount. An actuary must calculate the annual contribution amount necessary to meet the benefit requirement.

Reference: 11.5.1 in the License Exam Manual

Question #218 of 223

Question ID: 606893

Which of the following could an analyst use to establish the rate of return on a direct participation program?

I. Present value.
II. Internal rate of return.
III. Yield to maturity.
IV. First in, first out.

✓ **A)** I and II.
✗ **B)** III and IV.
✗ **C)** II and III.
✗ **D)** I and IV.

Explanation

Analysts use both present value and internal rate of return to establish a DPP's rate of return. Both involve assumptions based on future cash flows generated by the program.

Reference: 13.2.4 in the License Exam Manual

Question #219 of 223

Question ID: 606884

Which of the following oil and gas programs would be associated with the least risk?

✗ **A)** Exploratory.
✓ **B)** Income.
✗ **C)** Raw land.
✗ **D)** Developmental.

Explanation

For oil and gas programs, ranking from least to most risk would be as follows: Income, Developmental and Exploratory. Raw land is a type of real estate program.

Reference: 13.2.2.6 in the License Exam Manual

Question #220 of 223

Question ID: 606844

Losses from direct participation programs can be used to offset:

✗ **A)** earned income from salary or commissions.
✗ **B)** none of these.
✓ **C)** income from limited partnerships.
✗ **D)** portfolio income.

Explanation

Passive losses can be used only to offset passive income, which is earned from direct participation programs and rental real estate.

Reference: 13.1.1 in the License Exam Manual

Question #221 of 223

Question ID: 606818

Your 65-year-old client owns a nonqualified variable annuity. He originally invested $29,000 4 years ago; it now has a value of $39,000. If your client, who is in the 28% tax bracket, makes a lump-sum withdrawal of $15,000, what tax liability results from the withdrawal?

✓ **A)** 2800.
✗ **B)** 0.
✗ **C)** 3800.
✗ **D)** 4200.

Explanation

This annuity is nonqualified, which means the client has paid for it with after-tax dollars and has a basis equal to the original $29,000 investment. Consequently, the client pays taxes only on the growth portion of the withdrawal ($10,000). The tax on this is $2,800 ($10,000 x 28%). Because the client is older than age 59-½, he does not pay 10% premature distribution penalty tax.

Reference: 12.3.3 in the License Exam Manual

Question #222 of 223

Question ID: 606823

A customer has a nonqualified variable annuity. Once the contract is annuitized, monthly payments to the customer are:

- ✗ **A)** 100% tax free.
- ✓ **B)** partially a tax-free return of capital and partially taxable.
- ✗ **C)** 100% tax deferred.
- ✗ **D)** 100% taxable.

Explanation

The investor has already paid tax on the contributions but the earnings have grown tax-deferred. When the annuitization option is selected, each payment represents both capital and earnings. The money paid in will be returned tax free, but the earnings portion will be taxed as ordinary income.

Reference: 12.3.3 in the License Exam Manual

Question #223 of 223

Question ID: 606813

With regard to a variable annuity, all of the following may vary EXCEPT:

- ✗ **A)** number of accumulation units.
- ✗ **B)** value of accumulation units.
- ✓ **C)** number of annuity units.
- ✗ **D)** value of annuity units.

Explanation

During the accumulation phase, the number of accumulation units will increase as additional money is invested. When the contract is annuitized, the annuitant is credited with a fixed number of annuity units. Once annuitized, the number of annuity units does not vary. The value of accumulation and annuity units varies with the investment performance of the separate account.

Reference: 12.2.1 in the License Exam Manual