Question #1 of 10

Question ID: 1552724

Estate taxes are an example of a tax on:

A) the value of assets owned. ✓

B) a percentage of assets gifted. ✗

C) capital gains on assets transferred. ✗

Explanation

Estate taxes are a tax based upon the value of assets owned by the decedent.

(Module 20.1, LOS 20.a)

Question #2 of 10

Question ID: 1552732

Frank Li is a Canadian citizen who owns real estate in the United States through a Canadian corporation. Li's beneficiaries are his children, who are Canadian citizens living in Canada. On Li's death, the value of the assets would be subject to:

A) Canadian taxes only. ✓

B) U.S. taxes only. ✗

C) both U.S. and Canadian taxes. ✗

Explanation

Although investments in the United States may be subject to U.S. estate taxes, non-U.S. companies are not subject to U.S. taxation. Therefore, the shares of the Canadian corporation would pass to Li's beneficiaries and would be subject to Canadian taxes only.

(Study Session 18, Module 67.1, LOS 67.h)

Question #3 of 10

Question ID: 1552761

An investor would like to retire and has most of his investment portfolio in real estate. Which of the following methods regarding concentrated real estate holdings will lower the investor's concentration risk and generate funds in the *most* tax-efficient manner to support the investor's retirement lifestyle?

A) Donor-advised fund.

B) Mortgage financing.

C) Outright sale.

Explanation

Mortgage financing generates liquidity, and the loan proceeds are not taxed because they are not considered "income" for tax purposes; the loan has to be repaid.

An outright sale is the most common strategy to reduce concentration risk. However, it is a taxable event, which requires the immediate payment of taxes. Therefore, it is not the most tax-efficient strategy.

A donor-advised fund (DAF) has significant tax benefits (e.g., no capital gains tax or recapture for the investor as well as a charitable contribution deduction to the investor); however, contributing to a DAF does mean giving up control of the funds, which would not be suitable in supporting the investor's retirement lifestyle.

(Module 20.3, LOS 20.h)

Question #4 of 10

Question ID: 1552757

The owner of a real estate property who obtains a mortgage with recourse has done all of the following except:

A) retained control of the property.

B) monetized the asset.

C) effectively bought a protective put on the property.

Explanation

Only a non-recourse loan would allow the owner to default on the loan and walk away from the property without allowing the lender to pursue other means to force the borrower to pay. The mortgage is a monetization strategy and leaves the owner in control of the asset.

(Module 20.3, LOS 20.h)

Question #5 of 10

Question ID: 1552899

Among Sovereign Wealth Funds, a key difference between reserve funds and savings funds is that reserve funds must:

A) maintain a higher allocation to alternative assets to reduce volatility.

B) allocate more to foreign markets but only on a currency hedged basis.

C) maintain a lower allocation to alternative assets due to great liquidity needs.

Explanation

Despite being a relatively long-term source of funds, reserve funds must maintain a higher level of liquidity than savings funds and thus a lower allocation toward relatively illiquid alternative funds.

(Module 22.3, LOS 22.g)

Question #6 of 10

Question ID: 1552760

Which of the following statements regarding concentrated positions or direct ownership in real estate is *most* accurate?

A) A direct ownership interest in an income-generating rental property is most likely liquid.

B) A large concentrated position with a high tax basis will most likely result in a large capital gains tax liability.

C) Concentrated positions are most likely illiquid.

Explanation

With the potential exception of a concentrated position in a publicly traded security, concentrated positions are most likely illiquid.

An investment position with a *low* tax basis will likely result in a large capital gains tax liability. A high tax basis implies that the capital gains will be low (i.e. low capital gains = sale proceeds – high tax basis).

Simply because a real estate investment is income-generating does not make it a liquid investment. The investment may be illiquid because of the time required to find a buyer for the particular property. As well, depending on the intended use by prospective buyers, the price/liquidity of the property may be impacted.

(Module 20.3, LOS 20.h)

Question #7 of 10

Question ID: 1552765

Which of the following statements *best* describes estate planning?

A) **Preparing for the disposition of one's estate upon death and during one's lifetime.**

B) Preparing for the disposition of one's estate during one's lifetime only.

C) Preparing for the disposition of one's estate upon death only.

Explanation

Estate planning involves the disposition of assets, and that can occur both during one's lifetime and upon death.

(Module 20.4, LOS 20.i)

Question #8 of 10

Question ID: 1552825

Which of the following is not an example of a drawback to fixed annuities?

A) The investor could become locked into a low interest rate.

B) The payments in some periods may fail to meet the investor's needs or may be zero if the funds lose money.

C) **The real values of the cash flows fall over time.**

Explanation

A fixed annuity may fail to meet the investor's needs, but the payment will never be zero. This is an example of a drawback for a variable annuity. The real values of cash flows from a fixed annuity do fall over time. An investor could get locked into a low lifetime return if interest rates are historically low when the fixed annuity is purchased.

(Module 21.4, LOS 21.h)

Question #9 of 10

Question ID: 1552849

An investment policy statement does not provide which of the following?

A) Long-term investment decision-making guidelines.

B) Weighting ranges for asset allocation.

C) Guaranteed investment returns.

Explanation

An investment policy statement does not provide guaranteed investment results.

(Module 22.1, LOS 22.b)

Question #10 of 10

Question ID: 1552759

Tax considerations would *likely* be of greatest concern for a concentrated holding in:

A) publicly traded shares of stock recently awarded to a company executive.

B) a private company acquired at the bottom of a past economic cycle.

C) a real estate asset held a couple of years.

Explanation

A past economic cycle implies quite a few years ago and the bottom of the cycle suggests a low acquisition price and subsequent price appreciation. With nothing else to go on the largest unrealized gain and tax liability would be with the privately held company.

(Module 20.3, LOS 20.h)