January 1, 2019 Changes to the Series 66 10e q-bank

Changes to q-bank questions caused by the TCJA of 2017

We will be updating our q-bank immediately after January 1, 2019, but, in the meantime, for those testing after December 31, 2018, here is the way those questions should appear with the changes marked in red:

#721739

Which of the following statement(s) regarding gift taxes for a gift made in 2019 are TRUE?

I. Gifts of $15,000 per person per year can be given without a tax liability.
II. Gifts in excess of $15,000 per person per year may be subject to tax.
III. The donor, not the recipient, is responsible for any tax liability.
IV. The tax rate increases with the size of the gift.

Options:

a. III and IV
b. I and II
c. II and III
d. I, II, III and IV * correct option

Explanation:
In accordance with current gift tax regulations, an individual may give a gift of up to $15,000 per person in one year with no gift tax liability. If the gift exceeds $15,000, it is the donor who is responsible for any tax. The gift tax is a progressive tax, which means that as the size of the gift increases, the percentage of applicable tax will also increase.

#721740

Under current tax law (2019), how much can a married couple give to their adult son and his wife without incurring a gift tax obligation?

Options:

a. $15,000
b. Unlimited
c. $30,000
d. $60,000 * correct option

Explanation:
The current gift tax exclusion (2019) is $15,000 per donor to each recipient. A married couple can give $30,000 to a single individual and qualify for the exclusion. In this case, the married

couple can give $30,000 to their son and $30,000 to their daughter-in-law without paying any gift tax.

#631688

Question Text:
Under the current gift tax marital deduction, how much can an individual give a spouse who is a U.S. citizen without incurring a gift tax?

Options:

a. An unlimited amount * correct option
b. No more than $155,000 per year
c. No more than $30,000 per year
d. No more than $15,000 per year

Explanation:
The gift tax marital deduction permits an individual to give a spouse an unlimited amount of property without incurring a gift tax. However, if the spouse is not a U.S. citizen, the maximum marital gift is $155,000 (2109).

#751031

The question should look like this:

One of your very generous clients has used up her lifetime gift exclusion. Continuing to make gifts, she gives $50,000 to a grandchild and $18,000 to the child of a friend. What are the tax consequences of these gifts?

a. The tax rate on the $50,000 gift will be higher than that on the $18,000 gift. * correct option
b. The tax rate on both gifts will be the same.
c. Only the gift to the child of the friend will be taxed because one can make unlimited gifts to grandchildren.
d. If the children use the money for tuition at a qualified educational institution, there is no tax.

Gift taxes and estate taxes are progressive. The tax rate starts at 18%, and a gift of $50,000 (using the $15,000 annual exclusion to reduce the taxable amount to $35,000) is taxed at 22%. Although the test will not ask you for the specific rates, we have used them here for illustration. The relationship (or lack thereof) between the donor and the donee is of no importance. If the gifts had been made directly to a qualified educational institution instead of the children, there would have been no tax.

#751045 and 751046: The questions should be deleted because:

Effective January 1, 2018, when can you claim a loss in a Roth IRA on your tax return? And the correct answer, because of the TCJA 2017, is, Never.

#635595

Tim earns $30,000 at his employment and is not offered a pension plan. His wife is not currently employed. What is the *best* way to set up an IRA to give maximum retirement benefits?

Options:

a. Set up separate accounts totaling $12,000.
b. Set up one IRA for $6,000 or 100%, whichever is less.
c. Set up one joint account for $12,000.
d. Set up separate accounts for $6,000 each. * correct option

Explanation:
A one-worker couple can open a spousal IRA. This type of arrangement allows the contribution of a total of $12,000 to the two accounts and no more than $6,000 in either account. Selecting separate accounts totaling $12,000 could imply that one account could exceed $6,000 while the other would be less. IRAs are always individual accounts. The spousal IRA allows contributions on behalf of a nonworking spouse.

#635589

All of the following statements regarding the Roth IRA are correct EXCEPT:

Options:

a. contributions are made with after-tax dollars.
b. individuals covered under qualified plans by their employers are not eligible to open a Roth IRA. * correct option
c. under certain circumstances, all funds withdrawn are free of federal income tax.
d. one may contribute to both a Roth IRA and a traditional IRA, but the combined contribution may not exceed the annual limit of $6,000, or $7,000 if qualifying for the catch-up provisions.

#631831

Question Text:
Which of the following would be permitted to open an IRA?

I. An individual whose sole income consists of dividends and capital gains.
II. An individual whose sole income is alimony and child support based on a divorce decree entered in 2019.
III. A self-employed attorney who has a Keogh plan.
IV. A corporate officer covered by 401(k).

Options:

a. III and IV.* correct option

b. I and II.
c. I, II, III and IV.
d. II, III and IV.

Explanation:
An IRA contribution can only be made by someone who has earned or otherwise eligible income. Earned income is defined as salary, wages, commissions, and tips. For divorce decrees entered after December 31, 2018, alimony and child support is not considered eligible income for an IRA. Individuals can contribute to an IRA even if they are covered by a corporate pension plan or Keogh plan. Although a contribution can be made, it may or may not be deductible depending on the individual's income. Dividends and capital gains are not considered earned income.

#631852

Question Text:
Hal and Amy are covered by a pension plan at Benson Industries, Inc., where they are both employed as executives. Their incomes total $200,000 per year, and they file a joint tax return. Which of the following best describes what they can do in a regular IRA program for the year 2019?

Options:

a. They cannot have an IRA because they are covered by a pension plan.
b. They may each make a $6,000 deductible contribution.
c. They may make a $12,000 deductible contribution.
d. They may contribute $6,000 each, but they cannot take a deduction. * correct option

Explanation:
They may each contribute to their own IRA and enjoy tax-deferred growth within their IRAs, but neither may take the $6,000 annual contribution as a deduction to taxable income on a tax return. For married couples covered by retirement plans at work, the phaseout begins at a joint MAGI (modified adjusted gross income) of $103,000 and is complete at $123,000. This probably won't be tested because the amounts change yearly. Also, don't ask yourself, "What if one or both are age 50 or older?" You can safely assume that if a contributor can qualify for the catch-up provision, age will be given in the question.

#631879

Harry, age 52, is an unmarried individual currently earning $55,000 per year. He consults you about the possibility of establishing both a traditional IRA and Roth IRA this year and making contributions to each. You have determined that Harry should make a $3,000 contribution to the traditional IRA for this year. What amount, if any, can Harry also contribute to the Roth IRA?

Options:

a. $1,000.

b. $0.
c. $3,000.
d. $4,000. * correct option

Explanation:

Contribution amounts to the traditional and Roth IRA must be aggregated for purposes of determining a total amount. In addition, because Harry is over age 50, he is permitted a $1,000 catch up contribution. Currently, his total allowable contribution is $7,000; Harry can contribute an additional $4,000 to the Roth IRA.

#635666

A widower wants to fund a Section 529 plan for his daughter. What is the maximum amount he may initially contribute in 2019 without having to pay gift taxes?

Options:

a. An unlimited amount since a gift occurs only when he irrevocably changes the beneficiary
b. $150,000
c. $15,000
d. $75,000 * correct option

Explanation:

A special rule under Section 529 allows the donor to load front-end load contributions and avoid paying gift taxes. Five year's worth may be used under this method (5 × $15,000 = $75,000). If he remarries, his wife may also consent to gift split, thereby doubling this amount to $150,000. Please note: The annual exclusion was increased to $15,000 effective January 1, 2018.

#635482

Explanation:

Both the bypass trust and the generation skipping trust are tools used by estate planners to reduce estate taxes. They do so by passing the amount in the unified credit (currently $11.4 million for 2019) to heirs other than the spouse, usually grandchildren in the case of the GST.

#635485

Question Text:

John Jones dies in June, 2019, leaving the proceeds of his $400,000 life insurance policy to his wife. When computing his gross estate

Options:

a. none is included because the estate is less than $11.4 million
b. all $400,000 is included * correct option
c. none is included because the beneficiary is his wife
d. only half is included in the gross estate because of the marital deduction

#635486

Explanation:
Unless the advisory contract has a termination upon death provision or the executor wishes to assume management of the account, the investor adviser may continue to manage the account of the estate. Trades made in the account must take into consideration tax implications as with any other account. Estate taxes are due 9 months after death, and unless there are other assets not listed here, no tax is due because this estate is less than $11.4 million (the amount exempt from taxation for 2019).

#635477

Explanation:
Municipal bonds are tax exempt for corporations as well as for individuals. Preferred stock dividends are taxable but at a reduced rate for corporations due to the 50% dividend exclusion. That break does not apply to the dividends on foreign securities. Regardless of the security, capital gains are taxable.

#635586

Explanation:
As long as a married couple's AGI does not exceed $203,000 (for 2019), a Roth IRA can be opened without any restrictions. Contributions are never deductible.

#635594

Explanation:
Anyone with earned income may open an IRA. However, child support (and alimony for divorce decrees entered into after December 31, 2018) is not considered earned income. If the corporate officer's (covered by the pension plan) earnings exceed a certain limit, the officer is subject to limitations on the amount of the deduction that may be taken for IRA contributions, but the contribution may still be made.

#635670

Explanation:
An ESA may be used to fund education at any level. 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.

#632045

Explanation:
Contributions are made with after-tax dollars. Withdrawals are tax free at the federal level if used for qualified education expenses. In the case of K-12, there is a maximum annual limit of $10,000 while no dollar limit applies to post-secondary expenses.

#635668

Explanation:
Contributions to a Coverdell ESA are limited to $2,000 per beneficiary per year while those to a Section 529 Plan can be as high as $300,000 in some states. A married couple cannot make a Coverdell contribution if their income exceeds $220,000 while there is no earnings limit to contribute to a 529. Sentence deleted. In neither case is the contribution tax-deductible on the federal level (although the Section 529 plans may have tax advantages in some states)

#631885

Explanation:
An individual with earned income may choose to have either or both a traditional and a Roth IRA (as long as he falls within the Roth's income limitations). The maximum contribution under current regulations is $6,000 (+ $1,000 catch-up for those age 50 or older) and can be split however desired so long as no more than a total of $6,000 ($7,000 with catch-up) is contributed.

#635596

Explanation:
In a Roth IRA, contributions are not deductible from current income. Withdrawals after age 59½ are tax free, provided the account has been open for at least five years. One may maintain both a Roth and a traditional IRA concurrently. However, the maximum total contribution between both plans is $6,000 (or $7,000 for those age 50 or older).

#635477

Explanation:
Municipal bonds are tax exempt for corporations as well as for individuals. Preferred stock dividends are taxable but at a reduced rate for corporations due to the 50% dividend exclusion. That break does not apply to the dividends on foreign securities. Regardless of the security, capital gains are taxable.

#635604

This question will be re-written – as it currently is worded, there is no correct answer.