

Cannon Trust School Level II Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Under the 'conduit' theory, taxes payable on dividends and interest distributed by a regulated investment company are paid:**
 - A. By the investment company only.**
 - B. Only by the shareholder.**
 - C. By both the investment company and the shareholder.**
 - D. Only if distributions are made in cash.**

- 2. What is the trustee's approach to investment risk under the prudent investor rule?**
 - A. Concentrate holdings in a single sector for high returns.**
 - B. Avoid any risk and keep all assets in cash.**
 - C. Let beneficiaries choose all investments with no oversight.**
 - D. Diversify, monitor risk, select suitable investments, and balance current income with long-term growth, and adjust to the trust's objectives.**

- 3. What is a defining characteristic of joint tenancy with right of survivorship?**
 - A. Upon death, the deceased's interest passes to the surviving owner automatically.**
 - B. Joint tenancy shares are distributed by the will to heirs.**
 - C. Ownership passes through probate to the estate.**
 - D. Joint tenancy requires consent of all heirs to transfer ownership.**

- 4. Which of the following is NOT a requirement of a QTIP trust?**
 - A. All net accounting income to be paid to the surviving spouse at least annually.**
 - B. Principal to be distributed at the trustee's discretion for the surviving spouse's health, education, support, or maintenance.**
 - C. The surviving spouse has the ability to require the trustee to convert non-income producing assets to income producing assets.**
 - D. The surviving spouse may be the only permissible distributee during their lifetime.**

- 5. Which of the following is NOT a requirement of a Pet Trust under the Uniform Trust Code?**
- A. The pet is living during the settlor's life and survives the settlor**
 - B. The trust terminates upon the death of the pet**
 - C. The trust may only hold assets sufficient to carry out its purpose**
 - D. The trust is precatory in nature**
- 6. Name the primary duties a trustee owes to protect and preserve trust principal.**
- A. Loyalty, prudence, diversification, care, and accountability; follow the instrument, avoid commingling, and minimize unnecessary costs.**
 - B. Speed, secrecy, and maximizing fees.**
 - C. Investment in a single asset to maximize returns.**
 - D. Avoiding any oversight and avoiding reporting.**
- 7. What is the purpose of a credit shelter trust in estate planning?**
- A. Provide lifetime incomes to heirs**
 - B. Shelter assets from estate taxes**
 - C. Pay medical expenses**
 - D. Avoid the need for a will**
- 8. Which of the following is a required characteristic of a Qualified Domestic Trust (QDOT) for estate tax purposes?**
- A. The surviving spouse must be a U.S. citizen.**
 - B. The trust must have at least one trustee who is a U.S. citizen or domestic corporation who can withhold estate tax on distributions of principal.**
 - C. The trust must prohibit distributions of income to the surviving spouse.**
 - D. The trust must terminate within 10 years of the decedent's death.**

- 9. An irrevocable trust created to receive taxable gifts from one spouse to another which utilizes the Applicable Exclusion Amount (AEA) of the donor, thus 'freezing' the gift and grandfathering the amount should tax credits reduce in the future with the donee spouse being a potential beneficiary. Which of the following does this arrangement describe?**
- A. CRAT - Charitable Remainder Annuity Trust**
 - B. DING - Domestic Irrevocable Non-Grantor trust**
 - C. SLAT - Spousal Lifetime Access Trust**
 - D. BDIT - Beneficiary Defective Irrevocable Trust**
- 10. Which statement best describes the rate at which the GST tax is applied?**
- A. Only at the highest estate tax rate applicable at the time.**
 - B. At varying, progressive rates according to the unified transfer tax rate schedule applicable at the time.**
 - C. Only at the lowest estate tax rate applicable at the time.**
 - D. Based on the size and nature of the transfer.**

Answers

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1. B
2. D
3. A
4. B
5. D
6. B
7. B
8. B
9. C
10. A

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Explanations

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1. Under the 'conduit' theory, taxes payable on dividends and interest distributed by a regulated investment company are paid:

A. By the investment company only.

B. Only by the shareholder.

C. By both the investment company and the shareholder.

D. Only if distributions are made in cash.

Under the conduit theory, a regulated investment company acts like a tax pass-through. The income it earns from dividends and interest isn't taxed at the fund level as long as the fund meets its requirements (such as distributing a substantial portion of income to shareholders). When distributions are paid to shareholders, the tax is owed by the shareholders on their own tax returns, at their individual rates, rather than by the fund. The fund itself doesn't pay the tax on that distributed income. That's why taxes in this setup are borne solely by the shareholder.

2. What is the trustee's approach to investment risk under the prudent investor rule?

A. Concentrate holdings in a single sector for high returns.

B. Avoid any risk and keep all assets in cash.

C. Let beneficiaries choose all investments with no oversight.

D. Diversify, monitor risk, select suitable investments, and balance current income with long-term growth, and adjust to the trust's objectives.

Under the prudent investor rule, a trustee manages investment risk by treating the trust as a single, diversified portfolio rather than chasing high returns from a single bet. The trustee should diversify across asset classes to spread risk, continuously monitor the overall risk of the portfolio, and select investments that are suitable for the trust's objectives, time horizon, liquidity needs, and tax considerations. The aim is to balance current income with long-term growth and to adjust the strategy as circumstances and the trust's goals evolve. This approach accepts some risk but manages it through diversification, prudent oversight, and alignment with the trust's purposes. Concentrating holdings in one sector creates undistributed risk; keeping all assets in cash ignores growth opportunities and future needs; and letting beneficiaries choose with no oversight fails to meet fiduciary duties to manage funds responsibly.

3. What is a defining characteristic of joint tenancy with right of survivorship?

- A. Upon death, the deceased's interest passes to the surviving owner automatically.**
- B. Joint tenancy shares are distributed by the will to heirs.**
- C. Ownership passes through probate to the estate.**
- D. Joint tenancy requires consent of all heirs to transfer ownership.**

Right of survivorship means that when one owner dies, the deceased's share automatically passes to the surviving owner(s) without going through a will or probate. This happens because joint tenancy requires four unities—time, title, interest, and possession—so all owners hold an undivided, equal stake from the start, and the surviving owner(s) inherit the departed share immediately. This is why the statement is the best answer: it captures the essential feature that distinguishes joint tenancy with survivorship from other forms of co-ownership. If ownership were to be handled by a will, or pass through probate to an estate, or require all heirs' consent to transfer, you'd be describing other arrangements like tenants in common or different transfer rules, not joint tenancy with survivorship.

4. Which of the following is NOT a requirement of a QTIP trust?

- A. All net accounting income to be paid to the surviving spouse at least annually.**
- B. Principal to be distributed at the trustee's discretion for the surviving spouse's health, education, support, or maintenance.**
- C. The surviving spouse has the ability to require the trustee to convert non-income producing assets to income producing assets.**
- D. The surviving spouse may be the only permissible distributee during their lifetime.**

A QTIP trust is defined by its treatment of income for the surviving spouse. The crucial feature is that all net income from the trust must be paid to the surviving spouse for life, at least on an annual basis, so that the surviving spouse has a lifetime income interest. Additionally, during the surviving spouse's lifetime, the trust generally restricts other beneficiaries from receiving distributions, ensuring the income is directed to the spouse. Principal distributions are a flexible tool the trustee may use to meet the spouse's needs, but they are not a required element of a QTIP structure. This is why the statement describing principal distributions as a condition is not a required feature of a QTIP. The main point to remember is that the defining requirement is the income payout to the surviving spouse for life, with discretionary principal distributions being optional rather than mandatory.

5. Which of the following is NOT a requirement of a Pet Trust under the Uniform Trust Code?

- A. The pet is living during the settlor's life and survives the settlor**
- B. The trust terminates upon the death of the pet**
- C. The trust may only hold assets sufficient to carry out its purpose**
- D. The trust is precatory in nature**

Pet trusts under the Uniform Trust Code are meant to provide for an animal's care with enforceable terms, not just a wish or aspiration. The arrangement must be binding: it names a trustee, sets aside funds, and explains how those funds will be used to care for the pet, with a clear end point when the pet dies. The funds are typically limited to what's needed to carry out that care, preventing excess or improper use. Because the code requires an actual, enforceable obligation to care for the pet, language that is merely precatory—expressing a hope or desire without creating a binding duty—does not meet the requirements. So the statement that a pet trust can be precatory is not a requirement. The other features described align with enforceable pet trusts: the pet is identified as the beneficiary, the trust ends with the pet's death, and the trust hold assets only to carry out its purpose.

6. Name the primary duties a trustee owes to protect and preserve trust principal.

- A. Loyalty, prudence, diversification, care, and accountability; follow the instrument, avoid commingling, and minimize unnecessary costs.**
- B. Speed, secrecy, and maximizing fees.**
- C. Investment in a single asset to maximize returns.**
- D. Avoiding any oversight and avoiding reporting.**

Fiduciary duties protect and preserve trust principal. A trustee must act with loyalty to the beneficiaries, use prudent judgment in managing assets, diversify to spread risk, and exercise careful stewardship. They're responsible for following the terms of the trust, keeping trust property separate from their own assets, and minimizing unnecessary costs. These duties are meant to safeguard the principal so it can endure and benefit the beneficiaries over time, instead of chasing speed, secrecy, or higher fees, or concentrating all investments in one asset. Accountability and transparent reporting are also essential, ensuring decisions are open to review and aligned with the trust's purposes.

7. What is the purpose of a credit shelter trust in estate planning?

- A. Provide lifetime incomes to heirs**
- B. Shelter assets from estate taxes**
- C. Pay medical expenses**
- D. Avoid the need for a will**

Credit shelter trusts are designed to shield wealth from estate taxes by using the deceased spouse's unused estate tax exemption. When one spouse dies, assets equal to the unused portion of that exemption are placed into a trust that the surviving spouse can benefit from, but because the trust owns the assets, they aren't counted in the survivor's estate for tax purposes at the second death. This preserves more value for heirs by reducing the estate tax that would be due later. It isn't about funding lifetime incomes, paying medical expenses, or bypassing a will.

8. Which of the following is a required characteristic of a Qualified Domestic Trust (QDOT) for estate tax purposes?

- A. The surviving spouse must be a U.S. citizen.**
- B. The trust must have at least one trustee who is a U.S. citizen or domestic corporation who can withhold estate tax on distributions of principal.**
- C. The trust must prohibit distributions of income to the surviving spouse.**
- D. The trust must terminate within 10 years of the decedent's death.**

A Qualified Domestic Trust is designed to let a noncitizen spouse benefit from the unlimited marital deduction while deferring estate tax until distributions occur. The essential requirement is that there is at least one trustee who is a U.S. citizen or a domestic corporation that has the authority to withhold the estate tax on distributions of principal to the surviving spouse. This withholding authority is what enables the tax to be collected in a controlled way and allows the deferral mechanism to work. Why this matters: without a U.S. trustee able to withhold, the estate tax on a noncitizen spouse's share couldn't be properly secured, undermining the deferral intent of a QDOT. The surviving spouse's citizenship status isn't the requirement here—the QDOT is specifically used when the spouse is not a U.S. citizen. Also, there's no rule prohibiting income distributions to the surviving spouse, and there isn't a fixed 10-year termination mandate for the trust.

9. An irrevocable trust created to receive taxable gifts from one spouse to another which utilizes the Applicable Exclusion Amount (AEA) of the donor, thus 'freezing' the gift and grandfathering the amount should tax credits reduce in the future with the donee spouse being a potential beneficiary. Which of the following does this arrangement describe?

- A. CRAT - Charitable Remainder Annuity Trust**
- B. DING - Domestic Irrevocable Non-Grantor trust**
- C. SLAT - Spousal Lifetime Access Trust**
- D. BDIT - Beneficiary Defective Irrevocable Trust**

This arrangement centers on using one spouse's gift tax exclusion to fund an irrevocable trust for the benefit of the other spouse, while preserving some ability for that spouse to benefit from the trust. A Spousal Lifetime Access Trust is created by one spouse (the grantor) and funded with assets that are removed from the grantor's estate, using the donor's Applicable Exclusion Amount. Because the donee spouse is named as a beneficiary, there is potential access to the trust's benefits during the grantor's lifetime, which gives the trust its appeal for couples who want wealth to be shielded from estate tax but still available to the spouse. This matches the described setup: the donor uses their exclusion to "freeze" the value in the trust, protecting that amount from future gift or estate tax considerations, with the donee spouse as a potential beneficiary. The other options don't capture both the irrevocable transfer using the donor's exclusion and the spouse-centered access that characterizes a SLAT.

10. Which statement best describes the rate at which the GST tax is applied?

- A. Only at the highest estate tax rate applicable at the time.**
- B. At varying, progressive rates according to the unified transfer tax rate schedule applicable at the time.**
- C. Only at the lowest estate tax rate applicable at the time.**
- D. Based on the size and nature of the transfer.**

GST tax is charged at the top rate in effect for the estate/gift tax system. In practice, a generation-skipping transfer is taxed using the maximum rate that applies to the transfer year, applied to the taxable amount after any exemptions or credits. This means the rate doesn't vary with the size of the transfer or differ by the transfer's nature; it's the flat, maximum rate used for the calculation. That's why the correct description is that the tax is applied at the highest estate tax rate in effect at the time.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cannontrustschoollvl2.examzify.com>

We wish you the very best on your exam journey. You've got this!

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