

CANNON TRUST SCHOOL LEVEL II PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. Which statement best differentiates residuary gifts from specific gifts?**
 - A. Residuary gifts designate particular assets to named beneficiaries.
 - B. They are always superior to specific gifts in the estate.
 - C. Specific gifts dispose of what remains after all other gifts have been made.
 - D. Residue gifts cover what remains after all specific bequests have been distributed.
- 2. What does QTIP stand for in trust terminology?**
 - A. Qualified Terminable Interest Property trust
 - B. Quick Transfer Interest Property
 - C. Qualified Trust for Immediate Payment
 - D. Qualified Terms of Interest Property
- 3. 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.
- 4. The Spousal Lifetime Access Trust is abbreviated as which acronym?**
 - A. Spousal Living Asset Transfer
 - B. Spousal Lifetime Access Trust
 - C. Silent Legacy Asset Trust
 - D. Simple Lifetime Annuity Trust
- 5. Which is the best definition of the 'applicable rate' for GSTT?**
 - A. Maximum Estate Tax Rate
 - B. Maximum Estate Tax Rate X Applicable Fraction
 - C. Inclusion Ratio X Maximum Estate Tax Rate
 - D. Maximum Estate Tax Rate X GSTT Exemption

- 6. Who is responsible for paying the GST tax on a taxable distribution under GST rules?**
- A. The transferor
 - B. The trustee of the GST trust
 - C. The skip person receiving the distribution
 - D. The IRS
- 7. If an individual makes annual gifts starting in 2026 and gifts \$250,000 to his son in that year, what is the first tax year for which he will have to file a gift tax return?**
- A. 2026
 - B. 2027
 - C. 2028
 - D. 2029
- 8. Holding a general lifetime power of appointment over trust property has what income tax consequence?**
- A. The holder is treated as the owner of the trust for income tax purposes under IRC §678.
 - B. The holder must include trust income in their gross income only if they exercise the power.
 - C. The holder is taxed on the income from the withdrawal portion of the trust, whether or not the power is exercised.
 - D. The holder has no income tax consequences because the power relates only to estate tax.
- 9. Which remedy might a court order to ensure proper accounting and record-keeping by a trustee when mismanagement is suspected?**
- A. Court-ordered accounting
 - B. Immediate dissolution of the trust
 - C. Personal imprisonment
 - D. Ignorance of records.

10. True or false: Zero-coupon bonds accrue taxable income each year even though no cash is received until maturity.

- A. True
- B. False
- C. Only for municipal bonds
- D. Only if you sell before maturity

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Answers

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

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Explanations

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1. Which statement best differentiates residuary gifts from specific gifts?

- A. Residuary gifts designate particular assets to named beneficiaries.
- B. They are always superior to specific gifts in the estate.
- C. Specific gifts dispose of what remains after all other gifts have been made.
- D. Residue gifts cover what remains after all specific bequests have been distributed.**

Think about how a will handles assets in stages. Specific gifts are allocations of particular items to named people, like giving a necklace to one beneficiary or a car to another. A residuary gift, on the other hand, is about what's left after those exact items have been given away (and after debts, taxes, and expenses are paid). The rest of the estate—the residue—goes to the residuary beneficiaries. So why is the correct statement the best one? It captures this essential distinction: residuary gifts cover what remains after all specific bequests have been distributed. It's about the leftover portion of the estate, not about naming specific assets. The other statements mix up who gets specific items, assert an unequal superiority, or describe the opposite of what residuary gifts do.

2. What does QTIP stand for in trust terminology?

- A. Qualified Terminable Interest Property trust**
- B. Quick Transfer Interest Property
- C. Qualified Trust for Immediate Payment
- D. Qualified Terms of Interest Property

QTIP stands for Qualified Terminable Interest Property. It's a type of trust used at the first spouse's death to provide for the surviving spouse while still letting the grantor control who eventually receives the assets. The defining feature is that the surviving spouse must receive all income from the trust, at least annually, for life, but the right to that income ends at death (or under other terms set in the trust). This setup allows the trust to qualify for the marital deduction, meaning the assets can pass to the spouse without federal estate tax at the first death, while still keeping the principal to be directed to other beneficiaries after the surviving spouse dies. The trust assets remain part of the deceased spouse's estate for tax purposes, even though they go to the spouse tax-free for the life of the survivor. The term "Qualified" refers to meeting IRS requirements to qualify for the marital deduction. The other phrasings aren't standard terms in trust vocabulary and don't describe this arrangement.

3. 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.

4. The Spousal Lifetime Access Trust is abbreviated as which acronym?

- A. Spousal Living Asset Transfer
- B. Spousal Lifetime Access Trust**
- C. Silent Legacy Asset Trust
- D. Simple Lifetime Annuity Trust

Acronyms in estate planning come from the exact four words of the official name. The Spousal Lifetime Access Trust is abbreviated SLAT because it takes Spousal, Lifetime, Access, and Trust. This is the standard designation used in practice, reflecting the four-part name of the trust type. That's why SLAT is the recognized acronym. Other phrasings don't match the common term professionals use, so they aren't the standard abbreviation.

5. Which is the best definition of the 'applicable rate' for GSTT?

- A. Maximum Estate Tax Rate
- B. Maximum Estate Tax Rate X Applicable Fraction
- C. Inclusion Ratio X Maximum Estate Tax Rate**
- D. Maximum Estate Tax Rate X GSTT Exemption

In GSTT, the rate you apply to the taxable amount is not just the maximum estate tax rate; it's scaled by how much of the transfer is treated as a direct skip. That scaling factor is the inclusion ratio, which reflects the portion of the transfer that remains subject to GST tax after applying the exemptions. So the applicable rate is the maximum estate tax rate multiplied by the inclusion ratio. For example, with a 40% maximum rate and an inclusion ratio of 0.6, the applicable rate becomes 24%. This captures the idea that exemptions reduce the effective tax rate applied to the skip portion. The other formulations either ignore the exclusion effect or misapply the exemption, so they don't correctly describe the rate used for GSTT.

6. Who is responsible for paying the GST tax on a taxable distribution under GST rules?

- A. The transferor
- B. The trustee of the GST trust
- C. The skip person receiving the distribution**
- D. The IRS

The main idea is that GST tax on a taxable distribution to a skip person is charged to the recipient. When a trust makes a taxable distribution to someone who is in a generation skipped by the transfer, the tax liability attaches to that distribution and is owed by the recipient—the skip person who receives the money or property. The transferor and the trustee aren't automatically responsible for paying this tax in this scenario, and the IRS is the entity that collects the tax, not the payer in advance. So the correct point to remember is that the skip person receiving the distribution bears the GST tax.

7. If an individual makes annual gifts starting in 2026 and gifts \$250,000 to his son in that year, what is the first tax year for which he will have to file a gift tax return?

A. 2026

B. 2027

C. 2028

D. 2029

Gifts to a single recipient are covered by the annual exclusion each year. If you give more than that amount to one person in a given year, you must file a gift tax return for that year. Here, giving 250,000 to his son in 2026 clearly exceeds the annual exclusion for 2026, so the first time a gift tax return is required is the 2026 tax year. The amount above the exclusion reduces the lifetime gift and estate tax exemption, but you only owe tax later if total lifetime gifts exceed that exemption. The return you'd file is for the year 2026 (Form 709, due in the following spring).

8. Holding a general lifetime power of appointment over trust property has what income tax consequence?

A. The holder is treated as the owner of the trust for income tax purposes under IRC§678.

B. The holder must include trust income in their gross income only if they exercise the power.

C. The holder is taxed on the income from the withdrawal portion of the trust, whether or not the power is exercised.

D. The holder has no income tax consequences because the power relates only to estate tax.

A general lifetime power of appointment over trust property makes the holder treated as the owner of the trust for income tax purposes. Under IRC section 678, the holder is taxed as if they own the trust, so the trust's income is includable on the holder's own tax return. This reflects the control the holder has to direct who ultimately receives the property, including themselves, which makes the tax liability sit with the holder rather than with the trust or simply waiting for exercise. This applies even if the power is not exercised, and it means trust income is reported by the holder in the year the income is earned.

9. Which remedy might a court order to ensure proper accounting and record-keeping by a trustee when mismanagement is suspected?

- A. Court-ordered accounting
- B. Immediate dissolution of the trust
- C. Personal imprisonment**
- D. Ignorance of records.

When a trustee's handling of trust assets is in doubt, the main objective is to reveal exactly what happened with the money and records. The typical remedy is a court-ordered accounting, which forces the trustee to provide a complete, itemized report of all receipts, disbursements, investments, and the current status of assets and liabilities. This creates a transparent financial picture that beneficiaries and the court can assess, making it possible to spot mismanagement, calculate any losses, and decide on next steps such as correcting actions, seeking restitution, or removing the trustee. Imprisonment isn't a tool to obtain or guarantee the accounting itself. It's a potential sanction for contempt if a trustee willfully refuses to comply with a court order to produce records. It's a punishment, not the mechanism that achieves proper accounting. Extreme measures like dissolving the trust are far harsher remedies used in more severe circumstances, and pretending records can be ignored isn't a remedy at all—the court uses compelled accounting to fix the problem and move forward.

10. True or false: Zero-coupon bonds accrue taxable income each year even though no cash is received until maturity.

- A. True**
- B. False
- C. Only for municipal bonds
- D. Only if you sell before maturity

Zero-coupon bonds generate interest in value as time passes, even though no cash is paid out until maturity. The price of a zero-coupon bond is set below its face value, so as years go by its value accrues toward the par amount. For tax purposes, that accumulated interest—known as original issue discount (OID)—has to be reported as taxable income each year, regardless of whether you actually receive any cash. So you may owe taxes annually on phantom income while you hold the bond, and you only realize the cash when it matures and pays out at face value. In contrast, the other options miss this broad rule. It isn't limited to municipal bonds, and you don't need to sell the bond to owe tax—the accrual happens year by year whether or not you sell.

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://cannontrustschoolvl2.examzify.com>

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

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