

CFP Estate Planning Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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

- 1. What is the tax consequence for trust assets upon the death of the grantor of a revocable trust?**
 - A. Step up to fair market value with income tax consequences**
 - B. Step up to fair market value with estate tax consequences**
 - C. Remain at the original basis with no tax consequences**
 - D. Step down to fair market value with no tax implications**
- 2. In estate planning, what does having incidents of ownership in a life insurance policy lead to?**
 - A. Exclusion from the gross estate.**
 - B. Inclusion of policy proceeds in the gross estate.**
 - C. A lower tax rate on the estate.**
 - D. No impact on the estate at all.**
- 3. What describes a Family Limited Partnership?**
 - A. It is primarily for unrelated parties**
 - B. It transfers full control to limited partners**
 - C. It allows parents to retain general interests while gifting limited ones**
 - D. It is only beneficial for immediate family members**
- 4. What expenses are deductible from the gross estate?**
 - A. Estate planning fees**
 - B. Funeral costs**
 - C. Travel expenses**
 - D. Home maintenance costs**
- 5. Which of the following is an excellent non-probate transfer device?**
 - A. Residential property**
 - B. Life insurance with a named beneficiary**
 - C. Cash gifts**
 - D. Investment accounts without a designated beneficiary**

- 6. What is the outcome of not including life insurance proceeds in the gross estate?**
- A. The estate may incur penalties**
 - B. The estate could face audits**
 - C. The estate may not benefit from the applicable credit**
 - D. The estate will not benefit from tax exclusion**
- 7. Which trusts are exempted from GSTT?**
- A. All living trusts established after 1987**
 - B. Irrevocable trusts created before September 25, 1985**
 - C. Revocable trusts altered after September 25, 1985**
 - D. Irrevocable trusts created after 1987**
- 8. In a bargain sale, how is the taxable gain calculated for the seller?**
- A. Based on the total market value of the asset**
 - B. Based on the original cost and selling price difference**
 - C. Based on established fair market value alone**
 - D. Based on the seller's adjusted basis**
- 9. What must a trust do in order to be subject to gift tax?**
- A. Provide income only to grandchildren**
 - B. Distribute assets equally among siblings**
 - C. Maintain joint ownership with the transferor**
 - D. Allow a lifetime income to specified beneficiaries**
- 10. What is the basis for autos when transferred?**
- A. Cost on the day of transfer**
 - B. Actual cash value of the vehicle**
 - C. Fair market value on the day of transfer**
 - D. Depreciated value at the time of transfer**

Answers

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

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Explanations

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- 1. What is the tax consequence for trust assets upon the death of the grantor of a revocable trust?**
- A. Step up to fair market value with income tax consequences**
 - B. Step up to fair market value with estate tax consequences**
 - C. Remain at the original basis with no tax consequences**
 - D. Step down to fair market value with no tax implications**

Upon the death of the grantor of a revocable trust, the assets held within that trust typically receive a step-up in basis to their fair market value at the date of the grantor's death. This adjustment in basis reflects a recognition that the assets are now part of the grantor's estate and therefore subject to estate tax regulations. The correct understanding is that the assets are included in the grantor's taxable estate, which may be subject to estate taxation depending on the total value and the tax laws applicable at that time. The step-up in basis means that if the beneficiaries decide to sell the assets after the grantor's death, they would not incur capital gains tax on appreciation that occurred during the grantor's life, as the basis for taxation is reset to the fair market value on the date of death. This outcome helps to minimize the tax burden on beneficiaries during the transfer of wealth and ensures that the trust assets are managed in a way that aligns with the tax implications of the estate tax system. Understanding the relationship between revocable trusts and estate taxes is crucial for effective estate planning.

- 2. In estate planning, what does having incidents of ownership in a life insurance policy lead to?**
- A. Exclusion from the gross estate.**
 - B. Inclusion of policy proceeds in the gross estate.**
 - C. A lower tax rate on the estate.**
 - D. No impact on the estate at all.**

Having incidents of ownership in a life insurance policy means that the policyholder retains certain rights and controls over the policy. This can include the ability to change the beneficiary, borrow against the policy, or cancel the policy altogether. When the insured individual dies, the value of the life insurance policy can be included in their gross estate for estate tax purposes if they had any incidents of ownership at the time of death. This inclusion occurs because the IRS considers the policy proceeds as part of the taxable estate given the direct control and benefits retained by the policyholder. Under the relevant tax laws, if the deceased had incidents of ownership, the full value of the policy is subject to estate taxes, which can significantly affect the overall tax liability of the estate. This is important for individuals to understand when planning their estates, as it can impact the net value passed on to beneficiaries after taxes are accounted for. In contrast, situations where there are no incidents of ownership could potentially allow for the exclusion of policy proceeds from the gross estate. Therefore, understanding ownership rights is crucial when considering how life insurance will factor into estate planning and the eventual tax implications.

3. What describes a Family Limited Partnership?

- A. It is primarily for unrelated parties
- B. It transfers full control to limited partners
- C. It allows parents to retain general interests while gifting limited ones**
- D. It is only beneficial for immediate family members

A Family Limited Partnership (FLP) is a type of business entity used primarily in estate planning contexts. Its structure allows parents (often as general partners) to maintain control over the business or assets while gifting interests (usually limited partner shares) to their children or other family members. This arrangement is beneficial for asset protection and can help minimize estate taxes, as the value of the gifts is often assessed at a discount due to the lack of control inherent in limited partnership interests. In an FLP, the general partners manage the partnership and make decisions, while limited partners typically have no management authority and cannot dictate operational decisions. This dynamic is what enables parents to gift interests to their children while still having the ability to control the management of the partnership. The ability to retain general interests while gifting limited ones is a key feature that makes FLPs an attractive option for family estate planning, providing both control and wealth transfer strategies. The other options do not accurately capture the essence of a Family Limited Partnership's primary purpose or structure. For instance, FLPs are specifically designed for family members, not unrelated parties, highlighting option one as inconsistent with the fundamental concept. Additionally, the notion that limited partners receive full control contradicts the very purpose of limited partnerships, which is to

4. What expenses are deductible from the gross estate?

- A. Estate planning fees
- B. Funeral costs**
- C. Travel expenses
- D. Home maintenance costs

Funeral costs are considered deductible expenses from the gross estate for several key reasons. The Internal Revenue Service (IRS) allows these costs to be deducted because they are directly related to administering the estate and settling the affairs of the deceased. This deduction helps to reduce the overall taxable estate, which can be beneficial in minimizing estate taxes. Funeral expenses can include costs such as burial fees, cremation expenses, and other services directly associated with the funeral. These expenses must be reasonable and necessary, aligning with the IRS guidelines for what constitutes acceptable deductions in this context. When analyzing the other choices, estate planning fees may not qualify as they are typically considered personal expenses, and may not be directly linked to the process of settling the estate in a way that warrants a deduction. Travel expenses can also be tricky; while there may be certain circumstances where they are deductible, they are generally not categorized as necessary for the immediate costs associated with the decedent's passing. Home maintenance costs do not qualify either, as they do not relate to funeral or settlement processes and are more associated with ongoing property upkeep. Thus, recognizing funeral costs as a deductible expense underscores their essential role in managing the final arrangements for a deceased individual while adhering to IRS regulations.

5. Which of the following is an excellent non-probate transfer device?

A. Residential property

B. Life insurance with a named beneficiary

C. Cash gifts

D. Investment accounts without a designated beneficiary

Life insurance with a named beneficiary serves as an excellent non-probate transfer device because it allows the proceeds from the policy to be paid directly to the designated beneficiary upon the death of the insured. This transfer occurs outside of the probate process, meaning the assets can be transferred quickly and without the complexities often involved in probate court. By naming a beneficiary, the insured ensures that the life insurance benefits will be available to the named party without delays, making it an effective tool for estate planning. Additionally, this method helps to maintain privacy since the transaction does not become part of the public probate record. In contrast, residential property is typically subject to probate unless other arrangements, such as a transfer-on-death deed, have been made. Cash gifts, while they can be effective for reducing the taxable estate, do not inherently facilitate non-probate transfers; they are considered gifts at the time of transfer, rather than a mechanism for posthumous asset allocation. Investment accounts without a designated beneficiary also undergo probate, which can delay access and lead to additional administrative costs. Thus, life insurance with a named beneficiary clearly stands out due to its straightforward and effective non-probate transfer capabilities.

6. What is the outcome of not including life insurance proceeds in the gross estate?

A. The estate may incur penalties

B. The estate could face audits

C. The estate may not benefit from the applicable credit

D. The estate will not benefit from tax exclusion

When life insurance proceeds are excluded from the gross estate, it means that they are not counted towards the total value of the estate for tax purposes. This is significant because life insurance proceeds can be quite substantial, and their treatment can affect the tax burden of the estate. If these proceeds are not included in the gross estate, the estate misses out on the opportunity to benefit from the tax exclusion available for life insurance. Typically, life insurance proceeds payable to a named beneficiary are not included in the deceased's gross estate under certain conditions, but if the proceeds aren't managed appropriately, the estate could incur additional taxes. Other outcomes, such as incurring penalties or facing audits, generally relate to compliance issues rather than the treatment of life insurance proceeds specifically. The tax credit mentioned and the implications therein rely on proper estate management and inclusion of all necessary components in the gross estate, so excluding the life insurance does not maximize its potential benefits under tax law. Thus, the key outcome here is that the estate will not benefit from the exclusion, directly impacting the tax liability associated with the overall estate.

7. Which trusts are exempted from GSTT?

- A. All living trusts established after 1987
- B. Irrevocable trusts created before September 25, 1985**
- C. Revocable trusts altered after September 25, 1985
- D. Irrevocable trusts created after 1987

The correct choice refers to irrevocable trusts that were created before September 25, 1985. These trusts are exempt from the Generation-Skipping Transfer Tax (GSTT) due to the provisions established in the Tax Reform Act of 1986. This Act introduced the GSTT but grand-fathered certain irrevocable trusts that were already in existence prior to its implementation, thereby exempting them from this tax. Trusts created before this date are crucial because they are not subject to the new tax regulations that were put in place to prevent wealth from skipping generations without taxation. The rationale behind this exemption is to honor the terms and agreements made by grantors before the new tax law was enacted. Understanding this exemption is vital for estate planners, as it directly impacts how they structure trusts to minimize tax implications for their clients. In contrast, the other options describe various types of trusts that, due to their timing of creation or the nature of their terms (e.g., being revocable or established after the cut-off date), would not qualify for this specific GSTT exemption, thus making them subject to different tax implications under current laws.

8. In a bargain sale, how is the taxable gain calculated for the seller?

- A. Based on the total market value of the asset
- B. Based on the original cost and selling price difference**
- C. Based on established fair market value alone
- D. Based on the seller's adjusted basis

In a bargain sale, the taxable gain for the seller is calculated based on the difference between the original cost of the asset and the selling price. This method reflects the principles of capital gains taxation, where the gain is defined as the difference between what the seller has invested in the asset (original cost or basis) and what they actually receive from the sale (selling price). When an asset is sold for less than its fair market value, a bargain sale occurs. In this case, the seller may have a gain that is recognized for tax purposes. The seller's adjusted basis is taken into account, as this is what determines the taxable portion of the gain, aligning it closely with the profit realized on the sale. The difference between the selling price (considerably lower in a bargain sale) and the adjusted basis is critical in assessing the gain for tax reporting. Calculating the taxable gain solely based on the fair market value would not accurately reflect the economic reality of the transaction, as the seller isn't receiving the asset's full value. Thus, focusing on the selling price in relation to the original cost efficiently captures the essence of the bargain sale and the resultant tax implications. This methodology ensures that the taxation reflects the actual economic benefit received from the sale, rather than

9. What must a trust do in order to be subject to gift tax?

- A. Provide income only to grandchildren
- B. Distribute assets equally among siblings
- C. Maintain joint ownership with the transferor
- D. Allow a lifetime income to specified beneficiaries**

For a trust to be subject to gift tax, it generally must allow for the potential to provide a lifetime income to specified beneficiaries. This is significant because when assets are transferred into a trust and the transferor retains the right to income from these assets (without relinquishing control), it generally indicates that they are making a gift of the potential future benefits associated with those assets. When the trust is set up to provide income to specified beneficiaries for their lifetime, it means that the transferor has given something of value away, as the beneficiaries will receive financial benefits from the trust during their lifetimes. This transfer of economic value is what triggers gift tax considerations. The Internal Revenue Service assesses the value of the gift based on the rights and benefits relinquished by the transferor, which is applicable here. In contrast, the other options describe situations that typically do not involve a taxable gift under the guidelines of U.S. tax law. For example, providing income exclusively to grandchildren or distributing assets equally among siblings may not necessarily entail a taxable gift without the requisite ongoing income rights or control being given up. Maintaining joint ownership with the transferor doesn't constitute a gift if it allows the transferor to retain full enjoyment and use of the asset. Therefore, the choice that allows

10. What is the basis for autos when transferred?

- A. Cost on the day of transfer
- B. Actual cash value of the vehicle
- C. Fair market value on the day of transfer**
- D. Depreciated value at the time of transfer

When a vehicle is transferred, the basis for the recipient typically is the fair market value on the day of the transfer. Fair market value represents the price that an asset would sell for on the open market, assuming both the buyer and seller are knowledgeable and willing participants, and there is no undue pressure to act. This value is crucial for determining future gains or losses when the asset is eventually sold. In the context of estate planning, knowing the fair market value at the time of transfer ensures that the recipient's basis in the asset accurately reflects its worth, influencing the calculation of any capital gains tax if they decide to sell it later. The fair market value allows for a measure that can be universally understood and utilized in financial contexts, making it a practical choice for establishing the basis for taxation purposes. The other options do not fully capture this concept. For instance, cost on the day of transfer might only reflect what the vehicle was originally purchased for, without taking into account depreciation. Actual cash value usually pertains to insurance contexts and may not accurately represent fair market value. Lastly, depreciated value would focus solely on the decline in value from the original purchase price and might not align with the current market conditions impacting what buyers are willing to pay at the time of

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://cfpestateplanning.examzify.com>

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