

DONORS TAX PRACTICE TEST (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. If an individual gives multiple gifts in a single year, what pertains to their tax liability?**
 - A. Only the largest gift is taxed
 - B. All gifts must be totaled for tax purposes
 - C. Only gifts above a certain threshold are taxed
 - D. No tax is applied for gifts between family members
- 2. A tax minimization scheme that involves spreading the gift over numerous calendar years to avail of lower tax liability is known as?**
 - A. Spread-out method.
 - B. Splitting of gift.
 - C. Donation of life insurance.
 - D. Void donation.
- 3. Can trust distributions be considered gifts for tax purposes?**
 - A. No, they are always tax-exempt
 - B. Yes, if they exceed allowable thresholds
 - C. Only if they are made to family members
 - D. Yes, but only for certain types of trusts
- 4. In the context of donor's tax, what does the term 'appraisal' refer to?**
 - A. A legal process for gifting
 - B. An estimate of an asset's market value
 - C. A document filed with the IRS
 - D. A method of calculating tax credits
- 5. Which of the following is NOT a distinction between donor's tax and estate tax?**
 - A. Period for payment of tax
 - B. Attachments to the tax return
 - C. Cause of transfer
 - D. Tax rate

- 6. Which of the following scenarios would require filing Form 709?**
- A. Gifts under the exclusion limit
 - B. Gifts that are exclusively charitable
 - C. Gifts exceeding the annual exclusion limit
 - D. Gifts made to immediate family members
- 7. What is the filing requirement if a donor makes several gifts to different donees on the same date?**
- A. Only one return shall be filed.
 - B. Each donee must file a separate return.
 - C. The donor must file a return for each gift made.
 - D. A return must be filed for gifts exceeding a certain amount.
- 8. In the case of a conditional donation, what is true regarding donor's tax?**
- A. Donor's tax is not applicable if the condition is not fulfilled
 - B. The donor's tax must always be refunded
 - C. Donor's tax applies even if the donation may be revoked
 - D. Donor's tax is only due upon fulfillment of conditions
- 9. A stockholder's donation to a corporation is subject to donor's tax based on which principle?**
- A. Entity Theory
 - B. Lifeblood Theory
 - C. Benefit Received Principle
 - D. Tax Benefit Rule
- 10. What is Otelo's tax liability for his cash gift of P80,000 to his son in 2020?**
- A. Liable to pay donor's tax
 - B. Liable to pay donee's tax
 - C. Exempted from paying donor's tax
 - D. Exempted from paying donee's tax

Answers

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

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Explanations

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1. If an individual gives multiple gifts in a single year, what pertains to their tax liability?

- A. Only the largest gift is taxed
- B. All gifts must be totaled for tax purposes**
- C. Only gifts above a certain threshold are taxed
- D. No tax is applied for gifts between family members

The correct answer centers on the fact that for tax purposes, all gifts made by an individual within a calendar year must be totaled to determine the overall tax liability. The IRS has specific gift tax exclusions that allow an individual to give up to a certain amount per recipient each year without incurring any gift tax. If the total of all gifts to one recipient exceeds this annual exclusion limit, only the amount over that limit is subject to gift tax. This means that when an individual makes multiple gifts in a single year, it is important to aggregate these amounts to assess whether they exceed the exclusion threshold. If the total value of gifts surpasses that exclusion for any recipient, then the individual is liable for gift tax on the excess amount. Other choices may imply limitations or exceptions that are not applicable under the general gift tax rules. For example, only taxing the largest gift or exempting gifts between family members does not accurately represent how the tax law treats cumulative gifts. The focus is on the total given, rather than individual gift amounts or the relationship between the parties involved.

2. A tax minimization scheme that involves spreading the gift over numerous calendar years to avail of lower tax liability is known as?

- A. Spread-out method.
- B. Splitting of gift.**
- C. Donation of life insurance.
- D. Void donation.

The correct answer refers to a tax minimization strategy where an individual distributes a large gift across multiple years. This approach helps to take advantage of the annual gift tax exclusion limit, allowing the donor to minimize their taxable estate and reduce or avoid gift taxes altogether. By spreading out the gift, the donor can provide substantial assistance without exceeding the exclusion limit in any single year, thus lowering the overall tax liability associated with the gift. Other options do not capture the essence of this tax strategy. The phrase "Spread-out method" does not specifically refer to gift tax rules or strategies. "Donation of life insurance" involves different tax considerations related to insurance policies and is not about spreading gifts over time. As for "Void donation," this term does not pertain to established tax strategies related to limiting tax liability through gift-giving practices. Each of these alternative options fails to reflect the underlying principles of effectively managing gift taxes via yearly distribution.

3. Can trust distributions be considered gifts for tax purposes?

- A. No, they are always tax-exempt
- B. Yes, if they exceed allowable thresholds**
- C. Only if they are made to family members
- D. Yes, but only for certain types of trusts

Trust distributions can indeed be considered gifts for tax purposes, particularly when they exceed the allowable thresholds set by the IRS. When a beneficiary receives a distribution from a trust, it can be subject to the gift tax rules if the total value of the distribution surpasses the annual exclusion limit. This means that if the distribution is above that threshold, it may require the donor to file a gift tax return, and the excess value could count against their lifetime gift exemption. The reasoning behind this is that trust distributions can be seen as transfers of wealth, similar to gifts. However, distributions that fall within the allowable limits for gift tax exclusion are generally not subject to gift tax, making them effectively tax-exempt up to that threshold. This distinction is crucial for effective tax planning, especially for individuals who use trusts as a means of estate planning or wealth transfer. Other options do not accurately reflect the complexities involved. Not all distributions are deemed tax-exempt, which rules out the idea that trust distributions are always exempt from tax. Similarly, the implication that only distributions to family members would be considered gifts is too narrow; gifts can be made to anyone. Lastly, while some types of trusts may have specific rules regarding distributions, the key factor is whether the distribution exceeds the

4. In the context of donor's tax, what does the term 'appraisal' refer to?

- A. A legal process for gifting
- B. An estimate of an asset's market value**
- C. A document filed with the IRS
- D. A method of calculating tax credits

The term 'appraisal' in the context of donor's tax specifically refers to an estimate of an asset's market value. This is important because the value established through an appraisal is used to determine the amount that will be subject to taxation when assets are gifted. Accurate appraisals ensure that the fair market value of the asset is reflected for tax purposes, helping both donors and tax authorities ascertain proper tax obligations related to gifts. When an asset is donated, the IRS relies on the appraised value to assess any potential donor's tax liability. A professional or qualified appraiser typically conducts this process, focusing on various factors such as the condition of the asset, current market conditions, and comparable sales to establish a reliable value. Therefore, understanding appraisals' role is crucial for compliance with donor's tax regulations and for strategic financial planning concerning gifting assets.

5. Which of the following is NOT a distinction between donor's tax and estate tax?

- A. Period for payment of tax
- B. Attachments to the tax return
- C. Cause of transfer

D. Tax rate

The distinction that is correctly identified in this context is related to the tax rate. Donor's tax and estate tax serve different purposes and have different frameworks, but it is the tax rate itself that is generally considered to be a similarity rather than a difference between the two. Donor's tax is imposed on gifts made while the donor is alive, while estate tax is levied on the transfer of a deceased person's estate. The rates applied can vary based on the country's tax laws, yet both taxes often fall under similar progressive tax structures. Therefore, the actual tax rates may not serve as a defining distinction between the two types of taxes. On the other hand, the other choices highlight clear differences. The period for payment of tax differs because donor's tax is generally due upon the gift's transfer, whereas estate tax is typically due within a certain amount of time after death. Attachments to the tax return can also differ, as the documentation required may vary based on whether the transfer was a gift or part of an estate. Lastly, the cause of transfer is inherently different; donor's tax arises from voluntary transfers (gifts), while estate tax is the result of mandatory transfers due to death. This understanding reinforces why the tax rate is not a distinct difference

6. Which of the following scenarios would require filing Form 709?

- A. Gifts under the exclusion limit
- B. Gifts that are exclusively charitable
- C. Gifts exceeding the annual exclusion limit**
- D. Gifts made to immediate family members

Filing Form 709 is necessitated when a donor makes gifts that exceed the annual exclusion limit set by the IRS. The annual exclusion allows individuals to give a certain amount each year to each recipient without incurring gift tax or having to report the gift. For example, in 2023, this limit is \$16,000 per recipient. If a donor gives more than this amount to any individual, it triggers the requirement to file Form 709, as it results in taxable gifts that may count against the lifetime gift tax exemption. Gifts under the exclusion limit and those that are exclusively charitable do not require filing this form because they either fall under the allowable exclusion or are not subject to gift tax. Additionally, gifts made to immediate family members can also fall within the exclusion limits, so they wouldn't necessitate filling out Form 709 unless the total given to a single individual during the year surpassed the exclusion threshold. This makes it clear that the scenario involving gifts exceeding the annual exclusion limit is the correct situation that requires this form to be filed.

7. What is the filing requirement if a donor makes several gifts to different donees on the same date?

- A. Only one return shall be filed.**
- B. Each donee must file a separate return.
- C. The donor must file a return for each gift made.
- D. A return must be filed for gifts exceeding a certain amount.

When a donor makes multiple gifts to different donees on the same date, the filing requirement is that only one return is necessary for all the gifts if they do not exceed the annual exclusion amount per recipient. This is because the gifts can be aggregated for reporting purposes, thereby simplifying the process for the donor. This applies as long as none of the individual gifts exceed the annual exclusion threshold set by the IRS, which allows donors to give a certain amount each year without triggering gift tax or filing a return. Therefore, if all gifts fall within this allowance, a single return consolidating these transactions is sufficient, reflecting the total gifts made to the donees overall without needing to itemize each gift individually. In situations where gifts exceed the threshold or if additional complexities arise (such as gifts to spouses or gifts that may carry different tax implications), other filing requirements might come into play, but under the question's conditions, one return is adequate for several gifts made on the same date.

8. In the case of a conditional donation, what is true regarding donor's tax?

- A. Donor's tax is not applicable if the condition is not fulfilled
- B. The donor's tax must always be refunded
- C. Donor's tax applies even if the donation may be revoked**
- D. Donor's tax is only due upon fulfillment of conditions

In the scenario of a conditional donation, the understanding of donor's tax hinges on the nature of the donation itself. When a condition is attached to a donation, it does not negate the applicability of donor's tax at the time of the gift. The donor's tax is assessed based on the transfer of ownership at the moment the gift is made, regardless of whether the condition attached is fulfilled. Consequently, if a conditional donation is made and the tax is applicable, it will still be owed even if the recipient may not end up keeping the gift due to the unmet condition. The key point is that the tax liability arises from the act of gifting itself, not its fulfillment or potential revocation. This reflects the principle that the donor's intent to make a gift creates a tax obligation, establishing the basis for donor's tax at the time of the transfer, irrespective of any further conditions that may affect the final ownership of the asset.

9. A stockholder's donation to a corporation is subject to donor's tax based on which principle?

- A. Entity Theory
- B. Lifeblood Theory
- C. Benefit Received Principle

D. Tax Benefit Rule

The principle underlying donor's tax in the context of a stockholder's donation to a corporation is best captured by the Tax Benefit Rule. This rule posits that a donor may be subject to tax if the recipient corporation benefits from the donation. Essentially, if a stockholder's contribution provides a tangible benefit to the corporation, it triggers a tax liability for the donor. When evaluating a donation from a stockholder to a corporation, the Tax Benefit Rule takes into account the value received by the corporation as a result of the donation. This aligns with the idea that the intention behind the donation, whether it is to support the corporation's operations or enhance its capital, can lead to a tax implication for the donor. By recognizing the direct benefit that the corporation receives from the contribution, the Tax Benefit Rule creates a basis for imposing a donor's tax. In contrast, entity theory focuses on the separate existence of the corporation from its shareholders and generally does not address the tax implications of donations. The lifeblood theory emphasizes the necessity of capital for a corporation's survival, which can relate to why the corporation might benefit from donations but does not directly establish a tax basis. Lastly, the benefit received principle typically revolves around the treatment of benefits received by the donor rather than

10. What is Otelo's tax liability for his cash gift of P80,000 to his son in 2020?

- A. Liable to pay donor's tax
- B. Liable to pay donee's tax
- C. Exempted from paying donor's tax**
- D. Exempted from paying donee's tax

In the context of donor's tax, cash gifts below a certain threshold can often be exempt from taxation, depending on the tax laws in place at the time of the gift. In this scenario, Otelo's cash gift of P80,000 to his son qualifies for the exemption because it falls below the exclusion limit set by tax regulations. Typically, tax systems allow for individuals to gift a certain amount each year to recipients without incurring any tax liability, commonly referred to as the annual exclusion limit. This is designed to encourage gifting and minimize the administrative burden on both the donor and the tax agency. Since the cash gift of P80,000 does not exceed the exemption threshold, Otelo is exempted from paying donor's tax on this amount. This exemption applies specifically to gifts made from one individual to another, particularly among family members, where tax rules often provide more favorable treatment. This understanding of donor's tax exemptions is crucial for taxpayers to ensure compliance while maximizing their ability to gift financial support to family members without incurring a tax burden.

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:

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

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