

Kaplan Review for the CFP Certification Examination 10th Edition

ERRATA

The following document contains corrections for Volumes I - VIII of the 10th Edition CFP Review. It does not have time sensitive updates for year 2007.

Updates/Corrections are added periodically, so please check this document on a regular basis.

*Corrections appear **bold** and in **red**.

Volume I: Fundamentals:

1. Page 10: Please replace the following numbers on the “Statement of Cash Flows.”

- The total “Variable Outflows” amount is **\$53,196**, not \$53,688.
- The total “Outflow” amount is **\$98,838**, not \$99,330.
- A separate line to show “Discretionary Cash Flow” (the difference between cash inflows and outflows) should be added above the note on taxes. This amount is **\$492**.

2. Page 38: A new bullet point under Section “8. The Basic FDIC insured amount of a depositor is \$100,000.” Should read,

Beginning on April 1st 2006, FDIC coverage for retirement accounts (IRAs, self-directed Keoghs, etc.) that an individual has on deposit at a FDIC-insured institution is increased from \$100,000 to 250,000. If tested, this change would appear starting with the November 2006 exam.

3. Page 86: Under “4., a. Nondischargeable debts,” **Secured debts**, which is not listed, should be included as well.

Volume II: Insurance Planning:

1. Page 32: V., 2., a. The parentheses should read “(see appendix **4**),” not “appendix for table 1.”

2. Page 58: “6., a., ii. Modified own occupation,” should read “Modified **any** occupation.”

3. Page 132: “Appendix: Summary of Important Social Security Information” should have the following changes,

- Maximum Social Security Benefit: Worker retiring at age 65 and **8** months in **2006** (not 2005).
- Estimated Average Monthly Social Security Benefits: Payable in January **2006** (not 2005).

4. Page 148: Question 41, part of answer options “c” and “d” were formatted incorrectly. They should read as the following,

c. Variable life subaccounts do not guarantee market returns while the universal life **contracts contain a guaranteed rate.**

d. Variable life contracts do not guarantee market returns, while the market interest rates in universal life contracts are guaranteed.

There is no answer choice “e”.

Volume III: Investments:

1. Page 207: Question #1,

1. Eon Company, located in Costa Rica, is a privately owned manufacturer of widgets used in the automotive industry. It is financed with 90% equity and 10% debt. Shareholders of Eon Company face the following risks:

1. Liquidity risk
2. Market risk
3. Business risk
4. Default risk
 - a. 1 only.
 - b. 2 only.
 - c. 2 and 4.
 - d. 1, 2, and 3.**
 - e. 1, 2, 3 and 4.**

Volume IV: Income Tax:

1. Page 18: The example at the bottom of the page should read as follows,

2007 income would also be adjusted for the difference.

2007
\$910,000 *
 (500,000)
\$410,000

* This is without considering any interest income from the IRS which is not part of the calculation.

2. Page 34: Paragraph 5, c:

It should read:

c. If the policyholder has no plans to borrow money against the MEC, it may be an effective estate planning tool because the classification as a MEC does not affect the taxation of the death benefit, as the death benefit is received by the beneficiary tax-free, provided there **not** has been a transfer for value.

3. Page 58: Exhibit 15 Filing Levels (Required to File) in chart for Filing Status, Single, Under 65, replace \$8,300 with **\$8,450**

4. Page 143, Example (Partially Nontaxable Exchange)

It should read:

Craig trades in a truck (adjusted basis \$6,000) for a new truck (FMV **\$6,200**) and receives \$1,000. Craig's basis in the new truck is:

Adjusted basis of old truck	\$6,000
Cash received	(\$1,000)
Gain recognized (\$6,200 - \$6,000)	<u>\$ 200</u>
Basis of new truck	<u>\$5,200</u>

5. Page 155, A. 7. reads:

S Corporation – A corporation with = 100 shareholders, all individuals other than resident aliens, certain estates or trusts, and no more than one class of stock.

It should read:

S Corporation – A corporation with = 100 shareholders, all individuals other than **nonresident** aliens, certain estates or trusts, and no more than one class of stock.

6. Page 171:

Please replace chart

Trust and Estate Tax Rates (Year 2006)

If taxable income is:	But not over --	The tax is:	Of the amount over --
Over -- \$0	\$2,050	-----15%	\$0
\$2,000	\$4,850	\$307.50 + 25%	\$2,050
\$4,700	\$7,400	\$1,007.50 + 28%	\$4,850
\$7,150	\$10,050	\$1,721.50 + 33%	\$7,400
\$9,750	-----	\$2,596.00 + 35%	\$10,050

TRUST & ESTATE TAX RATES (YEAR 2006)

If taxable income is:	But not over --	The tax is:	Of the amount over --
Over -- \$0	\$2,050	-----15%	\$0
\$2,050	\$4,850	\$307.50 + 25%	\$2,050
\$4,850	\$7,400	\$1,007.50 + 28%	\$4,850
\$7,400	\$10,050	\$1,721.50 + 33%	\$7,400
\$10,050	-----	\$2,596.00 + 35%	\$10,050

It should read:

Taxpayer exchanges a machine (A) and building for another machine (B) in a like-kind exchange. The (A) machine had an adjusted tax basis of \$40,000 and a fair market value of \$30,000. The building had an adjusted basis of \$20,000 and a fair market value of \$35,000. The large machine (B) has a fair market value of \$65,000. **What is the recognized gain or loss for the recipient of the machine (A) and building?** There were no mortgages and no cash exchanged. D2870

- a. \$0.
- b. \$10,000 loss.
- c. \$5,000 gain.
- d. \$15,000 gain.
- e. None of the above.

8. Page 301:

HSA's
72. d

The correct answer is a.

1 is correct. A health savings account is not subject to COBRA continuation coverage.

2 is correct. Distributions from a health savings account used for qualifying medical expenses will be both income tax-free and penalty-free.

3 is incorrect. The deduction is an above-the-line (for AGI) deduction.

4 is incorrect. Individuals age 55 and older (not 50) who are covered by a high-deductible health plan can make additional catch-up contributions to the health savings account.

Volume V: Retirement Planning:

1. Page 20, Paragraph E (1) (b) (i) reads:

- b. For the preceding year, had compensation GREATER THAN \$100,000 (for 2006).
 - i. If the employer makes an election, only those persons in the top 20% of compensation greater than \$100,000 (for 2006) are included as highly compensated. This exception is generally for large employers and helps the plan pass coverage and/or the ADP test for 401(k) plans.

Should read:

- b. For the preceding year, had compensation GREATER THAN \$100,000 (for 2006).**
 - i. If the employer makes an election, only those persons in the top 20% of compensation and greater than \$100,000 (for 2006) are included as highly compensated. This exception is generally for large employers and helps the plan pass coverage and/or the ADP test for 401(k) plans.**

2. Page 60: Under “c. Distributions” add the following items,

In item “i.” remove “**(FIFO basis recovery).**”

Add a new outline item “**v. Nonqualified distributions from a Roth 401(k) will be treated as both a distribution of contributions (excludable from income) and a distribution of taxable accumulated earnings (on a prorata basis). In addition, other taxes may apply, depending on the disqualifying event.**”

3. Page 78: Paragraph 4(b)(i)

Should read:

The distribution must be made after a five-taxable-year period (which begins January 1st of the taxable year for which the first regular contribution is made to any Roth IRA of the individual or, if earlier, January 1st of the taxable year in which the conversion contribution is made to any Roth IRA of the individual). Each contribution converted to a Roth IRA has a separate five-taxable-year period.

4. Page 180: Question 50,

50. Which of the following persons could be classified as highly compensated for the current year? Assume no special elections were made.

1. Joseph, a 1% owner who made \$150,000 in the previous year.
 2. Alleyn, a 6% owner who made \$28,000 in the previous year.
 3. Justin, an officer who made **\$100,000** in the previous year who is the 25th highest paid employee of 100 employees.
 4. Joshua, who made \$70,000 in the previous year and is in the top 20% of paid employees.
 5. Abby, who made \$84,000 in the previous year and is in the top 20% of paid employees.
- a. 1, 2 and 3.
 - b. 2, 3, 4 and 5.
 - c. 1, 2 and 4.
 - d. 1, 2, 3 and 5.
 - e. None of these, necessarily, because we don't know what their situation is in the current year.

In statement 3 change \$100,000 to \$110,000.

5. Page 206: Question 120

It should read:

120. Mary, age 56 and earning a current salary of \$125,000, works for a company that sponsors a 401(k) plan. The plan allows her to contribute up to 75% of her salary each year, up to the 401(k) elective deferral limit for the year. The company matches her contribution dollar-for-dollar, up to 3% of compensation. Since Mary would like to retire within the next five years, she is concerned about having a sufficient retirement benefit from the 401(k) plan. Based on life expectancy tables, Mary is expected to live until age 85. Which of the following statements is/are correct regarding factors that can affect Mary's retirement benefits from her defined-contribution plan?

1. The investment earnings assumption used by the plan administrator.
2. The number of years of service multiplied by a formula.
3. The selection of the investment alternatives by the participant.
4. The value in dollars of the participant's account balance at retirement.
 - a. 1 and 2.
 - b. 3 and 4.
 - c. 1, 2, and 3.
 - d. 2, 3, and 4.
 - e. 1, 2, 3, and 4.

6. Page 265 - Answer to Q#36

Highly Compensated Employees

C

James is not in the top 20% but does make > \$95,000. The answer includes Statements 1, 2, and 3 because the company did not make the election to limit to the top 20% of paid employees. Donna is not highly compensated because her salary did not exceed \$95,000 last year. All of the others are highly compensated because (Statement 1) Steve is a 6% owner (greater than 5% rule); (Statement 2) Mike's salary was greater than \$95,000; and (Statement 3) James' salary was greater than \$95,000 last year.

Solution should read:

Highly Compensated Employees

C

James is not in the top 20% but does make > **\$100,000**. The answer includes Statements 1, 2, and 3 because the company did not make the election to limit to the top 20% of paid employees. Donna is not highly compensated because her salary did not exceed **\$100,000** last year. All of the others are highly compensated because (Statement 1) Steve is a 6% owner (greater than 5% rule); (Statement 2) Mike's salary was greater than **\$100,000**; and (Statement 3) James' salary was greater than **\$100,000** last year.

7. Page 267: Answer #50,

Highly Compensated Employee

50. a

A highly compensated employee is defined as a greater than 5% owner (this year or last) or anyone who made more than **\$95,000** in the previous year. The employees in Statements 1, 2, and 3 meet this definition. This problem states that the special 20% election was not made – so it is not considered.

Change \$95,000 to **\$100,000**.

8. Page 282: Answer #120,

Defined Contribution Plans

120. **d**

Factors affecting retirement benefits from a defined contribution plan **are Statements 2 and 3**. Statement 1 **is** related to defined benefit plans not defined contribution plans.

9. Page 294: Answer #174 **should be "e"**, not "d."

Volume VI: Estate Planning:

1. Page 250: The rationale to question 223 should read as follows,

223. b

The closely held corporation is 38.8% of the AGE. Section 2032A cannot be elected because it requires the value of the closely held corporation to be at least 50% of the AGE. Section 6166 requires the closely held corporation interest to be more than 35% of the AGE, so it is available. Section 303 would not apply since the company is not a corporation. **Section 2057 was repealed in 2004.**

Volume VII: Case Book:

1. Page 43: Berger Case, Question 17 should read as the following,

17. When Derek **and Olga** received **the** credit card statement, **they** discovered that the following amounts had been charged to **the** credit cards by a thief.

Credit Card 1 \$200

Credit Card 2 \$450

Credit Card 3 \$35

Credit Card 4 \$60

How much of the above charges will **the Bergers** be responsible for?

2. Page 59: Berger Case Solution 28 should read as the follows:

Answer is c.

Important issues:

1. The Bergers' risk tolerance is high, and they expect to earn a return equal to one percent less than the S&P 500.

2. Their child is age one. They have a 17-year time horizon.

3. Conclusion: They should have a large allocation to equities.

Option (a) is not correct because it is too conservative. Option (b) is not correct because it is too conservative with the cash allocation and the balanced fund allocation. **Option (d) is not correct**

because it is too heavy in equities; greater bond allocation would be preferred. Growth and value should be relatively balanced. Option (e) is not correct because it is too heavily weighed toward small cap and international.

3. Page 173: Roth Case Questions.**Question 17 should read as follows:**

17. Paul had surgery in January 2006 to remove a small tumor from his arm and is hospitalized for several days. While in the hospital he incurs \$5,200 in expenses. How much will Paul have to pay (i.e., how much is not covered by the health insurance policy)?

- a. \$440.
- b. \$1,040.
- c. \$1,440.
- d. \$1,840.
- e. \$2,240.**

4. Page 185: Roth Case Solutions

Insurance – Health Insurance

17. e

The total amount payable by Paul is **\$2,240 = (\$1,500 + \$740)**.

Expense	\$5,200
Deductible	<u>(1,500)</u>
Net Expense	\$3,700
Coinsurance (20%)	<u>× 20%</u>
Coinsurance Amount	\$ 740

5. Page 254, Ida Klar Case Question #8**Should read:**

Ida would like to set up Qualified Tuition Plans (QTPs) for college tuition expenses for both Sharon and Owen. If Ida did not want to use any of her applicable credit amount in making the transfer, what is the total amount she could contribute to the plan this year and still avoid all gift and generation-skipping transfer taxes?

- a. \$2,000.
- b. \$12,000.**
- c. \$24,000.**
- d. \$48,000.**
- e. \$120,000.**

6. Page 256, Question #14, reads:

How could Ida benefit each grandchild without incurring any transfer taxes or utilizing her applicable credit amount?

1. Pay Sharon's tuition directly to the school.
 2. Transfer \$12,000 to Owen and use a split gift election.
 3. Give Sharon the money for her trip to Europe.
 4. Pay for Owen's orthodontic work directly to the dentist.
- a. 1 only.
 - b. 1 and 4.
 - c. 1, 3, and 4.
 - d. 2, 3, and 4.
 - e. 1, 2, and 3.

It should read:

How could Ida benefit each grandchild without incurring any transfer taxes or utilizing her applicable credit amount?

1. Pay Sharon's tuition directly to the school.
 2. Transfer **\$24,000** to Owen and use a split gift election.
 3. Give Sharon the money for her trip to Europe.
 4. Pay for Owen's orthodontic work directly to the dentist.
- a. 1 only.
 - b. 1 and 4.
 - c. 1, 3, and 4.
 - d. 2, 3, and 4.
 - e. 1, 2, and 3.

7. Page 444: Item Set Scenario 4:

In the column: Bond Portfolio of Various Bonds, the Standard Deviation percentage should be **9%** instead of 10%.

8. Page 465: Item Set 17, Question 2

It should read as follows:

The Guffins refinanced their home two years ago on January 1st, at a 30-year rate of 7.5%. The initial **30-year** loan was for \$112,820 and was paid as agreed until refinancing. The balance at refinancing was \$104,200 with a remaining term of exactly 22 years. Closing costs of 3% were refinanced. Assuming the old loan was at an interest rate of 9%, how much total **cash** will they save if they refinance and pay equal monthly payments over the remaining life of the old loan?

Volume VIII: Mock Exam and Solutions:

1. Page 8: Session 1, Question 12

It should read as follows:

Which of the following pass through probate?

1. Testamentary trust.
2. Life insurance – decedent’s estate is beneficiary.
3. Revocable trust.
4. Charitable Remainder Annuity Trust that lasts for the grantor’s life.

- a. 1 only
- b. 2 only.
- c. 1 and 2
- d. 1, 2, and 4.
- e. 1, 2, 3, and 4

2. Page 84: Session 2, Question 12

It should read as follows:

12. If Marianne left Riverside Preparatory today, which of the following correctly describe(s) her options regarding the balance in her plan?

1. If the plan allows, she can leave the assets with the plan.
 2. She can roll the balance over to an **IRA rollover account (trustee to trustee)**.
 3. She can take a distribution personally and reinvest within 60 days with no penalty.
 4. She can take a distribution personally and have no tax withheld.
- a. 2 only.
 - b. 1 and 2.
 - c. 1, 2, and 3.
 - d. 1, 2, and 4.
 - e. 1, 2, 3, and 4.

3. Page 100, Session 3, Question 28 the first sentence should read as follows:

28. Mary invests \$10,000 in XYX Mutual Fund on January 1, **2002**.

4. Page 119, Session 3, Question 15

It should read as follows:

16. Which of the following statements is correct regarding the Johnsons investment in the S&P 500 Index fund?

- a. The fund is actively managed and has low management fees.
- b. The fund is actively managed and has high management fees.
- c. The fund is passively managed and has low management fees.
- d. The fund is passively managed and has **high** management fees.

Legislative update:

On May 17, 2006 the **Tax Increase Prevention and Reconciliation Act of 2005** was signed by President Bush. The law is effective for tax years beginning after December 31, 2006. For the November, 2006 exam, please note the following changes:

Kiddie Tax

For 2006, the kiddie tax is changed from applying to children under 14 to children under 18.

AMT :

For 2006, the AMT personal exemption amount is changed to MFJ \$62,550; S or HH \$42,500; MFS \$31,275.

Nonrefundable personal tax credits may be claimed to the full extent of an individual's regular tax and alternative minimum tax (instead of being limited to the excess of regular tax liability over tentative minimum tax).

5. Page 130, Solution 12**It should read as follows:**

12. c

1 is correct. A testamentary trust is a trust created at death. Therefore, assets must pass through probate before being transferred to the trust.

2 is correct. Since the death benefit is being paid to the estate, it will pass through probate.

3 is incorrect. A revocable trust does not pass through probate but becomes irrevocable at death, avoiding probate.

4 is incorrect. CRAT assets are automatically transferred to charity when the trust terminates, thus avoiding probate.