

10 Hour Federal Tax Law 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. What is a tax audit?**
 - A. An investigation of tax returns and financial records**
 - B. A review of a taxpayer's expenses**
 - C. A method for determining future tax rates**
 - D. A credit evaluation for loans**
- 2. What type of income generally does not require active participation from the taxpayer?**
 - A. Active income**
 - B. Earned income**
 - C. Passive income**
 - D. Investment income**
- 3. Jill sold 100 shares of GoTech Inc. stock for \$50 each. What should she report as her long-term capital gain?**
 - A. \$3,000 long-term capital gain**
 - B. \$5,000 long-term capital gain**
 - C. \$2,000 long-term capital gain**
 - D. \$4,000 long-term capital gain**
- 4. Which of the following expenses is included in Oscar's head of household qualification?**
 - A. Property taxes**
 - B. Utilities only**
 - C. Mortgage interest**
 - D. Half of the total housing expenses**
- 5. Which document would a taxpayer use to dispute an IRS audit finding?**
 - A. Form 1040**
 - B. Form 8862**
 - C. Form 843**
 - D. Form 8889**

- 6. What is Luis Sanchez's Alternative Minimum Tax exemption for an AMTI of \$150,000?**
- A. \$81,300
 - B. \$52,000
 - C. \$100,000
 - D. \$15,000
- 7. Individuals who own 100% of a business may face which specific tax obligation?**
- A. Income tax only
 - B. Self-employment tax
 - C. Corporate tax
 - D. Gift tax
- 8. Which of the following taxpayers is eligible to claim the standard deduction on his or her tax return?**
- A. An individual who claims the Earned Income Tax Credit and the Child Tax Credit
 - B. An individual with income below the poverty level
 - C. A non-resident foreign taxpayer
 - D. An individual who is not required to file a tax return
- 9. What is an appropriate action for a business owner who receives incorrect tax forms?**
- A. File a complaint with the IRS
 - B. Submit the incorrect forms regardless
 - C. Have them reissued correctly
 - D. Ignore them if they are minor errors
- 10. When should taxpayers begin to plan for their estimated tax payments?**
- A. Only the month before payments are due
 - B. At the start of the taxable year
 - C. After filing their previous year's tax return
 - D. Once they start a new job

Answers

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

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Explanations

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1. What is a tax audit?

- A. An investigation of tax returns and financial records**
- B. A review of a taxpayer's expenses**
- C. A method for determining future tax rates**
- D. A credit evaluation for loans**

A tax audit is fundamentally an investigation of tax returns and financial records conducted by tax authorities to ensure the accuracy and compliance of reported information. This process involves a thorough examination of the taxpayer's financial documents, including income statements, receipts, and other relevant financial data. The goal of the audit is to confirm that the taxpayer has reported income accurately and has claimed deductions or credits that are allowable under tax law. By conducting an audit, tax authorities can identify discrepancies or issues that could indicate underreporting of income or improper claims. Audits serve as a means of enforcing tax compliance and can lead to adjustments in tax liabilities based on the findings. This definition aligns closely with the concept of a tax audit, emphasizing the analytical nature of the investigation into the taxpayer's overall financial conduct as it pertains to tax obligations.

2. What type of income generally does not require active participation from the taxpayer?

- A. Active income**
- B. Earned income**
- C. Passive income**
- D. Investment income**

Passive income is the type of income that typically does not require active participation from the taxpayer. This kind of income is generated from investments or business activities in which the taxpayer is not actively involved. Examples of passive income include rental income from properties and earnings from a business in which the taxpayer does not materially participate. On the other hand, active income involves compensation for services such as wages, salaries, or bonuses, where the taxpayer must perform work or have a hands-on role. Earned income is similar, as it is derived from employment or self-employment, which inherently demands active participation from the individual. Investment income, while it may seem similar to passive income, can vary as it often requires some level of active management, especially in cases where an investor is directly involved in trading or managing investments rather than simply collecting dividends or interest without intervention. Given these definitions, passive income distinctly stands out as the category that allows for income generation with minimal or no active engagement by the taxpayer, making it the correct choice in this context.

3. Jill sold 100 shares of GoTech Inc. stock for \$50 each. What should she report as her long-term capital gain?

- A. \$3,000 long-term capital gain**
- B. \$5,000 long-term capital gain**
- C. \$2,000 long-term capital gain**
- D. \$4,000 long-term capital gain**

To determine Jill's long-term capital gain from the sale of her GoTech Inc. stock, we first need to establish her total selling price and then offset it by her basis in the shares sold. Jill sold 100 shares at \$50 each, resulting in a total revenue of \$5,000 from the sale (100 shares x \$50 per share). To calculate the capital gain, you must subtract her cost basis in those shares from this total sale amount. Assuming Jill's basis, which is the original purchase price of her shares, is \$2,000 (this assumption aligns with the long-term capital gain calculations you would often see), the calculation for capital gain would be: Total Selling Price: \$5,000 Cost Basis: \$2,000 Long-term Capital Gain = Total Selling Price - Cost Basis = \$5,000 - \$2,000 = \$3,000 Thus, Jill should report a long-term capital gain of \$3,000. This amount reflects the increase in value of the asset from the time of purchase to the time it was sold, which is the essential function of reporting capital gains. The choices, while varying in numerical value, highlight the necessity of correctly identifying both the total sale

4. Which of the following expenses is included in Oscar's head of household qualification?

- A. Property taxes**
- B. Utilities only**
- C. Mortgage interest**
- D. Half of the total housing expenses**

To qualify for the head of household filing status, an individual must be responsible for more than half the cost of maintaining a home for a qualifying person. This includes a variety of expenses associated with the household. When considering the appropriate answer, "half of the total housing expenses" accurately encompasses the broad range of costs that contribute to maintaining a home, which head of household status requires the taxpayer to bear. This includes not only rent or mortgage payments but also property taxes, utilities, and other recurring costs that make up the total housing expenses. In contrast, options that refer only to specific costs like property taxes, utilities only, or mortgage interest do not fully capture the requirement to show more than half of the total maintenance cost for the household. While these costs can be part of the total expenses, they do not represent the comprehensive nature of what qualifies someone for the head of household status, which is centered on being responsible for the overall maintenance of the residence. Therefore, the most encompassing choice, which integrates various housing-related expenses, is the correct answer.

5. Which document would a taxpayer use to dispute an IRS audit finding?

- A. Form 1040**
- B. Form 8862**
- C. Form 843**
- D. Form 8889**

A taxpayer would use Form 843 to dispute an IRS audit finding because this form is specifically designed for requesting a refund or appealing IRS decisions regarding various tax issues. It can be utilized to appeal certain penalties or taxes assessed during an audit, as well as to claim a refund of overpaid taxes. This makes it the appropriate choice for a taxpayer looking to formally dispute the findings of an IRS audit. The other options do not serve this purpose. Form 1040 is the standard individual income tax return, while Form 8862 is used to claim the Earned Income Credit after it has been disallowed. Form 8889 is related to Health Savings Accounts and does not pertain to audit disputes. Thus, among the provided documents, Form 843 is uniquely suited for addressing audit findings and initiating an appeal process with the IRS.

6. What is Luis Sanchez's Alternative Minimum Tax exemption for an AMTI of \$150,000?

- A. \$81,300**
- B. \$52,000**
- C. \$100,000**
- D. \$15,000**

The Alternative Minimum Tax (AMT) exemption amount is a specific threshold that reduces the amount of income subject to AMT. For individuals, the AMT exemption is based on filing status. As of the 2023 tax year, the exemption amount for a Single or Head of Household filer is \$81,300, while for married couples filing jointly, it is \$126,500. Given that Luis Sanchez has an AMTI (Alternative Minimum Taxable Income) of \$150,000, his exemption would be the standard amount applicable for his filing status. Assuming that Luis is filing as a single taxpayer, the exemption amount he would apply against his AMTI would indeed be \$81,300. This amount directly reflects the tax law provisions regarding AMT exemptions for the applicable tax year. Therefore, when determining his potential AMT liability, this exemption allows him to reduce his income, resulting in a potentially lower AMT owed. If Luis were filing in a different status or if there were other adjustments to consider, the exemption amount might vary. However, based on the current AMT exemption amount for a single filer, the correct answer is \$81,300.

7. Individuals who own 100% of a business may face which specific tax obligation?

- A. Income tax only**
- B. Self-employment tax**
- C. Corporate tax**
- D. Gift tax**

Individuals who own 100% of a business, especially if it is a sole proprietorship or a single-member LLC, are subject to self-employment tax. This tax obligation arises because the owner is considered self-employed, meaning they earn income directly from the business operations. Unlike traditional employees who have their payroll taxes withheld by their employer, self-employed individuals must calculate and pay these taxes themselves. Self-employment tax covers Social Security and Medicare taxes that would typically be split between an employer and employee. For self-employed individuals, they are responsible for the full amount of these taxes since there is no employer involved. It's not limited to income tax as those funds would also be subject to regular federal and possibly state income taxes, which explain why self-employment tax is a separate obligation. Corporate tax is typically applied to corporations as separate entities rather than individuals who operate businesses on their own. Gift tax is applicable only when transferring gifts above a certain threshold and does not apply to regular business income. Therefore, the specific tax obligation faced by individuals who own 100% of a business primarily falls under self-employment tax.

8. Which of the following taxpayers is eligible to claim the standard deduction on his or her tax return?

- A. An individual who claims the Earned Income Tax Credit and the Child Tax Credit**
- B. An individual with income below the poverty level**
- C. A non-resident foreign taxpayer**
- D. An individual who is not required to file a tax return**

The standard deduction is a specific amount that taxpayers can deduct from their taxable income, which reduces the amount of income subject to taxation. Among the options given, an individual who claims the Earned Income Tax Credit (EITC) and the Child Tax Credit is indeed eligible to claim the standard deduction on their tax return. The EITC and Child Tax Credit do not disqualify a taxpayer from claiming the standard deduction; instead, they provide additional tax benefits that can further reduce the taxpayer's liability. This eligibility remains intact regardless of whether the individual is benefiting from these credits. Typically, taxpayers choose either the standard deduction or itemized deductions, and claiming credits does not affect the choice of taking the standard deduction. In contrast, other options present different circumstances: individuals with income below the poverty level may still be eligible for the standard deduction, as it applies regardless of income level, but it may not be beneficial for them if their taxable income is effectively zero. Non-resident foreign taxpayers often do not have the option to claim the standard deduction since they are typically taxed only on U.S.-sourced income and might be restricted in their deductions. Finally, individuals not required to file a tax return may not claim the standard deduction if they do not meet

9. What is an appropriate action for a business owner who receives incorrect tax forms?

- A. File a complaint with the IRS**
- B. Submit the incorrect forms regardless**
- C. Have them reissued correctly**
- D. Ignore them if they are minor errors**

When a business owner receives incorrect tax forms, the most appropriate action is to have them reissued correctly. Accurate tax documentation is essential for ensuring compliance with tax regulations and for proper reporting of income and expenses. Mistakes in tax forms can lead to misleading financial information, potential penalties, or an audit from the IRS. By requesting correction and reissuance of the tax forms, the business owner ensures that their records reflect the correct information, which is crucial for preparing accurate tax returns. This proactive approach helps maintain proper accounting practices and avoids further complications down the line. Submitting the incorrect forms or ignoring minor errors may seem like a quick solution, but these actions can lead to inaccuracies in tax filings and potential legal issues. Filing a complaint with the IRS is unnecessary in this situation, as the preferred course of action is to rectify the issue directly with the issuer of the tax forms.

10. When should taxpayers begin to plan for their estimated tax payments?

- A. Only the month before payments are due**
- B. At the start of the taxable year**
- C. After filing their previous year's tax return**
- D. Once they start a new job**

Planning for estimated tax payments should ideally begin at the start of the taxable year. This approach allows individuals to comprehensively assess their expected income, potential deductions, and credits throughout the year, enabling them to estimate their tax liability more accurately. By initiating this planning process at the beginning of the year, taxpayers can make adjustments to their withholding or estimated payments as necessary, ensuring they meet their tax obligations without incurring underpayment penalties. This proactive strategy can help in budgeting for taxes as part of overall financial planning, allowing taxpayers to align their spending and saving practices accordingly. In contrast, waiting until just the month before payments are due can lead to rushed decisions and potential miscalculations, which might result in penalties for underpayment. Relying solely on the previous year's tax return to determine estimated payments might not accurately reflect the current year's income, especially if there have been significant changes in a taxpayer's financial situation. Starting to plan only when beginning a new job overlooks the need for consistent and ongoing analysis of income sources and tax liabilities over the entire year. Thus, initiating the planning process at the start of the taxable year is the most effective strategy for managing estimated tax payments.

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://10hrfederaltaxlaw.examzify.com>

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

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