

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 the annual exclusion amount for gifts for 2021?**
 - A. \$10,000
 - B. \$15,000
 - C. \$25,000
 - D. \$50,000
- 2. What is Form W-2 used for?**
 - A. To report income for self-employed individuals
 - B. To report wages and taxes withheld for employees
 - C. For reporting additional income types
 - D. For claiming deductions on business expenses
- 3. What distinguishes tax avoidance from tax evasion?**
 - A. Tax avoidance is illegal, whereas tax evasion is legal
 - B. Tax avoidance involves taking deductions, while tax evasion does not
 - C. Tax avoidance is legally reducing tax liability, while tax evasion is illegal
 - D. Tax avoidance has penalties; tax evasion does not
- 4. What type of contributions does Form 8880 primarily relate to?**
 - A. Charitable donations
 - B. Retirement savings contributions
 - C. Business investment contributions
 - D. Real estate investments
- 5. What is not considered a working condition benefit?**
 - A. Company vehicle for business use
 - B. Job-related equipment and tools
 - C. Flexible spending account for job-related expenses
 - D. Employer-provided training expenses
- 6. What is a transfer of wealth that is subject to estate tax?**
 - A. Gifts made during the lifetime of the giver
 - B. Assets exceeding the estate tax exemption
 - C. Property sold below market value
 - D. All assets transferred between family members

- 7. What is the significance of depreciation deductions on taxes?**
- A. They can never be claimed by new businesses
 - B. They allow businesses to recover the cost of an asset over time, reducing taxable income
 - C. They increase the overall tax liability
 - D. They only apply to personal property
- 8. What information is generally needed to calculate estimated taxes?**
- A. Last year's Gross Income
 - B. Expected credits and deductions
 - C. All current debts
 - D. Individual retirement account contributions
- 9. What role do IRS regulations play for nonprofit organizations?**
- A. They determine how profits are distributed to investors
 - B. They establish compliance requirements for maintaining tax-exempt status
 - C. They require extensive annual audits of financial performance
 - D. They govern competition with for-profit businesses
- 10. Income that is earned without the direct involvement of the recipient is known as?**
- A. Active income
 - B. Earned income
 - C. Portfolio income
 - D. Passive income

Answers

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

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Explanations

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1. What is the annual exclusion amount for gifts for 2021?

- A. \$10,000
- B. \$15,000**
- C. \$25,000
- D. \$50,000

The annual exclusion amount for gifts in 2021 is \$15,000. This exclusion allows an individual to give gifts up to this amount to any number of recipients without having to report those gifts to the IRS or incur gift tax liability. The exclusion is a key feature of the gift tax system, designed to allow individuals to transfer wealth to others freely, without making significant tax-related documentation necessary for smaller gifts. This amount has remained stable since 2018, when it was increased from \$14,000 to its current level, reflecting adjustments for inflation. The inclusion of this exclusion encourages individuals to engage in gift-giving, whether for personal reasons or for strategic financial planning. Understanding the annual exclusion amount is essential for effective tax planning, as it provides a means for individuals to maximize their gift-giving abilities while minimizing potential tax implications associated with larger gifts.

2. What is Form W-2 used for?

- A. To report income for self-employed individuals
- B. To report wages and taxes withheld for employees**
- C. For reporting additional income types
- D. For claiming deductions on business expenses

Form W-2 is primarily used to report wages, salaries, and tips that an employer pays to their employees, as well as the taxes withheld from those payments. Each year, employers must provide a Form W-2 to each employee, summarizing their earnings and the amount of federal, state, and other taxes withheld throughout the year. This information is critical for employees when filing their individual income tax returns, as it reflects their taxable earnings and any taxes that have already been paid on those earnings. The form serves to ensure that the correct income is reported to the IRS and to the employee, making it an essential component of wage reporting in the employer-employee relationship.

3. What distinguishes tax avoidance from tax evasion?

- A. Tax avoidance is illegal, whereas tax evasion is legal
- B. Tax avoidance involves taking deductions, while tax evasion does not
- C. Tax avoidance is legally reducing tax liability, while tax evasion is illegal**
- D. Tax avoidance has penalties; tax evasion does not

Tax avoidance is characterized by the legal strategies individuals and businesses use to minimize their tax liabilities. This can include taking advantage of deductions, credits, and tax planning strategies that conform to the law to reduce the amount of tax owed. It operates within the framework of the tax code and aims to lower tax burdens through lawful means. On the other hand, tax evasion involves the illegal practice of not paying the taxes owed. This can take various forms, such as underreporting income, inflating deductions, or hiding money and assets. Tax evasion is an act against tax law and can result in severe penalties, including fines or imprisonment. This distinction is crucial, as it highlights the difference between legally seeking to minimize tax burdens (tax avoidance) and illegally failing to comply with tax obligations (tax evasion). Understanding this difference is essential for individuals and businesses to engage in responsible tax planning.

4. What type of contributions does Form 8880 primarily relate to?

- A. Charitable donations
- B. Retirement savings contributions**
- C. Business investment contributions
- D. Real estate investments

Form 8880, officially known as the "Credit for Qualified Retirement Savings Contributions," is specifically designed to help taxpayers calculate their eligibility for the retirement savings contributions credit. This form is used to claim a tax credit for making contributions to eligible retirement plans, including individual retirement accounts (IRAs) and employer-sponsored plans such as 401(k)s. The purpose of Form 8880 is to encourage individuals to save for retirement by providing a financial incentive through tax credits based on their contributions. Taxpayers must meet specific income limits and other requirements to qualify for this credit, which can significantly reduce their tax liability. In this context, contributions related to charitable donations, business investments, or real estate investments are not governed by Form 8880. These types of contributions do not provide the same specific benefits that the retirement savings contributions credit aims to promote. Therefore, the correct association is with retirement savings contributions.

5. What is not considered a working condition benefit?

- A. Company vehicle for business use
- B. Job-related equipment and tools
- C. Flexible spending account for job-related expenses**
- D. Employer-provided training expenses

A flexible spending account (FSA) for job-related expenses is not considered a working condition benefit because it does not provide a direct benefit related to the employee's ability to perform their job duties. A working condition benefit refers to a situation where an employee receives property or services that are necessary for their job and that would otherwise be deductible by the employee under tax law if they paid for them themselves. In contrast, options like a company vehicle for business use, job-related equipment and tools, and employer-provided training expenses directly relate to facilitating the employee's work activities. They are provided specifically to enable the employee to perform their job efficiently and would qualify for tax deductions if the employee were to bear the costs themselves. Each of these benefits aids in the actual execution of job duties or performance. On the other hand, an FSA offers a funding mechanism for various personal expenses related to health care or dependent care during the tax year and is not tied to job-related performance in the same direct manner. Thus, it stands apart from the other options as it does not satisfy the criteria of being a working condition benefit.

6. What is a transfer of wealth that is subject to estate tax?

- A. Gifts made during the lifetime of the giver
- B. Assets exceeding the estate tax exemption**
- C. Property sold below market value
- D. All assets transferred between family members

The correct answer pertains to assets exceeding the estate tax exemption because the estate tax is assessed on the value of a decedent's estate, which is the total value of all assets and property owned at the time of death. In the United States, individuals have an estate tax exemption amount that allows them to transfer a certain value without incurring an estate tax. Any value over this exemption threshold is subject to taxation under the estate tax when the individual passes away. Therefore, only those assets that exceed the exemption limit will trigger the estate tax and represent a transfer of wealth that is subject to this specific tax liability. Other options, while related to the concept of wealth transfer, do not directly relate to being subject to estate tax in the same manner. For example, gifts made during the lifetime of the giver can be subject to gift tax but do not trigger estate tax directly since estate tax applies upon death. Property sold below market value might involve different tax implications such as potential capital gains tax but is also not necessarily subject to estate tax unless it exceeds the exemption upon the decedent's death. Lastly, while all assets transferred between family members might be important for estate planning, not all transfers are subject to estate tax unless they are counted within the estate valuation and

7. What is the significance of depreciation deductions on taxes?

- A. They can never be claimed by new businesses
- B. They allow businesses to recover the cost of an asset over time, reducing taxable income**
- C. They increase the overall tax liability
- D. They only apply to personal property

Depreciation deductions play a crucial role in tax management for businesses by allowing them to recover the cost of capital assets over time. When a business purchases an asset, such as equipment or buildings, it incurs a significant upfront cost. Instead of expensing this cost in a single year, which could create a substantial tax burden, depreciation allows businesses to spread this expense over the asset's useful life. This gradual recovery mechanism effectively reduces the business's taxable income in the years the deduction is taken, leading to a lower overall tax liability. By reducing taxable income, depreciation deductions help improve cash flow, enabling businesses to reinvest in operations or other projects. As a result, the correct option highlights the essential nature of depreciation in providing financial relief through tax reductions and underscores its importance as a tool for business growth and sustainability.

8. What information is generally needed to calculate estimated taxes?

- A. Last year's Gross Income
- B. Expected credits and deductions**
- C. All current debts
- D. Individual retirement account contributions

To calculate estimated taxes accurately, expected credits and deductions play a crucial role. When taxpayers estimate their income tax liability for the year, they need to account for the various ways in which their taxable income might be reduced. This includes deductions, which lower the taxable income, and tax credits, which directly reduce the amount of tax owed. Expected credits and deductions provide a clearer picture of an individual's financial situation for the tax year, allowing for a more precise estimate of the final tax liability. For instance, if a taxpayer expects to claim deductions for mortgage interest, medical expenses, or charitable contributions, these will significantly influence the estimated tax calculations by lowering the gross income subject to tax. In distinction to this, relying solely on last year's gross income does not take into account any changes in income or expenses that might affect the current year's tax situation. Current debts or individual retirement account contributions might impact overall financial health but do not specifically provide direct information needed for computing estimated taxes. While these factors may influence financial decisions, they are not the primary components used in calculating estimated taxes.

9. What role do IRS regulations play for nonprofit organizations?

- A. They determine how profits are distributed to investors
- B. They establish compliance requirements for maintaining tax-exempt status**
- C. They require extensive annual audits of financial performance
- D. They govern competition with for-profit businesses

IRS regulations are critical for nonprofit organizations because they establish the compliance requirements necessary to maintain tax-exempt status. Nonprofits are expected to operate under specific guidelines set forth by the IRS, which include limitations on political activities, the requirement to serve public rather than private interests, and restrictions on how income is generated and used. Maintaining tax-exempt status is vital for nonprofits as it allows them to avoid federal income tax and often qualify for state-level exemptions as well. Failure to comply with IRS regulations can result in loss of this status, which could jeopardize the organization's funding and operations. The other options do not accurately describe the primary role of IRS regulations: nonprofits do not distribute profits to investors, are not mandated to undergo extensive annual audits unless they reach certain thresholds, and do not face IRS regulations specific to competition with for-profit entities. The focus is primarily on compliance and maintaining the core mission as defined by their tax-exempt status.

10. Income that is earned without the direct involvement of the recipient is known as?

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

Income that is earned without the direct involvement of the recipient is classified as passive income. This type of income typically arises from investments or business ventures in which an individual does not actively participate. Examples include rental income from properties, earnings from limited partnerships, or dividends from stocks where the investor does not engage in the management of the underlying assets. Passive income contrasts sharply with active income, which requires direct involvement and effort, such as wages from a job. It's also different from earned income, which encompasses pay for work performed, and portfolio income, which includes earnings from market investments in stocks, bonds, and mutual funds that may require some level of management but still do not involve active participation in day-to-day operations. Understanding these distinctions is critical when determining tax implications and eligibility for various deductions or credits, as different types of income can be treated differently under tax law.

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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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