

10 HOUR FEDERAL TAX LAW PRACTICE EXAM (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. What income types does Form 1099 typically report?**
 - A. Only wages from employment
 - B. Various types of non-wage income
 - C. Only interest income from banks
 - D. Rental income exclusively
- 2. What happens to unpaid taxes at the end of the tax year?**
 - A. They are forgiven
 - B. They accrue interest and penalties
 - C. They are converted into loans
 - D. They can be deducted next year
- 3. What defines the alternative minimum tax (AMT)?**
 - A. A tax reduction for low-income individuals
 - B. A standard rate applied across all incomes
 - C. A tax calculation ensuring high-income individuals pay minimum tax
 - D. A penalty for late filing
- 4. What is a primary benefit of filing Form 8880?**
 - A. It allows higher income deductions
 - B. It provides a credit for contributions to retirement savings
 - C. It simplifies the tax filing process
 - D. It offers an exemption from self-employment tax
- 5. What types of expenses may qualify for education tax credits?**
 - A. Travel and commuting expenses
 - B. Entertainment and recreation costs
 - C. Qualified tuition and related fees
 - D. Goods and services for personal use
- 6. What is tax loss harvesting?**
 - A. A strategy to increase taxable income
 - B. A strategy to sell winning investments only
 - C. A strategy to sell losing investments to offset gains
 - D. A strategy to defer taxes on retirement accounts

7. What form is commonly used by individuals to file their annual income tax return?

- A. Form 1040
- B. Form 1099
- C. Form W-2
- D. Form 4506

8. What is a primary characteristic of a refundable tax credit?

- A. It can only reduce tax liability to zero.
- B. It refunds any amount exceeding the tax owed.
- C. It is available only to low-income taxpayers.
- D. It cannot be claimed if a tax return is not filed.

9. 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

10. What is a "qualified business income" deduction?

- A. A tax deduction for capital gains only
- B. A deduction for income from passive investments
- C. A tax deduction of up to 20% for income from pass-through entities
- D. A deduction for all forms of business income

Answers

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

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Explanations

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1. What income types does Form 1099 typically report?

- A. Only wages from employment
- B. Various types of non-wage income**
- C. Only interest income from banks
- D. Rental income exclusively

Form 1099 is a series of tax forms used to report different types of income other than wages, salaries, and tips, which are reported on Form W-2. The correct answer indicates that Form 1099 can report various types of non-wage income, such as interest, dividends, capital gains, rental income, and payments made to independent contractors, among others. This form is crucial for taxpayers and the IRS alike, as it helps to ensure that all income is accurately reported and that taxes are appropriately paid on that income. The variety of income types that can be reported on different versions of Form 1099 (such as 1099-INT for interest, 1099-DIV for dividends, and 1099-MISC for miscellaneous incomes) highlights its importance in capturing a broad spectrum of non-employment income. In contrast, the other choices are too narrow in their focus. For example, limiting the form to only wages or only certain types of income fails to encompass the range of financial transactions that Form 1099 is designed to document. This broader scope is essential to understand when considering all the income streams that individuals and businesses may encounter.

2. What happens to unpaid taxes at the end of the tax year?

- A. They are forgiven
- B. They accrue interest and penalties**
- C. They are converted into loans
- D. They can be deducted next year

Unpaid taxes at the end of the tax year accrue interest and penalties. This means that if a taxpayer does not pay their tax liability by the due date, the IRS will add interest on the unpaid balance, which increases over time. Additionally, penalties may be imposed, which are additional charges typically based on the amount of taxes owed and the duration of the delinquency. This is designed to encourage timely payment of taxes and to discourage taxpayers from delaying their tax obligations. The accrual of interest and penalties makes it financially more burdensome for individuals to carry unpaid taxes into the next year, stressing the importance of addressing tax liabilities promptly. The other options do not accurately reflect what occurs with unpaid taxes. They are not forgiven; unpaid taxes do not transform into loans; and taxpayers cannot simply deduct unpaid taxes in the subsequent tax year. Understanding this mechanism emphasizes the necessity for taxpayers to stay informed about their tax obligations and the importance of making timely payments.

3. What defines the alternative minimum tax (AMT)?

- A. A tax reduction for low-income individuals
- B. A standard rate applied across all incomes
- C. A tax calculation ensuring high-income individuals pay minimum tax**
- D. A penalty for late filing

The alternative minimum tax (AMT) is designed to ensure that taxpayers, particularly those with high incomes, pay a minimum level of tax, regardless of the deductions and credits they might claim. This tax system operates alongside the regular tax calculations, providing an additional layer of tax liability that might apply to individuals who benefit disproportionately from various tax breaks, ultimately leading to a significantly reduced overall tax obligation. AMT functions by requiring those subject to it to calculate their tax liability under two systems: the regular tax and the AMT. If the AMT calculation results in a higher tax liability, the taxpayer is required to pay the higher amount. This ensures that high-income earners contribute a fair share toward federal revenue, especially if their tax planning strategies allow them to significantly lower their taxes under the regular system. By focusing specifically on high-income individuals and closing loopholes, the AMT aims to create a more equitable tax structure. This is why the correct response highlights that AMT is a tax calculation to ensure that these individuals do not avoid paying at least a minimum level of tax.

4. What is a primary benefit of filing Form 8880?

- A. It allows higher income deductions
- B. It provides a credit for contributions to retirement savings**
- C. It simplifies the tax filing process
- D. It offers an exemption from self-employment tax

Filing Form 8880 is designed to help eligible taxpayers claim a tax credit known as the Retirement Savings Contributions Credit, commonly referred to as the "Saver's Credit." This credit is particularly beneficial for individuals who make contributions to retirement accounts such as IRAs or employer-sponsored retirement plans. The main advantage of this credit is that it directly reduces the amount of tax owed, which can encourage saving for retirement among lower and moderate-income individuals. By incentivizing contributions to retirement accounts, the form aims to enhance retirement savings among populations that might otherwise have difficulty setting aside funds for the future. The amount of the credit can be up to 50% of the contributions made, subject to specific income limits and filing status, making it a valuable tool for individuals looking to bolster their retirement savings while also reducing their tax burden. In summary, the primary benefit of Form 8880 lies in its role in providing a tax credit for contributions to retirement savings, which directly supports and encourages investment in future financial security.

5. What types of expenses may qualify for education tax credits?

- A. Travel and commuting expenses
- B. Entertainment and recreation costs
- C. Qualified tuition and related fees**
- D. Goods and services for personal use

Qualified tuition and related fees are expenses directly associated with a student's enrollment at an eligible educational institution, which can be used to claim education tax credits such as the American Opportunity Credit or the Lifetime Learning Credit. Tuition fees are explicitly outlined as qualifying expenses, as they are necessary for the pursuit of higher education. Additionally, related fees, including student activity fees, lab fees, and other essential costs that facilitate the learning process, are also included. These credits are designed to help offset the cost of education, making it more accessible to students and their families. The other options, while they may relate to general educational experiences, do not qualify. Travel and commuting expenses are not considered necessary payments directly for tuition or mandatory fees. Similarly, entertainment and recreation costs, along with goods and services for personal use, are not directly tied to educational expenses and therefore are excluded from eligibility for education tax credits.

6. What is tax loss harvesting?

- A. A strategy to increase taxable income
- B. A strategy to sell winning investments only
- C. A strategy to sell losing investments to offset gains**
- D. A strategy to defer taxes on retirement accounts

Tax loss harvesting is a strategy employed by investors to manage and reduce their tax liabilities. It involves selling investments that have declined in value—known as losing investments—or securities that have suffered a loss. The primary goal of this strategy is to offset capital gains realized from selling other investments that have appreciated in value. By realizing these losses, an investor can potentially reduce their taxable income, as capital losses can be used to offset capital gains. For instance, if an investor sells a stock that has decreased in value and realizes a loss, this loss can be applied against any capital gains they have earned in that tax year. Moreover, if the losses exceed the gains, the investor may be able to use the remaining loss to offset ordinary income, up to a certain limit each year. This makes tax loss harvesting an effective way to manage tax obligations and enhance overall investment strategy. The other strategies mentioned, such as increasing taxable income or focusing solely on selling winning investments, do not align with the principles of tax loss harvesting. Additionally, deferring taxes on retirement accounts pertains to a different approach in financial planning, which does not involve the active realization of investment losses. Therefore, the correct understanding of tax loss harvesting as a method to sell losing investments to offset gains is integral

7. What form is commonly used by individuals to file their annual income tax return?

A. Form 1040

B. Form 1099

C. Form W-2

D. Form 4506

Individuals commonly use Form 1040 to file their annual income tax return because it is the standard form designed by the Internal Revenue Service (IRS) for reporting a variety of types of income, including wages, dividends, capital gains, and other sources. Form 1040 allows taxpayers to detail their income, claim deductions and credits, and determine their tax liability for the year. This form is comprehensive and includes several schedules that individuals can attach depending on their specific tax situations, such as income from self-employment, itemized deductions, or certain adjustments to income. Its widespread use makes it essential for taxpayers as it accommodates various tax situations and allows for accurate reporting of their financial circumstances to the IRS. Other options serve different purposes: Form 1099 is used to report various types of income received other than wages, salary, or tips; Form W-2 is a wage and tax statement provided by an employer to employees detailing the amount earned and taxes withheld; and Form 4506 is used to request a copy of a previously filed tax return. Thus, while all these forms are important in the tax process, Form 1040 specifically addresses the needs of individuals filing their annual income tax return.

8. What is a primary characteristic of a refundable tax credit?

A. It can only reduce tax liability to zero.

B. It refunds any amount exceeding the tax owed.

C. It is available only to low-income taxpayers.

D. It cannot be claimed if a tax return is not filed.

A refundable tax credit is designed to provide financial relief to taxpayers by allowing them to receive a payment from the government if their credit exceeds their tax liability. This means that if an individual has a refundable tax credit that is larger than the amount of tax they owe, the difference is paid back to the taxpayer as a refund. This characteristic distinguishes refundable tax credits from non-refundable credits, which can reduce tax liability only to zero but do not result in any payment if the credit exceeds the owed tax. The ability to receive a refund even if you don't owe taxes reflects the primary function of refundable credits in promoting equity and providing support to individuals who might owe little or no tax but still qualify for financial assistance based on their circumstances or expenses. This is particularly important for low- to moderate-income individuals who may benefit significantly from such credits. In contrast, the other options do not accurately reflect the nature of refundable credits. For example, refundable credits are not limited to reducing tax liability to zero, are not exclusively for low-income taxpayers, and can still be claimed regardless of whether a tax return is filed in certain situations, depending on the specific rules of the credit in question.

9. 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.

10. What is a "qualified business income" deduction?

A. A tax deduction for capital gains only

B. A deduction for income from passive investments

C. A tax deduction of up to 20% for income from pass-through entities

D. A deduction for all forms of business income

A "qualified business income" deduction is a specific provision under the Internal Revenue Code designed to provide taxpayers with a tax deduction of up to 20% of their qualified business income. This deduction applies primarily to income generated from pass-through entities, such as sole proprietorships, partnerships, S corporations, and certain trusts and estates. The deduction aims to reduce the tax burden on individuals who derive income from these types of businesses, incentivizing entrepreneurship and fostering small business growth. The income must be effectively connected with the conduct of a trade or business, and there are various rules and limitations regarding eligibility and calculation, including thresholds based on taxable income levels. While the other choices presented relate to different aspects of taxation, they do not accurately define the qualified business income deduction. For instance, it is not limited to capital gains nor does it pertain to income from passive investments. Additionally, it is not designed to deduct all forms of business income; the focus is specifically on income from specified pass-through entities that meet certain criteria.

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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