

H&R Block Income Tax Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. How can a taxpayer demonstrate their residency under the Five Tests for a Qualifying Child?**
 - A. By showing where they attend school**
 - B. By proving they live with the taxpayer for more than half the year**
 - C. Only by submitting utility bills**
 - D. Solely through a notarized statement**
- 2. Which W-2 Box 12 Code indicates contributions under a SIMPLE plan?**
 - A. Code S**
 - B. Code Q**
 - C. Code T**
 - D. Code W**
- 3. What does tax liability refer to?**
 - A. The amount of taxes owed before credits and advance payments**
 - B. The total gross income of an individual**
 - C. The amount of tax refund received**
 - D. The total deductions claimed by a taxpayer**
- 4. If a head of household has a gross income of \$11,750, are they required to file?**
 - A. Yes; income is above the limit.**
 - B. No; income is below \$12,200.**
 - C. Yes; dependents require filing.**
 - D. No; head of households are exempt from filing.**
- 5. What does "federal income tax withheld" represent?**
 - A. The total amount paid in taxes for the year**
 - B. The advance payment of federal income tax made on behalf of a taxpayer**
 - C. The taxable income increase due to withholding**
 - D. The total deductions from gross income**

- 6. What is the tax treatment of income for an S Corporation?**
- A. Income is taxed at the corporate level only.**
 - B. Income passes through to shareholders to report on their individual returns.**
 - C. S Corporations do not pay any form of taxes.**
 - D. Income is taxed at both corporate and individual levels.**
- 7. Who is typically responsible for managing the daily operations of a partnership?**
- A. The general partner.**
 - B. The limited partner.**
 - C. The beneficiary.**
 - D. The annuitant.**
- 8. What factor primarily determines a full-time student status for tax purposes?**
- A. The number of courses completed**
 - B. The number of hours enrolled as considered full-time by the institution**
 - C. The age of the student**
 - D. The attendance rate during the academic year**
- 9. What is the purpose of a disability pension?**
- A. To provide retirement savings**
 - B. To fund health insurance**
 - C. To provide income from an employer-funded plan**
 - D. To aid in unemployment benefits**
- 10. What is a key characteristic of Rental Income?**
- A. It is associated only with commercial properties**
 - B. It is considered passive income**
 - C. It must always be reported in full**
 - D. It is taxed at a lower rate**

Answers

SAMPLE

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

SAMPLE

Explanations

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1. How can a taxpayer demonstrate their residency under the Five Tests for a Qualifying Child?

- A. By showing where they attend school**
- B. By proving they live with the taxpayer for more than half the year**
- C. Only by submitting utility bills**
- D. Solely through a notarized statement**

To demonstrate residency under the Five Tests for a Qualifying Child, a taxpayer needs to show that the child lives with them for more than half the year. This is essential because one of the qualifying criteria for claiming a child as a dependent is that the child must reside with the taxpayer for at least six months of the year, excluding temporary absences. Living with the taxpayer establishes that the child has a primary home or substantial presence in that household, which is crucial for the qualifying child relationship. Other factors such as school attendance may not sufficiently indicate residency, nor can utility bills alone confirm that the child resides with the taxpayer. Notarized statements are also inadequate by themselves to prove residency without accompanying evidence of living arrangements.

2. Which W-2 Box 12 Code indicates contributions under a SIMPLE plan?

- A. Code S**
- B. Code Q**
- C. Code T**
- D. Code W**

The correct indication for contributions made under a SIMPLE (Savings Incentive Match Plan for Employees) plan is represented by Code S in Box 12 of the W-2 form. This specific code is used to report the amount of employee salary reduction contributions made to a SIMPLE IRA plan. It helps both the employee and the IRS to identify that the contributions are made under a specific retirement savings plan, which has unique tax benefits, including tax deferral on investment gains and contributions. Understanding the context of the other codes can help clarify why Code S is the relevant answer here. Code Q, for instance, refers to distributions from a Roth IRA, which is unrelated to the SIMPLE plan contributions. Code T is used for the adoption benefits, and Code W is for contributions to a Health Savings Account. All of these codes serve different purposes and generally represent different types of benefits or contributions that do not pertain to the SIMPLE plan. By focusing on the specific tax implications and reporting requirements of each code, it becomes clear why Code S is the correct choice for SIMPLE plan contributions.

3. What does tax liability refer to?

- A. The amount of taxes owed before credits and advance payments**
- B. The total gross income of an individual**
- C. The amount of tax refund received**
- D. The total deductions claimed by a taxpayer**

Tax liability specifically refers to the amount of taxes an individual or business is legally obligated to pay to the government for a given tax period before any tax credits or advance payments are taken into account. This figure is determined based on taxable income, which is calculated by taking gross income and applying any allowable deductions. Understanding tax liability is crucial as it represents the taxpayer's responsibility to pay taxes; knowing this amount helps taxpayers plan for payments and understand potential refunds or balances due once credits and prepayments are applied. The other choices do not capture this definition. Gross income comprises all income received, tax refunds indicate money returned to the taxpayer, and deductions are subtracted from gross income to compute taxable income, but none of these define the final liability owed.

4. If a head of household has a gross income of \$11,750, are they required to file?

- A. Yes; income is above the limit.**
- B. No; income is below \$12,200.**
- C. Yes; dependents require filing.**
- D. No; head of households are exempt from filing.**

In this situation, a head of household with a gross income of \$11,750 is not required to file a federal income tax return because their income falls below the filing threshold of \$12,200 for the tax year 2020. The threshold is set based on factors such as filing status and age. Since the gross income is below this limit, the individual is not obligated to file a return. It's essential to understand that the threshold is designed to determine whether individuals or dependents need to report their income to the IRS. If an individual's gross income is lower than the established threshold, they do not need to file unless they meet other specific criteria, such as being self-employed or having certain types of income. This filing requirement applies to all taxpayers regardless of their filing status, including heads of household, unless there are other circumstances that necessitate filing.

5. What does "federal income tax withheld" represent?

- A. The total amount paid in taxes for the year
- B. The advance payment of federal income tax made on behalf of a taxpayer**
- C. The taxable income increase due to withholding
- D. The total deductions from gross income

"Federal income tax withheld" refers to the portion of a taxpayer's income that is deducted and sent to the federal government as a prepayment towards their annual income tax liability. This concept is designed to ensure that taxpayers contribute to their tax obligations throughout the year rather than waiting until the filing of their tax return. When employers pay employees, they typically withhold a percentage of the earnings for federal income taxes based on the information provided by the employee on their Form W-4. This withheld amount accumulates over the course of the year, and the employee will report this on their tax return. If the amount withheld exceeds the taxpayer's total tax liability for the year, they may receive a refund; conversely, if it is less, they may need to pay the difference. Understanding this concept is crucial for taxpayers, as it directly affects their cash flow and tax obligations, and helps them avoid penalties for underpayment of taxes. Other choices provided do not accurately depict the nature of federal income tax withheld, as they relate to different aspects of tax obligations or financial reporting.

6. What is the tax treatment of income for an S Corporation?

- A. Income is taxed at the corporate level only.
- B. Income passes through to shareholders to report on their individual returns.**
- C. S Corporations do not pay any form of taxes.
- D. Income is taxed at both corporate and individual levels.

In an S Corporation, the key feature is that it operates as a pass-through entity for tax purposes. This means that the income generated by the corporation is not taxed at the corporate level; instead, it is passed through to the individual shareholders. Each shareholder reports their share of the corporation's income on their personal tax returns, subject to their individual tax rates. This structure avoids the double taxation typically associated with C Corporations, where income is taxed at both the corporate level and again at the individual level when dividends are distributed to shareholders. By allowing income to pass through to the shareholders, the S Corporation provides a significant tax advantage. Shareholders report their pro-rata share of the S Corporation's income, losses, deductions, and credits, enabling them to possibly benefit from tax attributes that may offset other income. While it is true that S Corporations may still have to pay certain taxes, such as state-level taxes or specific built-in gains taxes under certain conditions, the essential characteristic of being a pass-through entity is what fundamentally defines the tax treatment of income for an S Corporation.

7. Who is typically responsible for managing the daily operations of a partnership?

- A. The general partner.**
- B. The limited partner.**
- C. The beneficiary.**
- D. The annuitant.**

The general partner is typically responsible for managing the daily operations of a partnership. In a partnership structure, particularly a limited partnership, the general partner holds the authority and responsibility to make decisions, manage the business activities, and handle the overall operations. This includes oversight of financial matters, strategic planning, and day-to-day management activities. The role of the limited partner, in contrast, is more passive. Limited partners typically contribute capital to the partnership but do not participate in managing the business, which limits their liability and involvement in operational decisions. As for the terms "beneficiary" and "annuitant," they do not pertain to the context of partnerships. A beneficiary usually refers to someone who benefits from a trust or insurance policy, while an annuitant is an individual who receives benefits from an annuity contract. Neither of these roles is relevant to the management of partnership operations.

8. What factor primarily determines a full-time student status for tax purposes?

- A. The number of courses completed**
- B. The number of hours enrolled as considered full-time by the institution**
- C. The age of the student**
- D. The attendance rate during the academic year**

The status of being a full-time student for tax purposes is primarily determined by the number of hours a student is enrolled in courses, as defined by the educational institution. Most colleges and universities identify full-time enrollment by setting a minimum threshold of credit hours that students must maintain. This criterion is crucial because it directly impacts the eligibility for various tax benefits, including educational credits such as the American Opportunity Credit and Lifetime Learning Credit, as well as deductions related to tuition and fees. When determining full-time status, it's essential to rely on the specific guidelines set forth by the institution, which may vary between schools. Simply completing a certain number of courses may not accurately reflect the student's full-time engagement, as some courses might carry fewer credit hours. Also, while the age of the student and attendance rates may provide context regarding a student's academic journey, they do not specifically define full-time enrollment in the context of tax law.

9. What is the purpose of a disability pension?

- A. To provide retirement savings
- B. To fund health insurance
- C. To provide income from an employer-funded plan**
- D. To aid in unemployment benefits

A disability pension is specifically designed to provide income to individuals who are unable to work due to a qualifying disability. This financial support is typically administered through an employer-funded plan, which compensates employees who have contributed to such a plan and who are now facing challenges due to their health condition. The nature of a disability pension is to replace a portion of the income that would have been generated through employment, addressing the economic impact of being unable to work. While retirement savings, health insurance, and unemployment benefits are important components of financial security, they serve different purposes. Retirement savings are meant for funding expenses in later life after one has ceased working, health insurance typically covers medical expenses rather than providing direct income support, and unemployment benefits assist individuals who are temporarily out of work through no fault of their own rather than those specifically impacted by a disability. Thus, the primary objective of a disability pension is to ensure that individuals who are unable to engage in their normal work due to a disability still receive some form of income support through an established plan from their employer.

10. What is a key characteristic of Rental Income?

- A. It is associated only with commercial properties
- B. It is considered passive income**
- C. It must always be reported in full
- D. It is taxed at a lower rate

Rental income is indeed characterized as passive income. This classification is important for tax purposes because it affects how rental income is treated under the IRS guidelines. Passive income typically arises from activities in which the taxpayer is not actively engaged, such as managing rental properties. In practice, this means that rental income is reported differently compared to income earned from active participation, such as wages or business income. For tax forms, rental income is generally reported on Schedule E, which is specifically designated for rental and royalty income. This distinction is crucial, as it also allows for certain deductions related to rental properties (like maintenance costs, property management fees, and depreciation) which can offset this income. While it's important to report all rental income accurately, the nature of it being passive can have significant implications for how taxpayers may leverage losses from their rental activities. This characteristic can influence a taxpayer's overall tax strategy, particularly if they engage in other types of business activities that generate active income.