

# H&R Block Income Tax 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. How is a hobby defined for tax purposes?**

- A. An activity for profit**
- B. An activity not entered into for profit**
- C. An investment strategy**
- D. A business operation**

**2. What does Form 1099-DIV report?**

- A. Interest income**
- B. Dividends and distributions**
- C. Capital gains**
- D. Foreign financial accounts**

**3. What is a royalty in the context of income?**

- A. A salary paid to an employee.**
- B. A payment for exploiting ownership rights of resources or creations.**
- C. Income gained from large investments.**
- D. A fee for providing transportation services.**

**4. What defines the nature of rental income?**

- A. Passive income derived from property**
- B. Active income acquired through sales**
- C. Earned income from services rendered**
- D. Unearned income from the use of property**

**5. What does gross receipts include?**

- A. Only cash received from sales**
- B. Cash and fair market value of goods and services exchanged**
- C. Net profit from business operations**
- D. Accounts receivable not yet collected**

**6. What is a key factor that disqualifies a couple from filing jointly while one spouse itemizes?**

- A. The standard deduction becomes \$0 for the itemizing spouse**
- B. One spouse must claim a larger percentage of income**
- C. Itemizing restrictions apply only to businesses**
- D. Both need to file separate SARS forms**

**7. What form is used for reporting additional taxes on qualified plans and other tax-favored accounts?**

- A. Form 1040**
- B. Form 5329**
- C. Form 1099**
- D. Form W-2**

**8. What does W-2 Box 12 Code A indicate?**

- A. Uncollected medicare tax on tips**
- B. Uncollected social security tax or railroad retirement tax on tips**
- C. Contribution to retirement savings**
- D. Cost of health insurance benefits**

**9. How does the income level affect the taxation of Social Security benefits for Married Filers?**

- A. Higher income decreases tax liability**
- B. Higher income caps taxability of benefits**
- C. Higher income increases tax liability progressively**
- D. Income level has no effect on tax liability**

**10. What type of corporation is defined as an S Corporation?**

- A. A corporation that only allows one owner.**
- B. A corporation that has elected special tax treatment under subchapter S.**
- C. A non-profit organization.**
- D. A governmental organization.**

## **Answers**

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

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## **Explanations**

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## 1. How is a hobby defined for tax purposes?

- A. An activity for profit
- B. An activity not entered into for profit**
- C. An investment strategy
- D. A business operation

A hobby is defined for tax purposes as an activity not entered into for profit. This definition is crucial because it distinguishes between activities that are pursued for enjoyment and those that are conducted with the intent to earn a profit. The IRS recognizes that hobbies can generate income, but the key element is whether the individual engages in the activity primarily for personal pleasure rather than financial gain. When an activity qualifies as a hobby, the tax implications can differ significantly compared to a business. Specifically, hobby income is generally taxable, but expenses related to the hobby are limited and can only be deducted to the extent of the income generated by the hobby. This is a stark contrast to business operations where expenses can often be fully deducted, which reflects a profit motive. In terms of tax reporting, the IRS requires individuals to differentiate between their hobbies and legitimate profit-driven endeavors since the associated expenses and income treatment varies widely. Understanding this distinction helps taxpayers avoid issues with the IRS regarding the classification of their activities and ensures compliance with tax laws.

## 2. What does Form 1099-DIV report?

- A. Interest income
- B. Dividends and distributions**
- C. Capital gains
- D. Foreign financial accounts

Form 1099-DIV is specifically used to report dividends and distributions to shareholders from corporations and mutual funds. This form provides detailed information about the various types of dividends received, including ordinary dividends, qualified dividends, and capital gain distributions. Understanding this form is essential for taxpayers, as it helps them accurately report their income on their tax returns. It ensures that individuals include all relevant income sources, particularly those derived from investments in stocks or mutual funds, which may be subject to different tax rates depending on the type of distribution. The other options pertain to other types of financial information: interest income is reported on Form 1099-INT, capital gains are typically reported on Schedule D or Form 8949, and foreign financial accounts are reported through different forms including the FBAR or Form 8938, which are not associated with dividends or distributions. This specificity of Form 1099-DIV in relation to dividends and distributions is critical for correctly assessing tax liabilities connected to investment income.

### 3. What is a royalty in the context of income?

- A. A salary paid to an employee.
- B. A payment for exploiting ownership rights of resources or creations.**
- C. Income gained from large investments.
- D. A fee for providing transportation services.

In the context of income, a royalty refers to a payment made to an individual or company for the use of their property, such as intellectual property, patents, copyrights, or natural resources. This payment allows others to exploit ownership rights, generating income based on the economic value of the property. Royalties can come from a variety of sources, including music, literature, inventions, and mineral rights, and are typically based on a percentage of sales or usage. This definition highlights the nature of royalties as payments for the use of someone else's creation or resource, distinguishing them from other forms of income. For instance, a salary represents compensation for labor or services provided, while capital gains are derived from investments rather than direct payments for rights. Thus, option B accurately captures the essence of royalties within the context of income.

### 4. What defines the nature of rental income?

- A. Passive income derived from property
- B. Active income acquired through sales
- C. Earned income from services rendered
- D. Unearned income from the use of property**

The definition of rental income is best captured by the notion of it being unearned income from the use of property. Rental income is generated when a property owner allows tenants to use their property in exchange for payment. This type of income does not require the owner to exert significant effort or provide personal services, distinguishing it from earned income, which results from actively engaging in work or services. Unearned income is typically characterized by money received without the necessity of active involvement or labor, which aligns perfectly with the nature of rental income. The owner receives payment merely for the ownership of the property and the right to occupy it, rather than for performing work or services associated with the property itself. The other choices relate to different forms of income that don't accurately reflect rental income. Passive income does include rental income, but defining it solely as passive income does not emphasize the aspect of it being unearned from property usage specifically. Active income from sales or earned income from services rendered are inconsistent with rental income, as they involve directly providing goods or services in exchange for compensation.

## 5. What does gross receipts include?

- A. Only cash received from sales
- B. Cash and fair market value of goods and services exchanged**
- C. Net profit from business operations
- D. Accounts receivable not yet collected

Gross receipts represent the total income received by a business before any expenses or deductions are subtracted. This total includes not only the cash received from sales but also the fair market value of goods and services exchanged. This means that if a business barter its goods or services, the fair market value of what was exchanged should be included in gross receipts. This is important for accurately reporting income, as it reflects the true economic benefit received by the business. In contrast, cash received from sales alone would not provide a complete picture of the business's income if other forms of income are also part of the transactions. For tax purposes, reporting gross receipts in this comprehensive manner ensures that a business meets its tax obligations appropriately.

## 6. What is a key factor that disqualifies a couple from filing jointly while one spouse itemizes?

- A. The standard deduction becomes \$0 for the itemizing spouse**
- B. One spouse must claim a larger percentage of income
- C. Itemizing restrictions apply only to businesses
- D. Both need to file separate SARS forms

When a couple considers filing a joint tax return, they must both adhere to the same tax treatment regarding how they deduct expenses. If one spouse itemizes deductions on their tax return, the other spouse cannot take the standard deduction; they must also itemize, regardless of whether it would be more advantageous for them to take the standard deduction. This principle is established by the IRS, which requires that if either spouse itemizes deductions, both must do so. Therefore, when one spouse itemizes and the other does not, this disqualifies the couple from filing a joint return under the rules that govern filing status. The correct choice highlights that the standard deduction for the spouse who is itemizing effectively becomes \$0 when filing jointly, making it impossible for the couple to take the benefits of combining their incomes and deductions under that status. The other options do not accurately reflect the constraints placed on couples regarding itemizing versus taking the standard deduction in joint filing scenarios.

**7. What form is used for reporting additional taxes on qualified plans and other tax-favored accounts?**

- A. Form 1040**
- B. Form 5329**
- C. Form 1099**
- D. Form W-2**

Form 5329 is specifically designed for reporting additional taxes on qualified plans, such as IRAs and 401(k)s, as well as other tax-favored accounts. This form is used when there are early distributions from these retirement plans or when taxpayers have failed to take required minimum distributions. For example, if an individual withdraws funds from their retirement account before reaching the age of 59½, they may incur an additional tax penalty, and Form 5329 would be utilized to calculate and report that penalty. Similarly, if a taxpayer does not take the required minimum distribution from their IRA, this form helps in reporting the excess accumulation tax. The other forms mentioned serve different purposes. Form 1040 is the primary document for filing an individual's annual income tax return. Form 1099 is used to report various types of income other than wages, salaries, or tips, including dividends or freelance income. Form W-2 is submitted by employers to report wages paid to employees and the taxes withheld. Thus, while all these forms play crucial roles in tax reporting, Form 5329 is the one specifically tailored for reporting additional taxes related to qualified retirement plans and other tax-favored accounts.

**8. What does W-2 Box 12 Code A indicate?**

- A. Uncollected medicare tax on tips**
- B. Uncollected social security tax or railroad retirement tax on tips**
- C. Contribution to retirement savings**
- D. Cost of health insurance benefits**

W-2 Box 12 Code A indicates "Uncollected Medicare tax on tips." This code is specifically used to report the amount of Medicare tax that has not been withheld from tips received by an employee. If an employee receives tips that exceed a certain threshold and if the employer has not withheld the appropriate amounts for Medicare tax, this uncollected amount must be reported using this code. This information is crucial for taxpayers in order to accurately report their income and tax liabilities, as it helps in determining the total tax due, including any additional taxes needed to be paid because of uncollected amounts. Understanding each of the different codes on the W-2 is essential for filing accurate tax returns, as they convey specific information regarding compensation, tax withholdings, and various employee benefits.

## 9. How does the income level affect the taxation of Social Security benefits for Married Filers?

- A. Higher income decreases tax liability
- B. Higher income caps taxability of benefits
- C. Higher income increases tax liability progressively**
- D. Income level has no effect on tax liability

The taxation of Social Security benefits for married filers is determined by their combined income level, which includes adjusted gross income (AGI), tax-exempt interest, and half of their Social Security benefits. As the income level increases, a larger portion of Social Security benefits becomes subject to taxation. Married filers whose combined income exceeds certain thresholds will see a progressive increase in the taxable percentage of their Social Security benefits. Specifically, if their combined income is above \$32,000, up to 50% of their benefits may be taxable. If their combined income exceeds \$44,000, up to 85% of their Social Security benefits may be subject to federal income tax. This structure means that the higher the couple's income, the more of their Social Security benefits will ultimately be taxed, leading to an increase in tax liability as their income rises. Thus, this progressive taxation structure makes the correct choice clear, as it accurately describes the relationship between income level and the tax treatment of Social Security benefits for married filers.

## 10. What type of corporation is defined as an S Corporation?

- A. A corporation that only allows one owner.
- B. A corporation that has elected special tax treatment under subchapter S.**
- C. A non-profit organization.
- D. A governmental organization.

An S Corporation is defined as a corporation that has elected special tax treatment under subchapter S of the Internal Revenue Code. This designation allows the corporation to avoid double taxation on its income. Instead of the corporation paying taxes at the corporate level, the income, deductions, and credits are passed through to the individual shareholders, who then report these items on their personal tax returns. This structure can provide tax benefits for many small businesses and allows the income to be taxed only once, at the shareholder level. The other options are not applicable to the definition of S Corporations. For instance, having only one owner does not define a corporation, as S Corporations can have multiple shareholders. Non-profit and governmental organizations operate under different tax codes and regulations, and they do not qualify as S Corporations due to their distinct purposes and tax treatment.

# 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](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://handrblockincometax.examzify.com>**

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

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