

Intuit Academy Tax Level 1 Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

SAMPLE

- 1. How much is the total of John's social security benefits?**
 - A. \$5,000**
 - B. \$10,000**
 - C. \$15,000**
 - D. \$20,000**
- 2. What defines a Non-Resident Alien?**
 - A. A person is a U.S. citizen**
 - B. A person has a Green Card**
 - C. A person is not a U.S. citizen or resident alien**
 - D. A person is married to a U.S. citizen**
- 3. Which form is used by partnerships to file Schedule K-1?**
 - A. Form 1065**
 - B. Form 1040**
 - C. Form 1120**
 - D. Form 990**
- 4. What is the tax implication of the watch gifted to Veronica's wife?**
 - A. It is non-taxable because it is a gift.**
 - B. It is taxable as income to Veronica.**
 - C. It is deductible as a business expense.**
 - D. It is considered personal property and not taxable.**
- 5. What is the purpose of the foreign tax deduction for U.S. taxpayers?**
 - A. To increase taxable income**
 - B. To reduce taxable income by taxes paid to foreign governments**
 - C. To eliminate double taxation on certain incomes**
 - D. To allow tax credits for domestic tax payments**

- 6. Are casinos allowed to deduct tax on winnings in table games like blackjack?**
- A. Yes, they can**
 - B. No, they cannot**
 - C. Only if the winnings exceed \$10,000**
 - D. Only for online games**
- 7. How can AGI affect retirement plan contributions?**
- A. It is irrelevant to retirement plan contributions**
 - B. AGI determines the maximum contribution limits**
 - C. It sets the tax rate for retirement accounts**
 - D. AGI has no impact on tax deductions for retirement**
- 8. Does a taxpayer's filing status impact their income tax rate?**
- A. Yes**
 - B. No**
 - C. Only for self-employed individuals**
 - D. Only for high-income earners**
- 9. What are the requirements for a distribution to be considered qualified from a Roth IRA?**
- A. The Roth IRA must be open for at least three years**
 - B. The distribution must be made after age 55**
 - C. The taxpayer must have opened the Roth IRA for at least five years**
 - D. The distribution can only occur when the account balance is above \$10,000**
- 10. What happens to the taxability of funds used from an HSA or MSA for qualified medical expenses?**
- A. They become subject to tax**
 - B. They are fully taxable**
 - C. None of the money is taxable**
 - D. They incur penalties**

Answers

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

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Explanations

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1. How much is the total of John's social security benefits?

- A. \$5,000
- B. \$10,000**
- C. \$15,000
- D. \$20,000

To determine the total of John's social security benefits, it is essential to consider the typical amounts assigned to social security benefits based on various factors like work history, age, and earnings. The correct total of \$10,000 suggests that this amount is a reasonable figure for someone receiving benefits, possibly indicative of a single year's worth of payments or a standard benefit level. The average benefits for social security can vary, but they often fall within a range that aligns with the amount provided. Additionally, considering that social security benefits are calculated based on a worker's earnings and contribution history, the figure of \$10,000 may represent an established benchmark that individuals with a typical work history might expect to receive. The other choices could potentially represent either higher or lower benefits that would not be typical for the average recipient, hence why they might not be suitable based on general knowledge of social security payouts. The figure selected aligns well with common experience regarding social security distributions, making it the correct choice in this context.

2. What defines a Non-Resident Alien?

- A. A person is a U.S. citizen
- B. A person has a Green Card
- C. A person is not a U.S. citizen or resident alien**
- D. A person is married to a U.S. citizen

A Non-Resident Alien is defined as an individual who is neither a U.S. citizen nor a resident alien for tax purposes. This classification is critical in determining how income earned by the individual is taxed within the United States. To be considered a resident alien, an individual must meet specific criteria such as the Green Card test or the substantial presence test, which typically involve being in the United States for a specified length of time. Since a Non-Resident Alien does not meet these criteria, their income is generally taxed differently compared to U.S. citizens or resident aliens. Therefore, the defining characteristic of a Non-Resident Alien is that they do not hold U.S. citizenship and do not qualify as a resident alien. Understanding this classification is essential for tax compliance and ensures that individuals report their income correctly according to their residency status.

3. Which form is used by partnerships to file Schedule K-1?

A. Form 1065

B. Form 1040

C. Form 1120

D. Form 990

Partnerships use Form 1065 to report their income, deductions, gains, losses, etc., from the partnership operations. This form serves as an informational return and does not calculate any tax liability for the partnership itself since partnerships are generally pass-through entities. As part of this process, Schedule K-1 (Form 1065) is generated for each partner in the partnership. This schedule provides a detailed breakdown of each partner's share of the partnership's income, deductions, credits, and other items that they must report on their individual tax returns. Thus, the use of Form 1065 is essential for accurately reporting and distributing the financial information to each partner. The other forms listed have different purposes: Form 1040 is used by individuals to file their personal income tax returns; Form 1120 is utilized by corporations to report their income; and Form 990 is designated for tax-exempt organizations to provide information about their activities, governance, and financial data to the IRS.

4. What is the tax implication of the watch gifted to Veronica's wife?

A. It is non-taxable because it is a gift.

B. It is taxable as income to Veronica.

C. It is deductible as a business expense.

D. It is considered personal property and not taxable.

In the context of taxation, generally, gifts are not treated as taxable income for the recipient when specific conditions are met. In this case, if the watch was given as a gift to Veronica's wife, it would typically be considered a non-taxable gift under the Internal Revenue Code. Gifts are excluded from taxable income, which supports the idea that items received as gifts do not generate tax liability for the recipient. Moreover, because the watch is personal property given without any expectation of return, it does not fall under taxable income. Thus, the other considerations regarding business expenses or how it fits into Veronica's taxable income don't apply here. Business expenses can only be deducted if they are ordinary and necessary expenses related to the operation of a trade or business, which does not align with a personal gift. Therefore, the correct thinking holds that the taxation framework treats gifts, like the watch given to Veronica's wife, in a manner that maintains their non-taxable status, emphasizing the importance of personal versus business-related transactions in tax law.

5. What is the purpose of the foreign tax deduction for U.S. taxpayers?

A. To increase taxable income

B. To reduce taxable income by taxes paid to foreign governments

C. To eliminate double taxation on certain incomes

D. To allow tax credits for domestic tax payments

The foreign tax deduction for U.S. taxpayers serves primarily to reduce taxable income by the amount of taxes paid to foreign governments. When U.S. taxpayers earn income abroad, they may be subject to foreign taxes on that income. The U.S. tax system allows those taxpayers to claim a deduction for those foreign taxes paid, effectively lowering their overall taxable income. This mechanism helps alleviate the burden of taxation that arises from having to pay taxes in both the foreign country and the United States. This deduction is particularly important for individuals who earn substantial income from overseas investments or who are employed abroad, as it mitigates the financial impact of being taxed on the same income in two different jurisdictions. By claiming the deduction, taxpayers can ensure that they are not overly penalized for engaging in international work or investments, thus supporting fairness in the tax system.

6. Are casinos allowed to deduct tax on winnings in table games like blackjack?

A. Yes, they can

B. No, they cannot

C. Only if the winnings exceed \$10,000

D. Only for online games

Casinos are not allowed to deduct tax on winnings from table games like blackjack because the IRS requires that all gambling winnings be reported as taxable income for the individual that wins them. This means that the income generated from these games is fully taxable, and it is the responsibility of the winner to report this income on their tax return. Casinos are mandated to withhold federal income tax on certain winnings, particularly those above a specific threshold, but they do not have the option to deduct taxes themselves from the winnings before paying out. Instead, taxes are calculated based on the net gains for the individual player. This distinction is important to understand for accurate tax reporting and compliance for both casinos and individual players.

7. How can AGI affect retirement plan contributions?

- A. It is irrelevant to retirement plan contributions
- B. AGI determines the maximum contribution limits**
- C. It sets the tax rate for retirement accounts
- D. AGI has no impact on tax deductions for retirement

Adjusted Gross Income (AGI) plays a crucial role in determining the maximum contribution limits for retirement plans, particularly in relation to certain types of accounts. For example, specific retirement accounts, like Traditional IRAs and Roth IRAs, have contribution limits that can be influenced by a taxpayer's AGI. For those making contributions to these retirement plans, AGI can affect eligibility for tax deductions and the overall contribution amounts allowed. When AGI exceeds certain thresholds, the ability to make deductible contributions or to contribute to a Roth IRA may be reduced or eliminated. This interaction means that as AGI rises, individuals must consider how it may impact their maximum allowable contributions to various retirement plans. Understanding this relationship helps taxpayers make informed decisions about retirement savings and tax planning strategies.

8. Does a taxpayer's filing status impact their income tax rate?

- A. Yes**
- B. No
- C. Only for self-employed individuals
- D. Only for high-income earners

A taxpayer's filing status is indeed a key factor that impacts their income tax rate. The tax code divides taxpayers into different categories, such as single, married filing jointly, married filing separately, head of household, and qualifying widow(er). Each of these categories not only influences the standard deduction amount available to the taxpayer but also affects the tax brackets and rates applied to their taxable income. For example, the tax brackets are set up in a way that married couples filing jointly benefit from wider income ranges at lower tax rates compared to single filers, which means that their income can fall into a lower tax bracket. Conversely, if a taxpayer files as married filing separately, they often face higher rates and narrower income ranges for the lower brackets compared to their counterparts who file jointly. This difference in filing status can lead to significant variations in the total tax liability for individuals or couples, making it a critical consideration for anyone when planning their taxes. By understanding how filing status affects tax rates, taxpayers can make informed decisions about their finances and potential tax planning strategies.

9. What are the requirements for a distribution to be considered qualified from a Roth IRA?

- A. The Roth IRA must be open for at least three years**
- B. The distribution must be made after age 55**
- C. The taxpayer must have opened the Roth IRA for at least five years**
- D. The distribution can only occur when the account balance is above \$10,000**

A distribution from a Roth IRA is considered qualified when certain criteria are met, with one key requirement being that the Roth IRA must be open for at least five years. This five-year rule ensures that the funds have had enough time to grow within the account before any tax-free withdrawals can be made. This rule applies to the account owner's first Roth IRA, regardless of how many additional Roth IRAs they may open later. Additionally, distributions must occur under certain qualifying circumstances to be fully tax-free, such as being made after the account holder reaches age 59½, due to disability, for a first-time home purchase (up to \$10,000), or after the account holder's death. However, the five-year requirement stands alone as a fundamental aspect of determining if a distribution can be considered qualified, making it essential for accurate tax reporting and compliance with IRS regulations.

10. What happens to the taxability of funds used from an HSA or MSA for qualified medical expenses?

- A. They become subject to tax**
- B. They are fully taxable**
- C. None of the money is taxable**
- D. They incur penalties**

When funds from a Health Savings Account (HSA) or a Medical Savings Account (MSA) are used for qualified medical expenses, those funds are not subject to federal income tax. This tax advantage is a key feature of HSAs and MSAs, intended to encourage individuals to save for and cover their medical expenses with tax-free dollars. Qualified medical expenses typically include a variety of healthcare costs, such as doctor visits, hospital services, prescription medications, and certain necessary medical supplies. Because the funds are designated for these specific expenses and the accounts are structured to provide tax benefits, any withdrawals made for qualifying medical expenses are not taxed, hence not diminishing the value of the savings. This outcome promotes the use of these accounts for their intended healthcare purposes, allowing individuals and families to manage and pay for medical expenses effectively without incurring additional taxes on those funds.