

Intuit Academy Tax Level 1 Practice Test (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

- 1. Does Sandeep's daughter's foreign income need to be reported in the U.S.?**
 - A. Yes, it is subject to U.S. income tax**
 - B. No, she is living abroad**
 - C. Only if she visits the U.S.**
 - D. Only if she makes more than \$100,000**
- 2. What must be true for business expenses to qualify as tax deductions according to Section 162 of the Internal Revenue Code?**
 - A. They must be verified by the IRS**
 - B. They must be ordinary and necessary**
 - C. They must be below a certain threshold**
 - D. They must be related to advertising**
- 3. What does Residency Status refer to?**
 - A. A taxpayer's income level**
 - B. A foreign national's legal status in a host country**
 - C. The state of citizenship**
 - D. The duration of stay in a country**
- 4. At what age can a taxpayer make a qualified distribution from a Roth IRA without facing the additional tax?**
 - A. 55 years old**
 - B. 59½ years old**
 - C. 62 years old**
 - D. 65 years old**
- 5. What is a lifetime limit for qualified first-time homebuyer expenses from a Roth IRA?**
 - A. \$5,000**
 - B. \$7,500**
 - C. \$10,000**
 - D. \$15,000**

- 6. What is one reason for a Roth IRA distribution to be considered tax-free?**
- A. The distribution is less than \$1,000**
 - B. The account was previously converted from a traditional IRA**
 - C. The distribution meets the five-year rule**
 - D. The distribution comes from a 401(k) plan**
- 7. What kind of expenses can typically be included when calculating total qualified medical expenses?**
- A. Insurance payouts**
 - B. Unreimbursed medical bills**
 - C. Lottery winnings**
 - D. Personal expenses like groceries**
- 8. Which of the following is used to reduce the amount of tax due?**
- A. Tax deductions**
 - B. Tax credits**
 - C. Tax liabilities**
 - D. Tax rates**
- 9. Does Daniela's father need to file a tax return based on his income?**
- A. Yes, if he is receiving social security**
 - B. No, he doesn't need to file a tax return**
 - C. Yes, if he has other income sources**
 - D. No, because he is a non-resident**
- 10. What was the taxable income for partners in their second year if they had a profit of \$5,000 after experiencing a loss of \$5,000 in the first year?**
- A. \$0**
 - B. \$5,000**
 - C. \$10,000**
 - D. \$5,000 before losses**

Answers

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

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Explanations

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1. Does Sandeep's daughter's foreign income need to be reported in the U.S.?

A. Yes, it is subject to U.S. income tax

B. No, she is living abroad

C. Only if she visits the U.S.

D. Only if she makes more than \$100,000

Sandeep's daughter's foreign income needs to be reported in the U.S. because U.S. citizens and resident aliens are required to report their worldwide income, regardless of where it is earned. This obligation applies to income earned overseas unless it qualifies for exclusions or credits under specific IRS provisions, such as the Foreign Earned Income Exclusion. While there are certain thresholds and considerations for taxation, like the potential applicability of the Foreign Earned Income Exclusion for those earning below a specific amount, the fundamental rule remains that all income must be reported to the IRS. Therefore, the correct answer reinforces the idea that U.S. citizens and residents maintain this reporting obligation, irrespective of their physical location or the amount earned.

2. What must be true for business expenses to qualify as tax deductions according to Section 162 of the Internal Revenue Code?

A. They must be verified by the IRS

B. They must be ordinary and necessary

C. They must be below a certain threshold

D. They must be related to advertising

For business expenses to qualify as tax deductions under Section 162 of the Internal Revenue Code, they must be both ordinary and necessary. This means the expenses are common and accepted in the industry in which the business operates, and they are helpful and appropriate for the business. Ordinary expenses are those that are typical and commonly incurred in the business's area of operation. Necessary expenses are those that are helpful and appropriate for the business's activities, although not necessarily indispensable. For example, renting office space or purchasing supplies would be classified as ordinary and necessary expenses. This criterion ensures that only legitimate costs directly related to the operation of the business are deducted, which helps maintain the integrity of the tax system and ensures that the deductions accurately reflect the economic activity of the business.

3. What does Residency Status refer to?

- A. A taxpayer's income level
- B. A foreign national's legal status in a host country**
- C. The state of citizenship
- D. The duration of stay in a country

Residency Status specifically refers to a foreign national's legal status in a host country. This classification helps determine a person's eligibility to reside, work, and pay taxes in that particular country. Legal residency can influence the rights and obligations of a foreign national, as it differentiates between those who are allowed to stay long-term and those who may only have temporary permissions. In many jurisdictions, residency status plays a crucial role in tax treatments, compliance requirements, and access to public services. Understanding a person's residency status is essential for tax professionals, as it affects how income is taxed and what benefits or agreements might apply to the individual. The other options address different concepts: a taxpayer's income level relates to financial status, the state of citizenship is about formal nationality, and the duration of stay may inform residency discussions but does not capture the legal implications inherent in the term "Residency Status."

4. At what age can a taxpayer make a qualified distribution from a Roth IRA without facing the additional tax?

- A. 55 years old
- B. 59½ years old**
- C. 62 years old
- D. 65 years old

A taxpayer can make a qualified distribution from a Roth IRA without facing an additional tax penalty when they reach 59½ years old. This age threshold is established by IRS rules governing retirement accounts. To qualify for tax-free withdrawals of earnings, the account must also have been held for at least five years. This means that once a taxpayer is 59½, they can access their contributions and earnings without incurring the additional 10% early withdrawal penalty, provided they meet the five-year requirement. The other ages presented in the options do not align with the IRS rules governing Roth IRAs. For instance, withdrawals at 55 years or 62 years would still carry potential penalties if the account holder is under 59½ without meeting other criteria. Thus, 59½ is the correct age to avoid the additional tax when withdrawing from a Roth IRA.

5. What is a lifetime limit for qualified first-time homebuyer expenses from a Roth IRA?

- A. \$5,000**
- B. \$7,500**
- C. \$10,000**
- D. \$15,000**

The lifetime limit for qualified first-time homebuyer expenses from a Roth IRA is \$10,000. Individuals can withdraw up to this amount from their Roth IRA without incurring the usual penalties or taxes, provided the funds are used for qualified expenses related to purchasing a first home. This provision is designed to assist first-time homebuyers in gathering the necessary funds for their down payment or other related costs. The \$10,000 limit applies per individual, meaning that if both spouses are first-time homebuyers and each has a Roth IRA, they could effectively withdraw up to \$20,000 combined. This financial flexibility is particularly beneficial for those entering the housing market for the first time, allowing for a more accessible path to homeownership.

6. What is one reason for a Roth IRA distribution to be considered tax-free?

- A. The distribution is less than \$1,000**
- B. The account was previously converted from a traditional IRA**
- C. The distribution meets the five-year rule**
- D. The distribution comes from a 401(k) plan**

A Roth IRA distribution is considered tax-free primarily when it meets certain conditions outlined by the Internal Revenue Service. One of these critical conditions is the five-year rule, which stipulates that the funds must have been in the Roth IRA for at least five years before they can be withdrawn tax-free. This rule is essential for determining whether earnings can be distributed without incurring taxes, as contributions can always be withdrawn tax-free regardless of the duration. If the account owner has met this five-year requirement, they can take distributions accordingly and enjoy the tax-free advantage that a Roth IRA offers, especially regarding earnings on investments made within the account. This makes understanding the five-year rule crucial for making tax-efficient withdrawal decisions related to Roth IRAs.

7. What kind of expenses can typically be included when calculating total qualified medical expenses?

- A. Insurance payouts**
- B. Unreimbursed medical bills**
- C. Lottery winnings**
- D. Personal expenses like groceries**

Unreimbursed medical bills are a key component in calculating total qualified medical expenses because they represent costs that an individual incurs for medical care without receiving any reimbursement from insurance or other sources. Examples of these expenses can include fees for doctor visits, hospital stays, surgeries, and medical equipment that you pay out of pocket. This focus on unreimbursed expenses aligns with the IRS guidelines for what constitutes qualified medical expenses, which primarily concern healthcare-related costs that individuals have to cover themselves when insurance or other reimbursements do not apply. Qualified medical expenses are important for tax purposes, especially when determining eligibility for tax deductions or credits related to healthcare costs. In contrast, insurance payouts refer to funds received from an insurance company and would not factor into the calculation of out-of-pocket expenses for tax deductions. Lottery winnings and personal expenses like groceries are not related to healthcare and would not qualify as medical expenses in any tax calculation.

8. Which of the following is used to reduce the amount of tax due?

- A. Tax deductions**
- B. Tax credits**
- C. Tax liabilities**
- D. Tax rates**

The correct answer is tax credits because they directly reduce the amount of money a taxpayer owes to the government, effectively lowering their tax liability. When a taxpayer qualifies for a tax credit, it is subtracted from their total tax owed dollar-for-dollar, meaning if you owe \$1,000 in taxes and have a \$200 tax credit, your tax payment would only be \$800. Tax deductions, on the other hand, reduce the amount of taxable income, which can lower the overall tax bill, but not as directly or effectively as tax credits. Tax liabilities refer to the total amount of taxes owed by an individual or entity and do not actively reduce the amount owed; they represent the result of applying other elements such as deductions or credits. Tax rates influence how much tax is owed based on income levels and do not function to reduce taxes due. Tax credits are thus a more effective means of reducing tax obligations than the other options listed.

9. Does Daniela's father need to file a tax return based on his income?

- A. Yes, if he is receiving social security**
- B. No, he doesn't need to file a tax return**
- C. Yes, if he has other income sources**
- D. No, because he is a non-resident**

When determining whether Daniela's father needs to file a tax return based on his income, it's essential to consider the thresholds for income that necessitate filing. The requirement to file a tax return typically depends on a taxpayer's gross income, filing status, and age. In this case, if Daniela's father has income below the threshold set by the IRS for his particular situation, he would not be required to file a tax return. For instance, if his income solely consists of Social Security benefits, and those benefits do not exceed the filing requirement, he may not need to file at all. Furthermore, if he has no taxable income from other sources or if any additional income does not raise his total income above the minimum threshold, then he would not need to file a return. This means that option B accurately reflects that under certain circumstances, particularly involving low income and the nature of that income, a tax return is not necessary. In contrast, if he were receiving income from sources other than Social Security, had a mix of various income forms, or was classified as a non-resident based on his tax situation, those factors could change whether he needs to file.

10. What was the taxable income for partners in their second year if they had a profit of \$5,000 after experiencing a loss of \$5,000 in the first year?

- A. \$0**
- B. \$5,000**
- C. \$10,000**
- D. \$5,000 before losses**

In this scenario, the partners experience a profit of \$5,000 in their second year after incurring a loss of \$5,000 in the first year. When determining taxable income for partnerships, it's important to consider that losses from one year can offset profits from subsequent years to a degree. In this case, the \$5,000 profit from the second year can be offset by the \$5,000 loss from the first year. As a result, the partners' total taxable income for the second year effectively becomes \$0, because the profit is completely negated by the prior year's loss. This approach to calculating taxable income is consistent with tax laws that allow for the carryover of losses to offset future income, which helps provide a more equitable tax burden based on the overall financial performance over multiple years. Thus, the taxable income is accurately reflected as \$0 for their second year, meaning they would not owe any taxes on that income.

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://intuitacademytaxlvl1.examzify.com>

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