Intuit Academy Tax Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **What is the impact of not making estimated tax payments for Alexa?**
   - **A. Maximum of 10% penalty**
   - **B. She will not face any penalties**
   - **C. She could incur underpayment penalties**
   - **D. She will automatically be granted an extension**

2. **What are the filing deadlines for individual tax returns?**
   - **A. Generally due on March 15 of each year.**
   - **B. Always due on December 31 of the tax year.**
   - **C. Usually due on April 15, with possible extensions to October 15.**
   - **D. There are no specific deadlines for individual tax returns.**

3. **Which types of income are excluded from gross income?**
   - **A. Gifts and inheritances**
   - **B. All wages and salaries**
   - **C. Interest from savings accounts**
   - **D. Capital gains from investments**

4. **Interest on which kind of loan is typically not tax-deductible?**
   - **A. Small business loans**
   - **B. Mortgage loans**
   - **C. Personal loans**
   - **D. Student loans**

5. **What is true about the Qualified Business Income (QBI) deduction?**
   - **A. Qualified Business Owners can deduct up to 20% of their QBI**
   - **B. The QBI deduction is limited to $1,000**
   - **C. All self-employed individuals are eligible for 50% deduction**
   - **D. The QBI deduction is only applicable for a corporation**

6. What criteria must be met to deduct medical expenses?
   A. They must exceed 5% of AGI
   B. They must exceed 10% of AGI
   C. They must exceed 7.5% of AGI
   D. They must be itemized at all times

7. Which of the following is not a benefit of education credits?
   A. Reduction in tax liability
   B. Potential for tax refunds
   C. Reduction of taxable income
   D. Available for various education levels

8. Which education credit helps reduce tax liability for qualified education expenses?
   A. Child Tax Credit
   B. Earned Income Credit
   C. American Opportunity Credit
   D. Mortgage Interest Credit

9. What is the purpose of Schedule C?
   A. To report personal income
   B. To report income or loss from a business
   C. To calculate capital gains
   D. To detail taxable dividends

10. What is the definition of "passive activity loss"?
   A. Losses that offset ordinary income
   B. Losses generated in non-rental activities
   C. Losses from taxpayer's rental or business activities that cannot offset ordinary income
   D. Losses that are fully deductible against ordinary income

Answers

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

Explanations

1. **What is the impact of not making estimated tax payments for Alexa?**

   A. **Maximum of 10% penalty**

   B. **She will not face any penalties**

   C. **She could incur underpayment penalties**

   D. **She will automatically be granted an extension**

If an individual, such as Alexa, does not make estimated tax payments, they could incur underpayment penalties. Estimated tax payments are required for individuals who expect to owe tax of a certain amount on their income that is not subject to withholding. If these payments are not made sufficiently throughout the year, the IRS may impose penalties due to the underpayment. The penalties for underpayment are calculated based on the difference between the amount of tax owed and the amount that was actually paid throughout the year. The IRS requires taxpayers to pay a certain percentage of their expected tax liability either through withholding or estimated tax payments by specified deadlines. Failing to meet these requirements can lead to penalties, designed to encourage timely payment of taxes. In this context, the answer emphasizes the importance of making estimated tax payments to avoid additional costs. Taxpayers should assess their financial situation and tax liability accurately to ensure compliance and avoid penalties for underpayment.

2. **What are the filing deadlines for individual tax returns?**

   A. **Generally due on March 15 of each year.**

   B. **Always due on December 31 of the tax year.**

   C. **Usually due on April 15, with possible extensions to October 15.**

   D. **There are no specific deadlines for individual tax returns.**

The filing deadlines for individual tax returns are usually due on April 15, which is the standard date for tax filings each year. However, taxpayers can request an extension, allowing them to file their returns by October 15. This extension provides additional time to complete tax returns but does not extend the deadline for payment of any taxes owed, which are still due by April 15. This system helps taxpayers better manage their time and ensures that they can accurately report their income and expenses. In contrast, the other choices reflect inaccuracies regarding the deadlines for individual tax returns. The date of March 15 is relevant for S corporations and partnerships rather than individual taxpayers. A due date of December 31 would be inappropriate since that is the end of the tax year and not a filing date. As for the assertion that there are no specific deadlines, it is essential to recognize that the tax system does establish clear deadlines for compliance, emphasizing the importance of meeting these timeframes to avoid penalties and interest.

3. Which types of income are excluded from gross income?

A. Gifts and inheritances

B. All wages and salaries

C. Interest from savings accounts

D. Capital gains from investments

Gifts and inheritances are excluded from gross income under the Internal Revenue Code. This exclusion recognizes that gifts and wealth passed down from one individual to another shouldn't be taxed as ordinary income. It promotes the idea that these transfers are forms of personal benevolence, rather than qualifying earnings generated through a person's labor or investment activities. Other types of income, such as wages and salaries, are considered taxable and must be included in gross income because they are earned through employment. Interest from savings accounts is also taxable, as it represents a return on investment for the funds deposited. Similarly, capital gains from investments are included in gross income because they reflect profits realized from the sale of assets. Thus, gifts and inheritances stand out as a category that does not contribute to one's gross income, serving a unique purpose in the tax framework.

4. Interest on which kind of loan is typically not tax-deductible?

A. Small business loans

B. Mortgage loans

C. Personal loans

D. Student loans

Interest on personal loans is typically not tax-deductible because the Internal Revenue Service (IRS) generally allows only specific types of interest to be deducted from taxable income. Personal loans are unsecured and used for personal expenses, which do not satisfy the IRS criteria for deductions. In contrast, interest on business loans can often be deducted as a business expense, as businesses are allowed to deduct costs that are necessary for generating income. Mortgage interest can be deducted for qualified residences up to certain limits, making it a valuable deduction for homeowners. Student loan interest is also generally deductible, subject to income limitations, because it supports education-related expenses aimed at improving earning potential. The deduction criteria set by the IRS thus highlight the limited circumstances under which personal loan interest can be deducted, leading to the conclusion that interest on personal loans is not tax-deductible.

5. What is true about the Qualified Business Income (QBI) deduction?

A. Qualified Business Owners can deduct up to 20% of their QBI

B. The QBI deduction is limited to $1,000

C. All self-employed individuals are eligible for 50% deduction

D. The QBI deduction is only applicable for a corporation

The Qualified Business Income (QBI) deduction allows qualified business owners to deduct up to 20% of their QBI. This deduction was established under the Tax Cuts and Jobs Act to provide tax relief for pass-through entities like sole proprietorships, partnerships, and S corporations. The intent is to reduce the overall tax burden on these types of businesses, which often face a higher effective tax rate compared to traditional corporations. The QBI is defined as the net income generated from a qualified trade or business, excluding wages paid to oneself or guaranteed payments made to partners. This deduction is available to individual taxpayers, and it benefits small to medium-sized businesses substantially, assisting in promoting business growth and economic activity. In contrast, the other statements do not accurately reflect the nature of the QBI deduction. There is no cap of $1,000 on the deduction itself, and all self-employed individuals do not qualify for a 50% deduction, as eligibility is based on various income thresholds and business types. Moreover, the QBI deduction is specifically designed for individuals and pass-through entities rather than corporations.

6. What criteria must be met to deduct medical expenses?

A. They must exceed 5% of AGI

B. They must exceed 10% of AGI

C. They must exceed 7.5% of AGI

D. They must be itemized at all times

To deduct medical expenses, the correct criterion is that they must exceed 7.5% of adjusted gross income (AGI) for taxpayers. This percentage applies to the total of qualified unreimbursed medical expenses incurred during the year that can be included in the itemized deductions on Schedule A of Form 1040. This threshold was established by the IRS and is applicable for most taxpayers, leading to significant savings for those who have high medical costs. If the medical expenses do not exceed this percentage, they cannot be deducted, meaning careful tracking of expenses is important for taxpayers who anticipate high medical costs. The other percentages mentioned, such as 5% and 10%, are not applicable under current regulations. The 10% threshold was in place for some periods but has since changed. Additionally, while itemizing deductions is necessary to claim medical expenses, it is not a standalone criterion for deductibility but rather a structural requirement for filing tax returns.

7. Which of the following is not a benefit of education credits?

A. Reduction in tax liability

B. Potential for tax refunds

C. Reduction of taxable income

D. Available for various education levels

The option regarding the reduction of taxable income is correct in indicating that it is not a benefit of education credits. Education credits, such as the American Opportunity Tax Credit and the Lifetime Learning Credit, primarily function to reduce tax liability directly, which can lead to a lower overall amount owed when filing taxes. These credits can lower the amount of tax due dollar-for-dollar, which directly impacts tax liability. In contrast, deductions reduce taxable income, which may lower the tax liability indirectly based on the taxpayer's tax rate. Thus, while education credits provide significant financial relief, they do not operate by reducing the taxable income itself. Regarding the other aspects, education credits can indeed lead to potential refunds if the credits exceed the tax owed, and they are applicable for various education levels, reinforcing their value to a broad range of taxpayers pursuing education.

8. Which education credit helps reduce tax liability for qualified education expenses?

A. Child Tax Credit

B. Earned Income Credit

C. American Opportunity Credit

D. Mortgage Interest Credit

The American Opportunity Credit is specifically designed to help students and their families reduce tax liability related to qualified education expenses. This credit is available for eligible students attending college or other post-secondary educational institutions and can be claimed for the first four years of higher education. It is important to note that the American Opportunity Credit covers a range of expenses, which may include tuition, fees, and course materials required for enrollment or attendance. The maximum credit amount can significantly lower taxable income, thereby providing valuable financial relief to those pursuing higher education. Other options listed do not pertain to education expenses. The Child Tax Credit is aimed at families with qualifying children, providing financial relief related to child upbringing rather than educational costs. The Earned Income Credit benefits low to moderate-income individuals and families, rewarding them for working and earning income, but it does not directly address educational expenses. The Mortgage Interest Credit pertains to homeowners and allows individuals to deduct interest paid on their mortgage, which is unrelated to education. The focus of the American Opportunity Credit on educational expenses makes it the correct answer in this context.

9. What is the purpose of Schedule C?

A. To report personal income

B. To report income or loss from a business

C. To calculate capital gains

D. To detail taxable dividends

Schedule C serves a specific function in the context of self-employment and business reporting. Its primary purpose is to report income or loss from a business operated by an individual taxpayer. This form is essential for sole proprietors as it allows them to detail their gross receipts, necessary expenses, and ultimately calculate their net profit or loss from their business activities. By using Schedule C, taxpayers can provide a comprehensive overview of their business financials, which is critical for determining their tax liability. A positive net income reported on Schedule C gets added to the taxpayer's overall income, while a loss can potentially offset income from other sources, which might decrease the taxpayer's overall taxable income for the year. Other forms mentioned in the options serve different purposes. For example, reporting personal income is typically done through the main individual tax return forms, while capital gains and taxable dividends have their respective schedules. Therefore, understanding Schedule C and its dedicated function highlights its importance in the tax reporting process for business owners.

10. What is the definition of "passive activity loss"?

A. Losses that offset ordinary income

B. Losses generated in non-rental activities

C. Losses from taxpayer's rental or business activities that cannot offset ordinary income

D. Losses that are fully deductible against ordinary income

The definition of "passive activity loss" refers specifically to losses incurred in activities in which the taxpayer does not materially participate and which cannot be used to offset ordinary income. This concept typically relates to income generated from rental properties or certain businesses in which the taxpayer is not actively involved on a regular, continuous, or substantial basis. By classifying these losses as passive, the tax code imposes limitations on the deductibility of these losses against other types of income, particularly ordinary income like wages or salaries. This ensures that the tax benefits associated with passive investments are not as readily available as those generated from active participation in a trade or business. In contrast, other options would not accurately capture the nuances of how passive activity losses are treated under tax regulations. For example, losses that offset ordinary income (which is mentioned in one of the choices) typically characterize active losses, not passive ones. Furthermore, losses generated in non-rental activities (another option) fail to recognize that passive losses can occur specifically in rental activities. Similarly, stating that losses are fully deductible against ordinary income ignores the restrictions placed on passive activity losses. Thus, the correct characterization of passive activity loss as losses from rental or business activities that cannot offset ordinary income properly reflects the tax principles governing