

Intuit Academy Tax Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What is the significance of a 1095-A form?**
 - A. It reports wages from an employer**
 - B. It validates identity for tax purposes**
 - C. It reports health insurance coverage obtained through the Marketplace**
 - D. It lists mortgage interest payments**
- 2. For taxpayers earning less than \$200,000, what tax rate applies to taxable income?**
 - A. 1%**
 - B. 3%**
 - C. 5%**
 - D. 4%**
- 3. What must a single taxpayer under 65 do if their gross income is at least \$12,950 for the tax year 2022?**
 - A. They must file a tax return**
 - B. They do not need to file**
 - C. They can choose to file or not**
 - D. They must file a state tax return**
- 4. How are qualified dividends taxed compared to ordinary income?**
 - A. They are taxed at a higher rate than ordinary income**
 - B. They are taxed at ordinary income tax rates**
 - C. They are taxed at capital gains rates**
 - D. They are not taxed at all**
- 5. What should a taxpayer report on Schedule C?**
 - A. Passive income from investments**
 - B. Income from self-employment**
 - C. Ordinary income from a partnership**
 - D. Rental income from property**

- 6. How are Social Security benefits taxed?**
- A. They are always taxed at a flat rate.**
 - B. They are subject to tax based on the taxpayer's combined income.**
 - C. They are completely exempt from federal income tax.**
 - D. They are only taxed if the taxpayer is under 60 years old.**
- 7. What is a tax loss carryforward?**
- A. An option to receive a tax refund**
 - B. It allows applying past losses to future income**
 - C. It refers to tax breaks for future investments**
 - D. A method to reduce taxable income permanently**
- 8. What is the purpose of Form 1040?**
- A. Only to report business income**
 - B. To report income and calculate tax liability**
 - C. To claim exemptions for dependents**
 - D. To report capital gains exclusively**
- 9. What does the Tax Cuts and Jobs Act primarily affect?**
- A. Healthcare costs and benefits**
 - B. Tax rates and deductions**
 - C. State tax regulations**
 - D. Social Security benefits**
- 10. What qualifies as "qualified medical expenses" for tax deductions?**
- A. Cosmetic surgery and health club memberships**
 - B. Payments for medical care including a variety of health-related expenses**
 - C. Only payments for surgeries and hospital stays**
 - D. All payments made to healthcare service providers**

Answers

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

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Explanations

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1. What is the significance of a 1095-A form?

- A. It reports wages from an employer
- B. It validates identity for tax purposes
- C. It reports health insurance coverage obtained through the Marketplace**
- D. It lists mortgage interest payments

The significance of a 1095-A form lies in its role in reporting health insurance coverage that individuals have obtained through the Health Insurance Marketplace. This form is essential for taxpayers who enrolled in a Qualified Health Plan (QHP) through the Marketplace, as it provides the necessary information about their coverage. Specifically, the 1095-A includes details such as the months of coverage, the amount of any premium tax credit received, and the insurance provider's information. Taxpayers use the information reported on the 1095-A to complete their federal income tax return, particularly when calculating the Premium Tax Credit and reconciling it with the actual tax liability. This reconciliation process is crucial because it ensures that the taxpayer received the correct amount of tax credits based on their actual income and household size. In contrast, the other options reflect different forms and their purposes. One is related to reporting employment wages, another pertains to validating identity, and the last focuses on mortgage interest payments, none of which have any connection to health insurance coverage through the Marketplace. Therefore, the 1095-A is a key document for those receiving health insurance through the exchange, making the selection of that answer accurate.

2. For taxpayers earning less than \$200,000, what tax rate applies to taxable income?

- A. 1%
- B. 3%
- C. 5%
- D. 4%**

The correct answer, which indicates a 4% tax rate for taxpayers earning less than \$200,000, aligns with the graduated income tax structures commonly found in several jurisdictions. Tax rates are tiered, meaning that the rate applied to the taxable income can vary based on brackets established by tax laws. For individuals earning below a specific threshold, the 4% rate typically applies to a portion of their income, reflective of the guidelines aimed at enabling a balanced contribution from middle-income earners while potentially offering relief from higher rates faced by those with significantly greater earnings. It's important to note that tax rates can vary significantly depending on location, and specific deductions or credits may affect the overall liability, which is why it's crucial for taxpayers to understand their applicable brackets and rates. Taxpayers earning under this threshold benefit from this lower rate, promoting equity in tax burdens. This structure ensures that individuals with limited income face a lesser tax obligation compared to higher earners.

3. What must a single taxpayer under 65 do if their gross income is at least \$12,950 for the tax year 2022?

- A. They must file a tax return**
- B. They do not need to file**
- C. They can choose to file or not**
- D. They must file a state tax return**

For the tax year 2022, a single taxpayer under the age of 65 is required to file a tax return if their gross income meets or exceeds the filing threshold, which in this case is \$12,950. This requirement is based on federal tax law, which mandates that taxpayers must file a return if their income is above certain levels, ensuring they are taxed appropriately based on their earnings. Gross income includes all income received in the form of money, goods, property, and services that are not exempt from tax. If a taxpayer's gross income equals or exceeds this threshold, they have the obligation to file their federal tax return in order to report their income and any potential tax liability, as well as to claim any available credits or refunds. While some individuals might think about their state tax filing requirements, the federal filing requirement takes precedence in this scenario. The option about choosing not to file is incorrect as it overlooks the obligation that comes with reaching the filing threshold, and merely indicating that they do not need to file ignores their actual requirement. Therefore, filing a tax return becomes essential for compliance with IRS regulations.

4. How are qualified dividends taxed compared to ordinary income?

- A. They are taxed at a higher rate than ordinary income**
- B. They are taxed at ordinary income tax rates**
- C. They are taxed at capital gains rates**
- D. They are not taxed at all**

Qualified dividends are indeed taxed at capital gains rates, which is generally more favorable than ordinary income tax rates. This means that instead of being subjected to the higher tax rates that apply to ordinary income, which can reach as high as 37% for the highest income brackets, qualified dividends may be taxed at rates that are typically lower—0%, 15%, or 20%, depending on the taxpayer's income level. This favorable treatment for qualified dividends is designed to encourage investment and is applicable when specific criteria are met, such as holding the dividend-paying stock for a required period and the dividend being paid by a U.S. corporation or certain qualified foreign corporations. This distinction is important for tax planning and investment strategies, as it can impact the overall tax burden for an individual, particularly those who rely on investment income.

5. What should a taxpayer report on Schedule C?

- A. Passive income from investments
- B. Income from self-employment**
- C. Ordinary income from a partnership
- D. Rental income from property

A taxpayer should report income from self-employment on Schedule C because this form is specifically designed for individuals who are sole proprietors or engaged in business activities as self-employed individuals. Schedule C captures the profits or losses from a business owned and operated by the taxpayer, allowing for various deductions related to operating that business, such as expenses for supplies, rent, and other necessary expenditures. Self-employment income includes any revenue generated from providing goods or services as part of a trade or business. By accurately reporting this income on Schedule C, the taxpayer can ensure compliance with tax laws and properly calculate their overall tax liability. This form directly contributes to the determination of the individual's net profit, which is subject to self-employment tax as well as ordinary income tax, making it essential for self-employed individuals.

6. How are Social Security benefits taxed?

- A. They are always taxed at a flat rate.
- B. They are subject to tax based on the taxpayer's combined income.**
- C. They are completely exempt from federal income tax.
- D. They are only taxed if the taxpayer is under 60 years old.

Social Security benefits are taxed based on the taxpayer's combined income, which includes adjusted gross income (AGI), tax-exempt interest, and half of the Social Security benefits received. This approach creates a threshold that determines how much of the benefit is subject to federal income tax. For individuals with a combined income above certain levels, up to 85% of their Social Security benefits may be taxable. The calculation of combined income recognizes that benefits are designed to provide assistance, but also acknowledges that for some taxpayers, especially those with additional sources of income, the benefits can represent a significant portion of their overall income. This graduated approach ensures that those with higher overall income levels are responsible for contributing to tax revenue through their benefits, while also providing relief for those with lower incomes.

7. What is a tax loss carryforward?

- A. An option to receive a tax refund
- B. It allows applying past losses to future income**
- C. It refers to tax breaks for future investments
- D. A method to reduce taxable income permanently

A tax loss carryforward is a provision that enables an individual or business to apply losses incurred in a previous tax year against future taxable income. This is particularly beneficial because it helps to offset potential income in future years, thereby reducing the taxable income and overall tax liability for those years. By allowing taxpayers to utilize past losses, tax loss carryforwards offer a means to alleviate the financial burden of previous losses, making it a crucial part of tax planning and strategy for individuals and businesses dealing with fluctuating income or significant initial investments that may not generate immediate profits. The other options do not accurately describe what a tax loss carryforward is. For instance, receiving a tax refund is a separate concept that pertains to the excess tax paid, while tax breaks for future investments and methods to permanently reduce taxable income introduce different aspects of taxation that do not directly relate to the core definition and function of a tax loss carryforward.

8. What is the purpose of Form 1040?

- A. Only to report business income
- B. To report income and calculate tax liability**
- C. To claim exemptions for dependents
- D. To report capital gains exclusively

Form 1040 serves the primary purpose of reporting an individual's total income and calculating their tax liability for the tax year. This form is the standard federal income tax form used by U.S. taxpayers, which allows them to detail all forms of income received, including wages, dividends, interest, and rental income. It also enables taxpayers to claim deductions and credits, ultimately determining their tax obligation or refund. The aspects of the other options are either too narrow or do not encompass the full utility of the form. For example, it is not limited to the reporting of only business income or capital gains; rather, it is designed to cover all income sources. While claiming exemptions for dependents is a part of the tax filing process, it is only one aspect of what Form 1040 facilitates. Overall, the form's comprehensive nature makes it essential for understanding one's entire financial situation concerning tax obligations.

9. What does the Tax Cuts and Jobs Act primarily affect?

A. Healthcare costs and benefits

B. Tax rates and deductions

C. State tax regulations

D. Social Security benefits

The Tax Cuts and Jobs Act (TCJA), which was enacted in December 2017, primarily affects tax rates and deductions, making significant changes to the U.S. tax code. One of the most notable changes was the reduction of the corporate tax rate from a maximum of 35% to 21%, which aimed to stimulate economic growth. Additionally, the TCJA altered individual income tax rates by lowering them for many taxpayers and adjusting the income brackets. This legislation also updated various deductions, including increasing the standard deduction while limiting or eliminating certain itemized deductions. For example, the cap on state and local tax deductions (SALT) significantly impacted taxpayers in states with high income and property taxes, demonstrating how the TCJA restructured not only tax rates but also the framework within which taxpayers could claim deductions. In contrast, healthcare costs and benefits are primarily addressed through legislation like the Affordable Care Act, while state tax regulations are determined by individual state governments and not directly altered by the TCJA. Lastly, Social Security benefits remain largely unaffected by this tax reform, as they are typically governed by different laws and funding mechanisms. Therefore, the overall impact of the Tax Cuts and Jobs Act centers on how it transformed tax rates and deductions across various individual and corporate tax

10. What qualifies as "qualified medical expenses" for tax deductions?

A. Cosmetic surgery and health club memberships

B. Payments for medical care including a variety of health-related expenses

C. Only payments for surgeries and hospital stays

D. All payments made to healthcare service providers

"Qualified medical expenses" refer to amounts paid for medical care that are generally eligible for tax deductions under IRS guidelines. The correct choice encompasses a wide range of expenses that can be deducted, which includes payments for medical care that can cover things like doctor visits, hospital stays, surgeries, preventive care, dental work, and other health-related services and products deemed necessary for medical treatment. This definition is crucial because it allows taxpayers to benefit from deductions that can significantly reduce their taxable income if they incur substantial medical costs. The IRS provides a comprehensive list of what is considered qualified medical expenses, further emphasizing the importance of understanding the expansive nature of these expenses beyond just limited parameters. The other options present narrower or incorrect interpretations of what qualified medical expenses include, limiting deductions to cosmetic procedures or excluding essential payments that are covered under the governmental definitions. This understanding, therefore, enables taxpayers to take full advantage of the deductions available to them for necessary medical expenditures.