

Intuit Academy Tax Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. How are short-term capital gains taxed?**
 - A. At a reduced tax rate**
 - B. As ordinary income at the regular tax rate**
 - C. At a flat rate of 15%**
 - D. At the corporate tax rate**
- 2. How do tax credits differ from tax deductions?**
 - A. Credits reduce the total income; deductions do not**
 - B. Credits reduce tax owed directly; deductions reduce income subject to tax**
 - C. Credits are for specific expenses; deductions are for all expenses**
 - D. There is no difference between them**
- 3. What is the federal estate tax exclusion amount per individual for the year 2022?**
 - A. \$7.5 million**
 - B. \$10 million**
 - C. \$12.06 million**
 - D. \$15 million**
- 4. What typically happens if a nonqualified distribution is made from a retirement account?**
 - A. It is tax-free**
 - B. It is taxed and may incur a penalty**
 - C. It counts as an ordinary income**
 - D. It can be applied to future tax credits**
- 5. What happens if money is withdrawn from a Roth IRA before retirement age?**
 - A. It is always tax-free**
 - B. It may be subject to taxes and a 10% early withdrawal penalty**
 - C. It is fully taxable**
 - D. It can only be withdrawn after age 55**

- 6. 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**
- 7. What is the function of IRS Form 8862?**
- A. To amend a previous tax return**
 - B. To claim the Earned Income Tax Credit after prior disallowance**
 - C. To report income from self-employment**
 - D. To apply for a tax refund**
- 8. What is an Individual Retirement Account (IRA)?**
- A. A tax-exempt investment account**
 - B. A type of savings bond**
 - C. A tax-advantaged retirement savings account**
 - D. An account for educational expenses**
- 9. What is the maximum contribution limit for a Traditional IRA in 2022 for individuals under 50?**
- A. \$5,500**
 - B. \$6,000**
 - C. \$6,500**
 - D. \$7,000**
- 10. What are capital gains?**
- A. Losses incurred from investment sales**
 - B. Profits from the sale of appreciated assets**
 - C. Taxable income from wages**
 - D. Interest earned on savings accounts**

Answers

SAMPLE

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

SAMPLE

Explanations

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1. How are short-term capital gains taxed?

- A. At a reduced tax rate
- B. As ordinary income at the regular tax rate**
- C. At a flat rate of 15%
- D. At the corporate tax rate

Short-term capital gains are taxed as ordinary income at the regular tax rate. This means that when an asset is held for one year or less before it is sold for a profit, the gain is treated in the same manner as other types of income, such as wages or salaries. When tax returns are filed, individuals report their short-term capital gains on their income tax returns, and these gains are subject to the federal income tax rate applicable to their overall income bracket. This treatment aligns short-term capital gains with the standard income tax rules, reinforcing the principle that profits from asset sales within a short timeframe reflect a more speculative investment, similar to regular income sources. While long-term capital gains, which result from the sale of assets held for more than one year, enjoy preferential tax rates, short-term capital gains do not receive this benefit. Thus, this classification can lead to a higher tax burden for taxpayers who realize short-term gains compared to those who hold assets longer.

2. How do tax credits differ from tax deductions?

- A. Credits reduce the total income; deductions do not
- B. Credits reduce tax owed directly; deductions reduce income subject to tax**
- C. Credits are for specific expenses; deductions are for all expenses
- D. There is no difference between them

Tax credits and tax deductions serve different purposes in the tax system, which makes understanding their distinctions crucial for effective tax planning. Tax credits are a direct reduction of the amount of tax owed. For example, if you owe \$1,000 in taxes and you have a tax credit of \$200, your tax liability drops to \$800. This mechanism provides a dollar-for-dollar reduction in the total tax due, making credits highly beneficial as they directly decrease the amount you have to pay. On the other hand, tax deductions lower your taxable income, which in turn reduces the amount of income that is subject to taxation. For instance, if your taxable income is \$50,000 and you claim a deduction of \$5,000, your taxable income becomes \$45,000. The deduction does not directly affect your tax liability as significantly as a credit does, since it only reduces the income before applying the tax rates. Understanding this distinction can help taxpayers strategize their tax situations better by maximizing tax credits and understanding the impact of deductions on their overall tax liability.

3. What is the federal estate tax exclusion amount per individual for the year 2022?

- A. \$7.5 million
- B. \$10 million
- C. \$12.06 million**
- D. \$15 million

The federal estate tax exclusion amount per individual for the year 2022 is \$12.06 million. This amount represents the value of an individual's estate that can pass to heirs without incurring federal estate taxes. The figure is adjusted periodically for inflation, and in 2022, the exclusion was set at this specific amount. This exclusion is significant because it determines the threshold below which estates are not subject to federal estate taxes. If an individual's estate is valued below this exclusion limit, no federal estate tax will be owed. Conversely, estates exceeding this amount are subject to taxes at rates that can be quite high. The exclusion is an essential aspect of tax planning for individuals and families, as it affects how much wealth can be transferred without tax liability. It is important for estate planning strategies, as individuals can structure their estate to maximize the benefits of the exclusion. This knowledge also helps individuals and financial advisors make informed decisions regarding gifts and trusts.

4. What typically happens if a nonqualified distribution is made from a retirement account?

- A. It is tax-free
- B. It is taxed and may incur a penalty**
- C. It counts as an ordinary income
- D. It can be applied to future tax credits

When a nonqualified distribution is made from a retirement account, it is generally taxed as ordinary income and may incur an additional penalty. Nonqualified distributions often refer to withdrawals made before reaching the age of 59½ (or before the account has been open for a certain number of years in the case of Roth IRAs) that do not meet any specific exemption criteria. The taxation of such distributions typically means that the amount withdrawn is added to the individual's taxable income for the year, potentially increasing their overall tax liability. On top of this tax, many retirement accounts impose a penalty — often a 10% additional tax — for early withdrawals. This discourages premature access to retirement funds, emphasizing the purpose of these accounts as long-term savings vehicles. In contrast, tax-free withdrawals and their criteria, ordinary income tax calculations, and the nuances of applying distributions to future tax credits do not pertain to the nature of nonqualified distributions from retirement accounts.

5. What happens if money is withdrawn from a Roth IRA before retirement age?

- A. It is always tax-free**
- B. It may be subject to taxes and a 10% early withdrawal penalty**
- C. It is fully taxable**
- D. It can only be withdrawn after age 55**

When money is withdrawn from a Roth IRA before retirement age, the general rule is that while contributions can be withdrawn tax-free at any time because they have already been taxed, withdrawals that include earnings may be subject to taxes and a 10% early withdrawal penalty if the account holder is under age 59½ and does not meet certain qualifying conditions. This means that if you access the earnings portion of the account before retirement age without qualifying for an exception, it will result in both income tax liabilities and possibly a penalty. This is a crucial aspect of the Roth IRA. Unlike traditional IRAs, where withdrawals are taxed as ordinary income, the tax treatment of Roth IRA withdrawals is more nuanced. Therefore, the response correctly highlights that early withdrawals could lead to taxes and penalties based on the earnings taken out, while contributions remain untaxed.

6. 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.

7. What is the function of IRS Form 8862?

- A. To amend a previous tax return
- B. To claim the Earned Income Tax Credit after prior disallowance**
- C. To report income from self-employment
- D. To apply for a tax refund

IRS Form 8862 is specifically used to claim the Earned Income Tax Credit (EITC) after it has been disallowed in a prior year. When a taxpayer has previously claimed the EITC but was later disqualified due to issues like incorrect filing or failure to meet eligibility requirements, this form serves as a required step to re-establish eligibility before they can claim the credit again. The importance of this form lies in its ability to verify the taxpayer's eligibility for the credit for the current tax year, following previous disallowance. Filing Form 8862 not only prompts the IRS to reconsider the taxpayer's qualification for the EITC but also ensures that taxpayers fulfill their obligation to prove their qualification before reapplying for this significant credit, which is designed to reduce poverty and encourage work. The other options pertain to different purposes: amending a tax return, reporting self-employment income, or applying for a tax refund do not relate to the specific goal of Form 8862, thereby highlighting the focused function of this specific IRS form.

8. What is an Individual Retirement Account (IRA)?

- A. A tax-exempt investment account
- B. A type of savings bond
- C. A tax-advantaged retirement savings account**
- D. An account for educational expenses

An Individual Retirement Account (IRA) is fundamentally a tax-advantaged retirement savings account, which is why this choice is the correct answer. The primary purpose of an IRA is to provide individuals with a means to save for retirement in a way that offers certain tax benefits. Contributions to a traditional IRA may be tax-deductible depending on the individual's income and other factors, and the funds within the account grow tax-deferred until withdrawal during retirement. Moreover, there are different types of IRAs, such as Traditional IRAs and Roth IRAs, each with distinct tax implications. In a Traditional IRA, taxes are generally paid upon withdrawal, whereas in a Roth IRA, contributions are made with after-tax dollars, and qualified withdrawals are tax-free. The other choices do not accurately describe what an IRA is. A tax-exempt investment account does not capture the specific retirement savings aspect of an IRA. Similarly, a type of savings bond does not relate to retirement savings and instead refers to a government-issued debt security. Lastly, an account for educational expenses is not aligned with the primary function of an IRA, as it does not focus on retirement savings but rather on saving for education costs. Thus, the definition of an IRA as a tax-advantaged retirement savings

9. What is the maximum contribution limit for a Traditional IRA in 2022 for individuals under 50?

- A. \$5,500
- B. \$6,000**
- C. \$6,500
- D. \$7,000

The maximum contribution limit for a Traditional IRA in 2022 for individuals under 50 years of age is \$6,000. This amount is part of the annual contribution limits set by the IRS to encourage retirement savings. Individuals can invest up to this limit in their Traditional IRA, providing an opportunity for tax-deferred growth on their investments until withdrawal during retirement. The contribution limit can change over time due to factors such as inflation adjustments, which are periodically reviewed and updated by the IRS. In the context of retirement planning, adhering to these limits ensures individuals can maximize their tax advantages while saving for the future. It's worth noting that individuals who are 50 years old or older are eligible for a catch-up contribution, allowing them to contribute an additional amount, which increased to \$1,000 for a total of \$7,000. However, since the question specifically addresses those under 50, the limit remains at \$6,000.

10. What are capital gains?

- A. Losses incurred from investment sales
- B. Profits from the sale of appreciated assets**
- C. Taxable income from wages
- D. Interest earned on savings accounts

Capital gains refer specifically to the profits that an individual or entity realizes when they sell an asset for more than its original purchase price. This typically applies to assets such as stocks, real estate, and other investments that have appreciated in value over time. When the sale price exceeds the purchase price, the difference is classified as a capital gain, which is important for tax purposes, as it can impact an individual's taxable income. Understanding capital gains is crucial in the context of investment strategies and tax planning, as different types of capital gains (short-term versus long-term) can be taxed at different rates. Long-term capital gains, for instance, which apply to assets held for over a year, usually benefit from lower tax rates compared to short-term gains. The other options highlight different financial concepts that do not align with the definition of capital gains. Losses from investments would indicate a capital loss, taxable income from wages pertains to earned income, and interest earned on savings accounts relates to income generated from savings rather than capital investments. Thus, the focus on profits from the sale of appreciated assets accurately captures the essence of capital gains.