

Intuit Academy Tax Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What are business expenses?**
 - A. Costs associated with personal finances**
 - B. Expenditures for charitable donations**
 - C. Necessary costs incurred in business operations that can be deducted**
 - D. Fees paid for employee salaries**
- 2. What is the significance of the 59½ age limit regarding Roth IRA withdrawals?**
 - A. Withdrawals are always penalty-free**
 - B. Withdrawals may incur penalties if taken before this age**
 - C. All contributions can be withdrawn without penalty regardless of age**
 - D. None of the above**
- 3. What is the primary use of Form W-4?**
 - A. For filing annual tax returns**
 - B. To inform employers of an employee's withholding preferences**
 - C. To report annual income to the IRS**
 - D. For claiming tax credits and deductions**
- 4. Which of the following statements about filing taxes as a single taxpayer with minimal income is true?**
 - A. Tax filing is optional**
 - B. Must file even with no income**
 - C. Can file only if receiving a refund**
 - D. Only need to file if income exceeds \$12,000**
- 5. Taxpayer A and B are married and filing jointly with a gross income of \$80,000. Are child support payments made by Taxpayer A deductible?**
 - A. Yes, they can be deducted**
 - B. No, they cannot be deducted**
 - C. Yes, if reported correctly**
 - D. No, only if the children are dependents**

- 6. What does Form 4868 allow taxpayers to do?**
- A. Request a refund for overpaid taxes**
 - B. Apply for an automatic extension for filing an individual income tax return**
 - C. Declare nontaxable income**
 - D. Report foreign investments**
- 7. How do taxpayers report foreign income?**
- A. It is excluded from taxable income**
 - B. On a separate form only for foreign income**
 - C. On their tax returns, eligible for credits/exclusions**
 - D. Only if it exceeds a certain amount**
- 8. What is the alternative minimum tax (AMT) designed to achieve?**
- A. A calculation to ensure individuals pay a minimum amount of tax**
 - B. A tax benefit for low-income earners**
 - C. A reduction in tax rates for individuals with numerous deductions**
 - D. A form of income redistribution among taxpayers**
- 9. What is a significant change regarding alimony tax treatment after 2018?**
- A. Alimony payments are now taxable to the payer**
 - B. Alimony payments are no longer deductible by the payer**
 - C. Alimony remains fully deductible**
 - D. Alimony payments require joint filing**
- 10. When is Schedule K-1 typically issued to taxpayers?**
- A. By January 31**
 - B. By March 15**
 - C. By April 15**
 - D. By December 31**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What are business expenses?

- A. Costs associated with personal finances
- B. Expenditures for charitable donations
- C. Necessary costs incurred in business operations that can be deducted**
- D. Fees paid for employee salaries

Business expenses refer to the necessary costs that are incurred in the operation of a business, which can be deducted from the business's income when calculating taxable profit. These expenses are essential for generating revenue and maintaining business activities. They can include a wide range of costs such as rent, utilities, supplies, and wages, as well as general operational costs. Choosing necessary costs reflects the understanding that not every payment or expenditure qualifies as a business expense; it must be directly related to the business's core operations. The ability to deduct these costs from gross income is crucial for tax purposes as it effectively lowers the taxable income of the business, thereby reducing the overall tax liability. While payments for employee salaries can certainly be considered a type of business expense, they are a subset of the broader category of necessary costs used in business operations. Similarly, personal finances and charitable donations do not fall under the definition of business expenses for tax deduction purposes. Charitable contributions, while socially responsible, are treated separately and often have specific limitations and requirements for deductibility under tax law.

2. What is the significance of the 59½ age limit regarding Roth IRA withdrawals?

- A. Withdrawals are always penalty-free
- B. Withdrawals may incur penalties if taken before this age**
- C. All contributions can be withdrawn without penalty regardless of age
- D. None of the above

The 59½ age limit is particularly significant because it establishes a clear threshold for penalty-free withdrawals from retirement accounts, including Roth IRAs. Once an individual reaches this age, they can withdraw earnings from their Roth IRA without facing a 10% early withdrawal penalty. This aspect is crucial for retirement planning and financial management since it dictates how individuals can access their funds as they approach retirement age. However, it is essential to note that while contributions to a Roth IRA can be withdrawn tax- and penalty-free at any time, the earnings accrued in the account are subject to these age and holding period rules. Specifically, to withdraw earnings penalty-free after reaching the age of 59½, the account must also have been open for at least five years, which is an additional consideration beyond merely reaching the age limit. The distinction becomes clear when recognizing that withdrawals made before 59½ typically incur penalties unless specific exceptions apply, making the age limit an important rule to understand for effective financial planning and management of retirement accounts.

3. What is the primary use of Form W-4?

- A. For filing annual tax returns
- B. To inform employers of an employee's withholding preferences**
- C. To report annual income to the IRS
- D. For claiming tax credits and deductions

Form W-4 is primarily used to inform employers of an employee's withholding preferences. This form plays a crucial role in determining how much federal income tax should be withheld from an employee's paycheck. When a new employee starts, they fill out Form W-4, where they can indicate their filing status, number of allowances, and any additional amount they wish to withhold. This withholding is important because it influences the employee's tax liability when they file their annual tax return. If too little tax is withheld, the employee may be required to pay a significant amount when they file their return; if too much is withheld, they may receive a refund. Therefore, Form W-4 allows employees to tailor their withholding to better match their tax situation, making it a vital document in tax planning and management.

4. Which of the following statements about filing taxes as a single taxpayer with minimal income is true?

- A. Tax filing is optional**
- B. Must file even with no income
- C. Can file only if receiving a refund
- D. Only need to file if income exceeds \$12,000

Filing taxes as a single taxpayer with minimal income often involves understanding both the requirements and options available. The correct answer indicates that filing taxes is optional for individuals who earn below a certain income threshold. Generally, if a single taxpayer's gross income is less than the standard deduction amount, they are not required to file a tax return. For 2023, the standard deduction for a single filer is \$13,850. Therefore, if their income falls below this threshold, they can choose whether to file a return or not, making tax filing optional under those circumstances. This context gives insight into why the other statements do not hold true. For instance, the assertion that one must file even with no income is inaccurate, as having no income typically exempts an individual from the obligation to file. Similarly, the claim that an individual can file only to receive a refund is misleading because many may choose not to file at all if they don't owe any taxes and their income didn't exceed the minimum requirement. Lastly, indicating that one only needs to file if income exceeds \$12,000 also misrepresents the threshold for tax filing because the actual threshold is tied to the standard deduction amount, which was higher than \$12,000 for recent tax years.

5. Taxpayer A and B are married and filing jointly with a gross income of \$80,000. Are child support payments made by Taxpayer A deductible?

A. Yes, they can be deducted

B. No, they cannot be deducted

C. Yes, if reported correctly

D. No, only if the children are dependents

Child support payments made by Taxpayer A are not deductible. The tax code specifically states that child support is considered a non-deductible personal expense. This means that the payor cannot deduct child support payments from their taxable income, regardless of their filing status or income level. Additionally, child support does not create a taxable event for the recipient; they do not have to report it as income. This principle aims to ensure that the money designated for the child's support is used for that purpose and is not subject to taxation. Therefore, regardless of the specific circumstances around the payments, the fundamental tax treatment of child support remains the same: it is not deductible for the payer.

6. What does Form 4868 allow taxpayers to do?

A. Request a refund for overpaid taxes

B. Apply for an automatic extension for filing an individual income tax return

C. Declare nontaxable income

D. Report foreign investments

Form 4868 is designed specifically to provide an automatic extension for taxpayers who need additional time to file their individual income tax returns. By submitting this form, taxpayers can extend their filing deadline by six months, allowing them more time to gather necessary documentation, finalize their returns, or deal with other financial obligations without facing penalties for late filing. This extension is beneficial as it helps taxpayers avoid the stress associated with impending deadlines, ensuring they can file accurate and complete returns. However, it's important to note that while Form 4868 extends the time to file, it does not extend the time to pay any taxes owed, which is a crucial point for taxpayers to remember to avoid interest and penalties on unpaid tax liabilities.

7. How do taxpayers report foreign income?

- A. It is excluded from taxable income
- B. On a separate form only for foreign income
- C. On their tax returns, eligible for credits/exclusions**
- D. Only if it exceeds a certain amount

Taxpayers report foreign income on their tax returns as part of their overall income, and this income can be eligible for specific credits or exclusions under U.S. tax law. The most relevant provisions include the Foreign Tax Credit, which allows taxpayers to reduce their U.S. tax liability based on taxes they have paid to foreign governments, and the Foreign Earned Income Exclusion, which permits qualifying individuals to exclude a certain amount of their foreign earned income from U.S. taxation. This combined approach ensures that taxpayers do not pay double tax on their income earned abroad, reflecting an understanding that foreign income can impact their total tax responsibility in the United States. The other options either misrepresent how foreign income is treated or suggest limitations that do not align with the tax code. For example, excluding foreign income entirely from taxable income would not be accurate for most taxpayers. Reporting foreign income on a separate form only is misleading, as while specific forms may be needed (like Form 2555 for the exclusion), foreign income is ultimately included on the main return. Lastly, stating that foreign income is only reported if it exceeds a certain amount overlooks the requirement to report all foreign income, regardless of the amount, although some forms may only apply to income exceeding specific thresholds. Thus

8. What is the alternative minimum tax (AMT) designed to achieve?

- A. A calculation to ensure individuals pay a minimum amount of tax**
- B. A tax benefit for low-income earners
- C. A reduction in tax rates for individuals with numerous deductions
- D. A form of income redistribution among taxpayers

The alternative minimum tax (AMT) is designed to ensure that individuals, particularly those with substantial income or significant deductions, pay a minimum amount of tax despite the benefits of tax deductions, credits, and exemptions. The AMT operates by recalculating taxable income with certain adjustments, effectively disallowing some deductions and credits that are typically available under the regular tax system. This mechanism is intended to prevent high-income earners from using various tax benefits to reduce their tax liability to an unreasonably low level, thus making sure they contribute a fair share to federal revenues. The other options do not accurately represent the primary goal of the AMT. While it does indirectly affect various income groups, it is not specifically a tax benefit for low-income earners or designed for income redistribution. Additionally, the AMT does not reduce tax rates; rather, it imposes a minimum tax obligation regardless of deductions, ensuring that all taxpayers, particularly those with higher income and significant tax benefits, pay a baseline level of tax.

9. What is a significant change regarding alimony tax treatment after 2018?

- A. Alimony payments are now taxable to the payer**
- B. Alimony payments are no longer deductible by the payer**
- C. Alimony remains fully deductible**
- D. Alimony payments require joint filing**

After 2018, a significant change in the tax treatment of alimony involves the fact that alimony payments are no longer deductible by the payer. This alteration is a result of the Tax Cuts and Jobs Act (TCJA), which revised the tax treatment of alimony for divorce agreements executed after December 31, 2018. Under the previous tax law, alimony payments made by the payer were deductible on their tax return, while the recipient had to report this income as taxable. However, now with the new provision in place, payers cannot deduct these payments from their taxable income. As a result, the recipient does not include the alimony received in their taxable income, which ultimately changes how both parties approach financial planning in the context of divorce settlements. This change primarily aims at simplifying the tax treatment of alimony and reducing potential conflicts and complexities that arose from the earlier deductibility provision. It emphasizes that the implications of alimony payments are now more straightforward from a tax perspective, affecting both the payer's and recipient's tax liabilities.

10. When is Schedule K-1 typically issued to taxpayers?

- A. By January 31**
- B. By March 15**
- C. By April 15**
- D. By December 31**

Schedule K-1 is typically issued to taxpayers by March 15. This timing is tied to the deadlines for partnerships and S corporations to file their tax returns. Partnerships and S corporations are required to file their returns by March 15 of the year following the tax year in question. Alongside this filing, they must provide Schedule K-1 to each partner and shareholder, which details each individual's share of income, deductions, and credits from the business. The other options reflect dates that do not align with the established deadlines for tax filings. For instance, January 31 is a deadline for issuing various forms related to employee wages and retirement plan contributions, while April 15 is the deadline for individual tax returns, not for issuing Schedule K-1. December 31 is simply the end of the tax year and does not relate to the issuance of K-1 forms. This makes the March 15 date the only correct and appropriate choice for when K-1s are issued.