

Intuit Income Tax 2 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. If a taxpayer has three savings accounts, what must they do?**
 - A. Combine account earnings into one report**
 - B. List each payer on Schedule B and file it**
 - C. Report the total interest from all accounts only**
 - D. Ignore the accounts if interest is under \$1,500**
- 2. When is the due date for filing Form 1065 for a calendar year partnership?**
 - A. March 15**
 - B. April 15**
 - C. June 15**
 - D. February 15**
- 3. What classification do itemized deductions fall under?**
 - A. Expenses that must be reported to the IRS**
 - B. Subtractable expenses from gross income**
 - C. Fixed expenses that cannot change yearly**
 - D. Income sources that are tax-exempt**
- 4. What are ordinary dividends characterized as?**
 - A. Tax-free distributions from corporations**
 - B. Distributions paid out of earnings and profits taxed as ordinary income**
 - C. Dividends only available to preferred stockholders**
 - D. Payments made exclusively to long-term investors**
- 5. At what age can an individual contribute an additional amount to their Traditional IRA?**
 - A. 50**
 - B. 60**
 - C. 65**
 - D. 70**

- 6. Which tax form is used for business income as a corporation?**
- A. Form 1040**
 - B. Form 1065**
 - C. Form 1120**
 - D. Form 990**
- 7. What criteria must be met to qualify for the Child Tax Credit?**
- A. The child must be under 18 years old**
 - B. The taxpayer must pay all of the child's support**
 - C. The child must be under 17 and income limits apply**
 - D. The child must be a dependent regardless of age**
- 8. What determines the tax rate applied to interest income?**
- A. The type of interest earned**
 - B. The tax bracket of the taxpayer**
 - C. The status of the taxpayer's residency**
 - D. The length of time the interest is held**
- 9. What is primarily classified as un-reimbursed transportation expenses in charitable contributions?**
- A. Costs of traveling to foreign countries**
 - B. Business expenses related to charity events**
 - C. Transportation costs directly related to services for a qualified organization**
 - D. Personal commuting costs**
- 10. What benefit does a taxpayer receive from claiming the standard deduction?**
- A. Reduction of taxable income**
 - B. Refund of all taxes paid**
 - C. Increase in gross income**
 - D. Exemption from filing requirements**

Answers

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

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Explanations

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1. If a taxpayer has three savings accounts, what must they do?

A. Combine account earnings into one report

B. List each payer on Schedule B and file it

C. Report the total interest from all accounts only

D. Ignore the accounts if interest is under \$1,500

When a taxpayer has multiple savings accounts, they are required to report the interest earned from each account individually on Schedule B of their tax return. This requirement is in place to ensure accurate reporting of income from various sources, as the IRS needs to verify that taxpayers are reporting all interest income correctly. Even if the interest from each account is relatively small, all amounts must be included to provide a complete picture of the taxpayer's income. Filing Schedule B allows the taxpayer to specify the payer (the financial institution in this case) for each account, which helps maintain transparency and compliance with tax regulations. This also ensures that if the total interest earned exceeds certain thresholds, the taxpayer is aware of their obligation to report it properly. In contrast, combining account earnings or reporting only the total interest may not capture all necessary details. Ignoring accounts based on a low interest threshold, such as under \$1,500, is not acceptable if the taxpayer is required to report each source of interest income. Overall, the correct approach is to individually list the interest amounts from all accounts on Schedule B.

2. When is the due date for filing Form 1065 for a calendar year partnership?

A. March 15

B. April 15

C. June 15

D. February 15

The due date for filing Form 1065, which is used by partnerships to report income, deductions, gains, losses, etc., is March 15 for calendar year partnerships. This deadline is set by the IRS and is important for ensuring compliance with tax filing requirements. For partnerships operating on a calendar year, March 15 falls exactly two and a half months after the end of the tax year (December 31). This early deadline is designed to allow partnerships to report their income and deductions before the individual partners file their personal tax returns, which are generally due on April 15. Hence, understanding this timeline helps partnerships fulfill their filing obligations accurately and on time, enabling partners to report their share of the partnership income on their individual tax returns.

3. What classification do itemized deductions fall under?

- A. Expenses that must be reported to the IRS
- B. Subtractable expenses from gross income**
- C. Fixed expenses that cannot change yearly
- D. Income sources that are tax-exempt

Itemized deductions are classified as subtractable expenses from gross income. This means that when taxpayers itemize their deductions, they can subtract certain qualified expenses, such as medical expenses, mortgage interest, and charitable contributions, from their total income to reduce their taxable income. This reduction ultimately lowers the amount of tax owed to the IRS. The rationale behind itemizing deductions is to provide taxpayers with a way to account for specific expenses that may not be reflected in a standardized deduction, which can benefit those with higher deductible expenses. As a result, taxpayers can choose between taking a standard deduction or itemizing their deductions, depending on which method provides a larger tax benefit. The other classifications listed do not accurately describe itemized deductions, primarily because itemized deductions specifically focus on subtracting qualifying expenses rather than being fixed expenses or tax-exempt income sources.

4. What are ordinary dividends characterized as?

- A. Tax-free distributions from corporations
- B. Distributions paid out of earnings and profits taxed as ordinary income**
- C. Dividends only available to preferred stockholders
- D. Payments made exclusively to long-term investors

Ordinary dividends are defined as distributions made by corporations to their shareholders that are paid out of the corporation's earnings and profits. This characterization is important because it specifies the tax treatment of these dividends; they are included in the shareholder's ordinary income and taxed at the individual's ordinary income tax rates. This distinction ensures that shareholders are aware that these dividends are not tax-free and that they impact their taxable income for the year. Understanding this helps clarify the nature of ordinary dividends in contrast to other types of dividends, such as qualified dividends, which may be taxed at a lower capital gains rate. This also highlights that ordinary dividends can be paid to any shareholder, not just those holding preferred stock, and are not limited to long-term investors alone. Thus, highlighting the proper categorization is essential for individuals preparing their tax returns or assessing their investment income.

5. At what age can an individual contribute an additional amount to their Traditional IRA?

A. 50

B. 60

C. 65

D. 70

An individual can contribute an additional amount, also known as a "catch-up contribution," to their Traditional IRA starting at age 50. This provision is designed to help individuals save more for retirement as they approach retirement age, acknowledging that they may need to accelerate their savings in the later years of their careers. The Internal Revenue Service (IRS) allows individuals aged 50 and older to make catch-up contributions in addition to the regular contribution limits, thereby increasing the total amount that can be contributed to the IRA for that tax year. Understanding this age threshold is important for retirement planning as it provides an opportunity for individuals to enhance their retirement savings and potentially result in a more secure financial future during retirement years.

6. Which tax form is used for business income as a corporation?

A. Form 1040

B. Form 1065

C. Form 1120

D. Form 990

Form 1120 is the tax form specifically designed for corporations to report their income, deductions, and credits to the Internal Revenue Service (IRS). Corporations, regardless of whether they are C corporations or S corporations, use this form to calculate their tax liability. It provides detailed information about the corporation's financial activities, allowing the IRS to assess the company's financial health and compliance with tax obligations. Other forms listed serve different purposes: Form 1040 is for individual income tax returns, Form 1065 is used by partnerships to report income, deductions, and other tax items while Form 990 is intended for exempt organizations, such as non-profits, to report their financial information to the IRS. Each of these fulfills a distinct role in the tax reporting system, reinforcing the importance of using Form 1120 specifically for corporate entities.

7. What criteria must be met to qualify for the Child Tax Credit?

- A. The child must be under 18 years old**
- B. The taxpayer must pay all of the child's support**
- C. The child must be under 17 and income limits apply**
- D. The child must be a dependent regardless of age**

To qualify for the Child Tax Credit, the primary criteria are that the child must be under the age of 17 at the end of the tax year, and the taxpayer must adhere to specific income limits set by the IRS. This means that the child needs to fit within a specific age range to qualify for the credit, and exceeding these age limits disqualifies the taxpayer from claiming the credit. Additionally, the credit phases out at higher income levels, ensuring that it targets families in a particular income bracket. While age is indeed a crucial factor, it is equally important to consider the income limits when determining eligibility for the credit. Thus, this answer encapsulates the necessary age requirement alongside the financial criteria that taxpayers must evaluate to ensure they can take advantage of this tax benefit.

8. What determines the tax rate applied to interest income?

- A. The type of interest earned**
- B. The tax bracket of the taxpayer**
- C. The status of the taxpayer's residency**
- D. The length of time the interest is held**

The tax rate applied to interest income is primarily determined by the taxpayer's tax bracket. Interest income is generally considered ordinary income, which means it is taxed at the same rates applicable to wages and salaries. This means that the higher the taxpayer's overall income, the higher the marginal tax rate that will be applied to their interest income. While different types of interest, such as municipal bond interest or interest from certain tax-advantaged accounts, may have unique tax treatments, the fundamental basis for taxing most interest income remains closely tied to the taxpayer's income level and tax bracket. As income levels rise, taxpayers might fall into higher tax brackets, leading to increased rates on the interest earned. Other factors like residency status or how long the interest is held do play roles in various tax considerations but do not determine the fundamental tax rate for interest income. Thus, the tax bracket essentially dictates the rate applied to interest earnings.

9. What is primarily classified as un-reimbursed transportation expenses in charitable contributions?

- A. Costs of traveling to foreign countries**
- B. Business expenses related to charity events**
- C. Transportation costs directly related to services for a qualified organization**
- D. Personal commuting costs**

Un-reimbursed transportation expenses in the context of charitable contributions refer specifically to costs associated directly with providing services for a qualified organization. This includes expenses incurred while traveling to volunteer activities, such as using a personal vehicle to reach the site of the charity work. These expenses must meet certain criteria to qualify as deductible; they typically include the standard mileage rates or actual car expenses (like gas and maintenance) incurred while volunteering. Additionally, these costs can often be calculated as part of a taxpayer's charitable contribution deduction, making them a significant area of focus for anyone looking to maximize their tax benefits related to charitable work. In contrast, traveling to foreign countries, business expenses related to charity events, and personal commuting costs do not generally qualify as un-reimbursed transportation expenses for charitable contributions. The former may not be closely tied to the charitable purpose, while the latter is often categorized as personal travel or daily commuting, which is not deductible.

10. What benefit does a taxpayer receive from claiming the standard deduction?

- A. Reduction of taxable income**
- B. Refund of all taxes paid**
- C. Increase in gross income**
- D. Exemption from filing requirements**

Claiming the standard deduction provides the taxpayer with a reduction of their taxable income, which is a significant advantage when calculating their tax liability. The standard deduction is a fixed dollar amount that reduces the amount of income that is subject to tax. This means that by subtracting the standard deduction from their gross income, the taxpayer lowers their taxable income figure, which in turn reduces the overall tax owed to the government. For example, if a taxpayer has a gross income of \$50,000 and they claim a standard deduction of \$12,000, their taxable income is effectively reduced to \$38,000. This reduction can lead to a lower tax bracket and decreased tax liability. The standard deduction simplifies the tax filing process as it does not require itemizing deductions, making it an appealing option for many taxpayers.