

INTUIT INCOME TAX 2 PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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1. What is the purpose of Form 1098-T?

- A. To report business income
- B. To report tuition payments
- C. To report capital gains
- D. To report rental payments

2. What is the method used to calculate adjusted gross income (AGI)?

- A. Addition of all income sources
- B. Deductions of certain expenses from gross income
- C. Multiplication of total income by a specific rate
- D. Subtraction of taxes owed from gross income

3. Which form is primarily used by partnerships to report income, deductions, and gains?

- A. Form 1120
- B. Form 1065
- C. Form 1099
- D. Schedule C

4. What is the usual penalty for early withdrawal from a retirement account?

- A. 5%
- B. 10%
- C. 15%
- D. No penalty applied

5. How can taxpayers claim the Earned Income Tax Credit (EITC)?

- A. By submitting Form 843 only
- B. By filing a tax return and meeting eligibility requirements
- C. By reporting any income under \$20,000
- D. By completing a special application form

- 6. Which section of the tax code outlines the rules for retirement plan distributions?**
- A. Section 401(k)
 - B. Section 403(b)
 - C. Section 1099
 - D. Section 529
- 7. What is considered "other income" for tax purposes?**
- A. Wages and salaries
 - B. Investment income
 - C. Income from scholarships and jury duty pay
 - D. Self-employment income
- 8. What is the capital gains tax rate on assets held for over a year?**
- A. 35%
 - B. Long-term capital gains tax rates of 0%, 15%, or 20%
 - C. 20% flat rate
 - D. 10% flat rate
- 9. Which of the following deductions is considered an itemized deduction?**
- A. Mortgage Interest Deduction
 - B. Standard Deduction
 - C. Personal Expenses Deduction
 - D. Education Expenses Deduction
- 10. How is the deduction for capital losses limited for individual taxpayers?**
- A. To the lesser of \$2,000
 - B. To the lesser of \$3,000
 - C. To the total amount of loss incurred
 - D. To the amount exceeding capital gains

Answers

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

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Explanations

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1. What is the purpose of Form 1098-T?

- A. To report business income
- B. To report tuition payments**
- C. To report capital gains
- D. To report rental payments

Form 1098-T is used by eligible educational institutions to report payments received for qualified tuition and related expenses from students. This form helps institutions provide essential information for tax purposes, as it is integral for students or their guardians when claiming education-related tax benefits, such as the American Opportunity Tax Credit or the Lifetime Learning Credit. The form includes details like the amount of qualified tuition and fees, scholarships, and grants, all of which can affect the taxpayer's eligibility for education credits. Therefore, the purpose of Form 1098-T is specifically aligned with reporting tuition payments rather than any other type of income or payment, which is why this answer is accurate and relevant within the context of tax preparation and education-related deductions.

2. What is the method used to calculate adjusted gross income (AGI)?

- A. Addition of all income sources
- B. Deductions of certain expenses from gross income**
- C. Multiplication of total income by a specific rate
- D. Subtraction of taxes owed from gross income

Adjusted Gross Income (AGI) is calculated by taking the total gross income and subtracting specific deductions allowed under the tax code. These deductions can include contributions to retirement accounts, student loan interest, tuition and fees, and certain business expenses for self-employed individuals. The purpose of calculating AGI is to determine the income level that will be used to establish eligibility for certain tax benefits and credits, as well as to determine the taxpayer's overall tax situation. It reflects a more accurate picture of an individual's income after accounting for specific expenses that the tax system recognizes as important for tax calculation. This adjusted figure is crucial because it influences the taxpayer's taxable income and plays a significant role in applying various deductions and credits on their tax return. Other methods listed, such as simply adding all income sources or multiplying total income by a rate, don't adequately represent the process for determining AGI, as they overlook the critical role of allowable deductions in arriving at a more precise taxable income figure. Subtracting taxes owed also does not factor into the calculation of AGI, as that step occurs later in the tax process.

3. Which form is primarily used by partnerships to report income, deductions, and gains?

- A. Form 1120
- B. Form 1065**
- C. Form 1099
- D. Schedule C

The form used by partnerships to report income, deductions, gains, and losses is Form 1065. Partnerships are treated as pass-through entities for tax purposes, meaning that the partnership itself does not pay income tax. Instead, the profits or losses are passed through to the individual partners, who report them on their personal tax returns. Form 1065 captures essential information about the partnership's financial activity for the tax year. It includes details about the partnership's income, expenses, and distributions to partners. This form is a crucial document as it not only informs the IRS about the financial performance of the partnership but also provides each partner with a Schedule K-1, which outlines their share of the partnership income, deductions, and credits to be reported on their personal tax returns. The other forms are associated with different types of entities or purposes. Form 1120, for instance, is specifically for corporations to report their income and expenses. Form 1099 is used to report various types of income other than wages, salaries, and tips, and is generally used for independent contractors or for reporting certain payment types. Schedule C is utilized by sole proprietors to report income and expenses from a self-employed business. Thus, for partnerships, Form 1065 is

4. What is the usual penalty for early withdrawal from a retirement account?

- A. 5%
- B. 10%**
- C. 15%
- D. No penalty applied

The usual penalty for early withdrawal from a retirement account is 10%. This penalty typically applies to withdrawals made from tax-advantaged accounts such as traditional Individual Retirement Accounts (IRAs) and 401(k) plans before the account holder reaches the age of 59½. The purpose of this penalty is to encourage individuals to preserve their retirement savings. When funds are withdrawn early from these accounts, the Internal Revenue Service (IRS) imposes this 10% additional tax on the amount withdrawn, in addition to any regular income tax owed on the distribution. There are some exceptions to this rule, such as in cases of permanent disability, certain medical expenses, or college expenses, where the early withdrawal penalty may be waived. However, in general circumstances, a 10% penalty is the standard practice for early withdrawals.

5. How can taxpayers claim the Earned Income Tax Credit (EITC)?

- A. By submitting Form 843 only
- B. By filing a tax return and meeting eligibility requirements**
- C. By reporting any income under \$20,000
- D. By completing a special application form

To claim the Earned Income Tax Credit (EITC), taxpayers must file a tax return and adhere to specific eligibility criteria established by the IRS. This requirement is essential because the EITC is designed to assist low to moderate-income working individuals and families by reducing the tax burden and potentially providing a refund. When filing their tax return, taxpayers must meet certain conditions to qualify for the EITC, including having earned income from employment or self-employment, meeting income thresholds, and fulfilling other requirements related to filing status and the number of qualifying children, if applicable. The income thresholds and credit amounts might vary each tax year, reflecting changes in tax law. This method of claiming the credit ensures that the benefit reaches eligible taxpayers effectively while also allowing for the verification of income and eligibility through the tax return process. Other options do not correctly reflect the steps required to access the EITC. For instance, simply submitting a form or reporting a specific income level without officially filing a return does not meet the necessary criteria to claim this credit.

6. Which section of the tax code outlines the rules for retirement plan distributions?

- A. Section 401(k)**
- B. Section 403(b)
- C. Section 1099
- D. Section 529

Section 401(k) is widely recognized for detailing the rules and regulations surrounding retirement plans, particularly regarding employer-sponsored plans that allow employees to save for retirement on a tax-deferred basis. This section of the tax code specifically addresses aspects such as contributions, distributions, and tax implications associated with these retirement accounts. While Section 403(b) pertains to tax-advantaged retirement plans for employees of certain public schools and tax-exempt organizations, it does not cover the overall rules for all retirement plan distributions inclusive of the most common employer-sponsored plans. Section 1099 is related to the reporting of income other than wages, salaries, and tips, which isn't focused on retirement distributions. Lastly, Section 529 deals with qualified tuition programs that provide tax advantages for education savings, making it unrelated to retirement plans. The specificity and comprehensive nature of Section 401(k) regarding retirement plan distributions is what makes this option the most appropriate choice.

7. What is considered "other income" for tax purposes?

- A. Wages and salaries
- B. Investment income
- C. Income from scholarships and jury duty pay**
- D. Self-employment income

"Other income" for tax purposes includes various types of income that do not fall under the typical categories like wages, salaries, or investment income. In this context, income from scholarships and jury duty pay is categorized as "other income." Scholarships or fellowship grants may cover various educational expenses or provide money to students, and under certain conditions, portions of these may be taxable, particularly if used for non-qualified expenses. Jury duty pay, which provides compensation for serving on a jury, is also considered taxable income and falls under the category of "other income." These types of income may not be earned through traditional employment or business activities, making them distinct from other forms of income such as wages, investment earnings, or self-employment income, which are reported in different sections of a tax return. This distinction is crucial for properly categorizing income on tax returns.

8. What is the capital gains tax rate on assets held for over a year?

- A. 35%
- B. Long-term capital gains tax rates of 0%, 15%, or 20%**
- C. 20% flat rate
- D. 10% flat rate

The capital gains tax rate on assets held for over a year is categorized into long-term capital gains tax rates, which can be 0%, 15%, or 20%, depending on the taxpayer's income level. This tiered structure allows for favorable tax treatment to encourage long-term investment. For instance, individuals in lower income brackets may benefit from a 0% long-term capital gains rate, while middle-income earners typically fall into the 15% category. Higher-income earners might find themselves subject to the 20% rate. This progressive approach is designed to reduce the tax burden on those who are investing their money for longer periods, ultimately aimed at stimulating economic growth through investments. Understanding these rates is crucial for tax planning and investment strategies, as they can significantly impact the overall tax liability when selling assets that have appreciated in value. The other options suggest fixed or incorrect percentages that do not align with the current tax regulations regarding long-term capital gains.

9. Which of the following deductions is considered an itemized deduction?

- A. Mortgage Interest Deduction**
- B. Standard Deduction
- C. Personal Expenses Deduction
- D. Education Expenses Deduction

The mortgage interest deduction is classified as an itemized deduction because it allows taxpayers to deduct interest paid on mortgage loans used to purchase or improve their homes. This deduction is intended to encourage homeownership and typically represents a significant expense for many taxpayers. By itemizing deductions on their tax returns, individuals can potentially lower their taxable income based on specific and qualifying expenses incurred during the year, which may provide a greater tax benefit than taking the standard deduction. In contrast, the standard deduction is not an itemized deduction but rather a fixed dollar amount that reduces taxable income; it is available to all taxpayers and doesn't require itemization of specific expenses. Personal expenses generally do not qualify for deduction under current tax law unless they meet specific criteria defined by the IRS. Education expenses may have specific deductions or credits available, but they do not fall under the category of itemized deductions in the same manner as mortgage interest. Thus, the mortgage interest deduction correctly fits the definition of an itemized deduction, allowing taxpayers to organize and claim their allowable expenses to reduce their overall taxable income.

10. How is the deduction for capital losses limited for individual taxpayers?

- A. To the lesser of \$2,000
- B. To the lesser of \$3,000**
- C. To the total amount of loss incurred
- D. To the amount exceeding capital gains

The deduction for capital losses for individual taxpayers is limited to the lesser of \$3,000 or the total amount of net capital losses. This means that if a taxpayer has incurred capital losses that exceed their capital gains, they can only deduct up to \$3,000 of those losses against other income, such as wages or salaries, in a single tax year. If the total net capital loss is greater than \$3,000, the excess can be carried forward to future tax years, where it can continue to offset capital gains in those years or up to the \$3,000 limit against other income. This rule ensures that while taxpayers can benefit from their losses, there is a cap on the immediate deduction to prevent significant offsets against ordinary income that could substantially reduce taxable income in a given tax year.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://inuitincometax2.examzify.com>

We wish you the very best on your exam journey. You've got this!

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