

Intuit Turbo Tax Level 1 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Why is it important to file state taxes accurately?**
 - A. To avoid changes in federal tax obligations**
 - B. To avoid penalties, interest, and legal issues**
 - C. To ensure eligibility for research grants**
 - D. To qualify for federal tax rebates**
- 2. What does TurboTax offer for users who need tax advice?**
 - A. Access to tax professionals through TurboTax Expert Help**
 - B. Online forums for user discussions**
 - C. Automated tax tips based on average filings**
 - D. A dedicated customer service hotline**
- 3. Can "Life Insurance Proceeds" be found on Form W-2?**
 - A. Yes**
 - B. No**
 - C. Only if taxable**
 - D. Only for employees**
- 4. In 2023, what is the maximum foreign earned income a taxpayer can exclude?**
 - A. \$100,000**
 - B. \$120,000**
 - C. \$150,000**
 - D. \$80,000**
- 5. Is it correct that a taxpayer uses adjusted gross income to determine their tax using brackets?**
 - A. Yes**
 - B. No**
 - C. Only for joint filers**
 - D. Only for dependents**
- 6. What type of credit is addressed by Form 1116?**
 - A. Child tax credit**
 - B. Education credits**
 - C. Foreign tax credit**
 - D. Earned income credit**

- 7. What kind of income is specifically excluded from being considered when determining AGI?**
- A. Alimony received from any agreement.**
 - B. Tax-exempt interest income.**
 - C. Wages from self-employment.**
 - D. Child support payments received.**
- 8. Is the finance charge on a credit card exclusive to the consulting business a deductible expense?**
- A. No, it is a personal expense**
 - B. Yes, it is necessary for operations**
 - C. No, business expenses cannot include interest**
 - D. Yes, but only if documented**
- 9. What is the main purpose of Form 8863?**
- A. Claim foreign tax credits**
 - B. Report education credits**
 - C. Document retirement income**
 - D. File for dependency exemptions**
- 10. How much can a taxpayer claim to lower their income if their capital losses exceed capital gains in a given year?**
- A. The lesser of \$1,000 or total net loss**
 - B. The lesser of \$3,000 or total capital gains**
 - C. The lesser of \$3,000 or total net loss**
 - D. The lesser of \$5,000 or capital gains**

Answers

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

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Explanations

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1. Why is it important to file state taxes accurately?

- A. To avoid changes in federal tax obligations
- B. To avoid penalties, interest, and legal issues**
- C. To ensure eligibility for research grants
- D. To qualify for federal tax rebates

Filing state taxes accurately is essential primarily to avoid penalties, interest, and legal issues associated with incorrect filings. When taxpayers submit inaccurate information, whether it's due to mathematical errors, omissions, or misrepresentation of income, they may be subject to various consequences from the state tax authority. These can include steep fines, ongoing interest on any unpaid taxes, and potentially legal repercussions that could affect a taxpayer's financial standing and credibility with state authorities. Accurate filings ensure that taxpayers fulfill their legal obligations, thereby maintaining compliance with state tax laws. This compliance not only upholds the integrity of the tax system but also protects individuals from the stress and complications arising from audits or investigations that can occur when discrepancies are found in a tax return. While other factors may play a role in a taxpayer's overall financial planning, the immediate and pressing importance of avoiding penalties and legal issues makes accurate state tax filing a critical responsibility for every taxpayer.

2. What does TurboTax offer for users who need tax advice?

- A. Access to tax professionals through TurboTax Expert Help**
- B. Online forums for user discussions
- C. Automated tax tips based on average filings
- D. A dedicated customer service hotline

TurboTax offers users access to tax professionals through TurboTax Expert Help, which provides personalized and professional guidance for complex tax situations. This feature allows users to consult directly with experienced tax experts who can answer specific questions and offer insights tailored to individual circumstances. This is particularly beneficial for taxpayers who may have unique or complicated tax issues that require more specialized assistance than automated tools or general resources can provide. While online forums for user discussions, automated tax tips, and a dedicated customer service hotline can offer some level of support, they lack the personalized, expert-driven guidance that a direct connection with tax professionals provides. Accessing professional expertise can also help alleviate concerns and uncertainties regarding tax filings, ensuring users make informed decisions based on their specific financial situations.

3. Can "Life Insurance Proceeds" be found on Form W-2?

- A. Yes
- B. No**
- C. Only if taxable
- D. Only for employees

Life insurance proceeds are not reported on Form W-2 because this form is specifically designed to report wages, tips, and other compensation paid to employees, along with taxes withheld. Life insurance payouts, especially when received by a beneficiary due to the death of the insured, are typically not considered taxable income and therefore do not need to be reported on W-2 forms. This means that regardless of the circumstances under which the life insurance proceeds were received—whether taxable or not—they would not appear on Form W-2. Rather, they might be reported on different forms if they had specific tax implications, but in general, the proceeds themselves remain outside the realm of what is reported as employee income. Given this context, the option indicating that life insurance proceeds cannot be found on Form W-2 is accurate.

4. In 2023, what is the maximum foreign earned income a taxpayer can exclude?

- A. \$100,000
- B. \$120,000**
- C. \$150,000
- D. \$80,000

In 2023, the maximum foreign earned income that a taxpayer can exclude is indeed \$120,000. This exclusion is part of the foreign earned income exclusion, which allows U.S. citizens and resident aliens living abroad to exclude a certain amount of their foreign earned income from taxable income on their federal tax return. The limit is adjusted annually for inflation, and for 2023, it has been set at \$120,000. This helps to provide tax relief to those working abroad, allowing them to retain more of their earnings without incurring U.S. taxes on that income. Understanding this threshold is crucial for taxpayers who qualify for the exclusion, as it directly impacts how much of their income will be subject to U.S. taxation. Continuous updates to this figure highlight the importance of staying informed about current tax laws, particularly for expatriates or those considering employment outside the United States. This ensures that taxpayers maximize their potential exclusions and optimize their tax responsibilities effectively.

5. Is it correct that a taxpayer uses adjusted gross income to determine their tax using brackets?

A. Yes

B. No

C. Only for joint filers

D. Only for dependents

Using adjusted gross income (AGI) to determine tax liability is indeed accurate. AGI is a key figure in the calculation of taxable income and subsequently determining the amount of tax owed based on the tax brackets established by the IRS. Tax brackets apply to taxable income, which is derived from AGI after deductions have been applied. The brackets are designed to ensure a progressive taxation system, where individuals are taxed at increasing rates as their income rises. Therefore, knowing one's AGI is critical for understanding tax obligations and accurately applying the relevant tax bracket. While the other options might touch upon specific scenarios, they do not encompass the broader applicability of AGI to all taxpayers in determining tax liability using brackets. All taxpayers, regardless of their filing status or dependency status, utilize AGI to calculate their taxes through the established brackets. This highlights the significance of AGI in the overall tax computation process for individual taxpayers.

6. What type of credit is addressed by Form 1116?

A. Child tax credit

B. Education credits

C. Foreign tax credit

D. Earned income credit

Form 1116 specifically addresses the Foreign Tax Credit, which allows U.S. taxpayers to claim a credit for taxes paid to foreign governments on income that is also subject to U.S. tax. This is particularly important for individuals who earn income overseas, as it helps to mitigate the issue of double taxation. Essentially, if a taxpayer pays taxes to a foreign country, they can use Form 1116 to calculate and report the amount eligible for a credit against their U.S. tax liabilities. This credit reduces the overall tax burden and encourages international investment and income generation by providing relief for taxes paid abroad. The other options pertain to different types of tax credits. The child tax credit is designed to provide financial relief to families with qualifying children. Education credits help offset the costs of higher education. The earned income credit assists low to moderate-income workers by providing a tax benefit designed to encourage employment and alleviate poverty. Each of these credits has its specific forms and requirements separate from Form 1116, which is dedicated solely to foreign taxes.

7. What kind of income is specifically excluded from being considered when determining AGI?

- A. Alimony received from any agreement.**
- B. Tax-exempt interest income.**
- C. Wages from self-employment.**
- D. Child support payments received.**

Tax-exempt interest income is excluded from being considered when determining Adjusted Gross Income (AGI) because it is not subject to federal income tax. This means that although the taxpayer may earn this income, it does not increase their overall tax liability since it is specifically defined as tax-exempt under the Internal Revenue Code. Thus, when calculating AGI, which is used as a basis for various tax deductions and credits, tax-exempt interest income is not included in the total. Other options involve incomes that are generally taxable. For example, alimony received under agreements made prior to the 2019 tax changes is considered taxable income, and wages from self-employment are also included in AGI calculations as they are subject to income tax. Child support payments, while important considerations, are similarly not taxable to the recipient and, therefore, also do not contribute to AGI. However, they are not classified as income for tax purposes like tax-exempt interest is during AGI computation.

8. Is the finance charge on a credit card exclusive to the consulting business a deductible expense?

- A. No, it is a personal expense**
- B. Yes, it is necessary for operations**
- C. No, business expenses cannot include interest**
- D. Yes, but only if documented**

The finance charge on a credit card used exclusively for a consulting business is considered a deductible expense because it is necessary for the operations of the business. When determining what constitutes a deductible business expense, it is important to focus on whether the expense is both ordinary and necessary for the business to operate. In the case of finance charges, they serve as a cost of obtaining financing for business expenses, which can include costs for supplies, services, and other operational needs. Since the charge is incurred as a result of using credit to run the business, it directly contributes to the overall functioning of the business, therefore qualifying as a necessary expense. Other choices suggest that the finance charge could be personal or not allowable as a business expense, but since the charge is exclusively related to business activities, it does not fall under personal expenses. The claim that business expenses cannot include interest charges is inaccurate, as interest on business loans or credit utilized for business purposes is typically deductible. Lastly, while proper documentation is always beneficial for substantiating any deductions, the essential factor in this case is that the finance charge is indeed a necessary part of running the consulting business and meets the criteria for being a deductible expense.

9. What is the main purpose of Form 8863?

- A. Claim foreign tax credits
- B. Report education credits**
- C. Document retirement income
- D. File for dependency exemptions

Form 8863 is specifically designed for taxpayers to claim education credits, which are designed to help offset the costs of higher education. The two primary education credits that can be claimed on this form are the American Opportunity Credit and the Lifetime Learning Credit. These credits provide significant financial assistance by reducing the amount of tax owed, which can be beneficial for both students and their families. Using Form 8863, taxpayers can report the qualified education expenses paid for themselves, their spouses, or their dependents, and receive tax benefits in the form of credits that directly lower their tax bill dollar for dollar. This means that eligible students can reduce their overall educational expenses and potentially make higher education more affordable. The other options pertain to different tax matters unrelated to education credits, which further clarifies the specific purpose of Form 8863 and reinforces that its primary focus is on reporting and claiming education-related tax credits.

10. How much can a taxpayer claim to lower their income if their capital losses exceed capital gains in a given year?

- A. The lesser of \$1,000 or total net loss
- B. The lesser of \$3,000 or total capital gains
- C. The lesser of \$3,000 or total net loss**
- D. The lesser of \$5,000 or capital gains

When a taxpayer experiences capital losses that exceed their capital gains, they can utilize those losses to offset other income, thus lowering their taxable income. The IRS allows individuals to deduct a maximum of \$3,000 in net capital losses against other types of income, such as wages or salaries, in a given tax year. If the total net loss from capital investments—after accounting for any capital gains—is more than \$3,000, the taxpayer can only deduct up to \$3,000 in that tax year. Any remaining losses can be carried forward to subsequent years to offset income in those years. This rule is designed to provide taxpayers with relief from the tax burden due to investment losses while also ensuring that the deduction is capped at a reasonable limit. The other options do not accurately reflect the IRS rules for capital loss deductions, reinforcing why \$3,000 is the correct and applicable limit for reducing taxable income when capital losses exceed gains.