

Liberty Tax School Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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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 constitutes community income?**
 - A. Income from separate legal entities**
 - B. Salaries and wages during marriage**
 - C. Gifts received by either spouse**
 - D. Investment income from separate accounts**

- 2. What is the purpose of the Supplemental Security Income program?**
 - A. To provide loans for housing**
 - B. To supplement income for certain low-income individuals**
 - C. To fund education for disabled individuals**
 - D. To offer job training for unemployed citizens**

- 3. What is a degree candidate?**
 - A. A student who attends any educational institution**
 - B. A student in training programs for non-recognized occupations**
 - C. A student who is enrolled in a program acceptable for a higher degree**
 - D. A student who can only attend private institutions**

- 4. What is the tax rate on unearned income exceeding \$1,900 for affected children?**
 - A. Taxed at the child's rate**
 - B. Taxed at the parent's rate**
 - C. Taxed at a flat rate**
 - D. Not taxed**

- 5. Why is knowing gross income important for tax purposes?**
 - A. It determines eligibility for tax credits**
 - B. It affects property value assessments**
 - C. It is used to calculate net worth**
 - D. It is required for annual vehicle registration**

- 6. In order to pass the member of the household test, a dependent must what?**
- A. Live with you periodically throughout the year**
 - B. Reside in the household for less than half the year**
 - C. Completely reside with you all year**
 - D. Be a family member that visits often**
- 7. What happens to the funds in a Health Savings Account if they are not used in a given year?**
- A. The funds expire after the year ends**
 - B. The funds can be used only in the following year**
 - C. The funds continue to remain in the account from year to year**
 - D. The funds revert to the employer**
- 8. Which term refers to taxes on both earned and unearned income?**
- A. Income taxes**
 - B. Property taxes**
 - C. Sales taxes**
 - D. Capital gains taxes**
- 9. What characterizes a general partnership?**
- A. It includes only limited partners**
 - B. It is composed solely of general partners**
 - C. It guarantees limited liability for all partners**
 - D. It consists of one general partner and multiple limited partners**
- 10. What determines the exchange rate when converting foreign currency to U.S. dollars?**
- A. The date the currency is physically exchanged**
 - B. The date of transaction**
 - C. The date set by the IRS for tax purposes**
 - D. The date of check issuance**

Answers

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

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Explanations

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1. What constitutes community income?

- A. Income from separate legal entities
- B. Salaries and wages during marriage**
- C. Gifts received by either spouse
- D. Investment income from separate accounts

Community income is defined as income that is earned or acquired during a marriage and is generally considered to belong equally to both spouses, regardless of who earned it. This includes salaries and wages earned by either spouse while they are married. In the context of the question, the correct answer highlights that income from salaries and wages is considered community property. Under community property laws, this income typically must be shared equally between spouses, which reflects the principle that both partners contribute to the household during the marriage. The other options do not qualify as community income; for instance, gifts received by either spouse are generally classified as separate property and are not subject to division as community income. Similarly, income derived from separate legal entities or investment income from separate accounts also falls outside the definition of community income, as these may pertain to assets owned individually by one spouse rather than jointly earned during the marriage.

2. What is the purpose of the Supplemental Security Income program?

- A. To provide loans for housing
- B. To supplement income for certain low-income individuals**
- C. To fund education for disabled individuals
- D. To offer job training for unemployed citizens

The Supplemental Security Income (SSI) program is designed to provide financial assistance to certain low-income individuals who may be aged, blind, or disabled and require additional support to meet their basic needs. The program aims to ensure that these individuals have a minimal level of income to help cover essential living expenses such as food, clothing, and shelter. The fundamental objective of SSI is to help those who lack the means to support themselves due to specific circumstances, making option B the most accurate description of the program's purpose. By targeting those who are in financial need and have limited resources, SSI plays a crucial role in enhancing the quality of life for vulnerable populations. Understanding the focus of the program helps clarify why it is essential for those in need of income supplementation.

3. What is a degree candidate?

- A. A student who attends any educational institution
- B. A student in training programs for non-recognized occupations
- C. A student who is enrolled in a program acceptable for a higher degree**
- D. A student who can only attend private institutions

A degree candidate specifically refers to a student who is actively enrolled in a program that is designed to lead to the attainment of a higher degree, such as a bachelor's, master's, or doctoral degree. This implies that the student is engaged in coursework and requirements that are recognized within the academic framework necessary for achieving that degree. The emphasis on enrollment in a program that leads to a degree signifies an official status in higher education, as opposed to being a general student without that specific goal. The other options do not accurately capture this definition. Attending any educational institution or training programs for non-recognized occupations does not necessarily denote that the student is working toward a higher degree. Similarly, attending only private institutions is not a requirement or a defining characteristic of a degree candidate, as degree candidates can be found in both public and private educational settings.

4. What is the tax rate on unearned income exceeding \$1,900 for affected children?

- A. Taxed at the child's rate
- B. Taxed at the parent's rate**
- C. Taxed at a flat rate
- D. Not taxed

The correct response relates to the tax treatment of unearned income for children, particularly in the context of the "kiddie tax." When a child's unearned income exceeds a certain threshold, specifically \$1,900, the excess amount is not taxed at the child's tax rate but rather at the parent's tax rate. This provision is intended to prevent parents from shifting investments to their children's names to take advantage of the lower tax brackets typically available to minors. In this instance, the kiddie tax applies because the threshold of unearned income is surpassed; thus, the tax on the unearned portion is calculated using the parent's tax rate, ensuring that the income is taxed at a level appropriate to the family's overall income situation. This policy aids in maintaining fairness in the tax system and discourages tax avoidance strategies that involve the allocation of income to children who may have a significantly lower tax liability than their parents. Understanding this tax treatment encourages compliance and ensures that families are aware of their tax obligations when managing their children's unearned income.

5. Why is knowing gross income important for tax purposes?

- A. It determines eligibility for tax credits**
- B. It affects property value assessments**
- C. It is used to calculate net worth**
- D. It is required for annual vehicle registration**

Knowing gross income is important for tax purposes primarily because it determines eligibility for tax credits. Gross income is the total income earned before any deductions or taxes are applied, and it serves as a foundational figure for calculating various tax obligations and benefits. Many tax credits have income limits; therefore, an individual's or household's gross income is a critical factor in determining whether they qualify for specific tax credits, such as the Earned Income Tax Credit or Child Tax Credit. These credits can significantly reduce the amount of tax owed and sometimes even result in a refund. In contrast, the other options are less relevant when discussing tax obligations and benefits. The calculation of property values, net worth, or vehicle registrations involves different financial factors not directly tied to calculating income tax liabilities or eligibility for tax credits. Understanding gross income helps taxpayers and tax professionals alike to navigate the complexities of tax credits effectively, ensuring that eligible individuals receive the maximum benefits available to them.

6. In order to pass the member of the household test, a dependent must what?

- A. Live with you periodically throughout the year**
- B. Reside in the household for less than half the year**
- C. Completely reside with you all year**
- D. Be a family member that visits often**

To pass the member of the household test, a dependent must completely reside with you all year. This requirement is crucial because the test is designed to establish a clear relationship and support structure between the taxpayer and the dependent. By residing with the taxpayer for the entire year, the dependent demonstrates the continuity of the household arrangement, which is a key factor in determining eligibility for claiming someone as a dependent. This standard helps ensure that the dependent is truly part of the taxpayer's household and not just someone who may visit occasionally or live separately at times. Complete residency supports the notion of financial support and care throughout the year, which is fundamental to tax benefits associated with dependents. Other options suggest less consistent living arrangements, which do not meet the criteria for this test.

7. What happens to the funds in a Health Savings Account if they are not used in a given year?

- A. The funds expire after the year ends**
- B. The funds can be used only in the following year**
- C. The funds continue to remain in the account from year to year**
- D. The funds revert to the employer**

The correct answer highlights that funds in a Health Savings Account (HSA) do not expire at the end of the year; instead, they remain in the account and can accumulate over time. This characteristic of HSAs is significant because it allows account holders to build up savings for future medical expenses without the pressure of losing unspent funds. Unlike flexible spending accounts (FSAs), which may have a "use it or lose it" policy where unused funds can expire, HSAs offer the flexibility to roll over funds from year to year. This rollover feature is part of what makes HSAs an attractive option for individuals who want to save for future healthcare costs. Additionally, the funds grow tax-free, providing an added incentive for long-term savings. This accumulation aspect of HSAs enables individuals to plan for larger medical expenses or to use the funds for qualified expenses later in life, even if they do not use all the funds in a given year.

8. Which term refers to taxes on both earned and unearned income?

- A. Income taxes**
- B. Property taxes**
- C. Sales taxes**
- D. Capital gains taxes**

Income taxes are defined as taxes assessed on an individual's or entity's income, encompassing both earned income (such as wages, salaries, and tips) and unearned income (such as dividends, interest, and capital gains). This broad definition means that virtually all forms of income are subject to taxation under this category, making income taxes a primary source of revenue for governments. While property taxes focus specifically on real estate ownership and sales taxes are levied on the purchase of goods and services, income taxes apply universally to various forms of income, highlighting their inclusive nature. Capital gains taxes specifically pertain to the profits from the sale of investments, which is a subset of unearned income, but do not cover earned income. Thus, income taxes are the best term to define the taxes on both earned and unearned income altogether.

9. What characterizes a general partnership?

- A. It includes only limited partners
- B. It is composed solely of general partners**
- C. It guarantees limited liability for all partners
- D. It consists of one general partner and multiple limited partners

A general partnership is characterized primarily by its composition, which consists solely of general partners. In a general partnership, each partner is actively involved in the management of the business and has unlimited liability for the debts and obligations of the partnership. This means that if the partnership incurs debts or faces a lawsuit, each general partner is personally responsible for the entire financial obligation, not just a portion based on their investment. The key distinction of a general partnership compared to other business structures, such as limited partnerships or corporations, lies in the nature of liability and involvement in management. In a limited partnership, there are both general and limited partners, where limited partners typically do not participate in management and their liability is limited to their investment in the partnership. Therefore, the structure of a general partnership, which is made up entirely of general partners, aligns with the correct answer and underscores the shared responsibility and risk that all partners undertake in this form of business organization.

10. What determines the exchange rate when converting foreign currency to U.S. dollars?

- A. The date the currency is physically exchanged
- B. The date of transaction**
- C. The date set by the IRS for tax purposes
- D. The date of check issuance

The exchange rate when converting foreign currency to U.S. dollars is determined primarily by the date of the transaction. This is because exchange rates fluctuate based on various factors including market demand and supply, economic indicators, political stability, and overall economic performance. When a transaction occurs, the rate at that specific time is applied to convert the currency to U.S. dollars. For example, if a company purchases goods from a foreign vendor on a particular date, the exchange rate in effect at that moment dictates how many U.S. dollars will be needed to complete the payment. This principle ensures that both parties are aware of the exact amount being exchanged, accounting for any variations that could happen before or after the transaction due to market volatility. While other factors, such as the physical exchange date or check issuance date, might have some relevance in specific contexts, they do not set the exchange rate for the conversion itself. The IRS's date for tax purposes is also related to different accounting practices and does not influence the market-driven exchange rate applied at the time of a transaction.

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://libertytaxschool.examzify.com>

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

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