

LIBERTY TAX SCHOOL PRACTICE TEST (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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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. Which of the following describes the Section 179 deduction?**
 - A. A deduction for charitable contributions
 - B. A reduction in taxes for property used in business
 - C. A credit for students enrolled in college
 - D. A special allowance for retirement contributions
- 2. Which filing status applies to someone who is unmarried on the last day of the year?**
 - A. Married filing jointly
 - B. Head of household
 - C. Single
 - D. Married filing separately
- 3. What is the purpose of personal property taxes?**
 - A. To fund community services
 - B. To tax individual incomes
 - C. To provide tax benefits for investments
 - D. To levy fees on services
- 4. Which term refers to an intangible property that represents added business value?**
 - A. Asset
 - B. Goodwill
 - C. Capital gain
 - D. Asset appreciation
- 5. What is a term loan?**
 - A. A loan that is required to be paid back on demand
 - B. Any loan that is not a demand loan
 - C. A type of loan given for a short duration of time
 - D. A personal loan with a flexible repayment schedule

- 6. What are tips assigned by an employer to an employee called?**
- A. Declared tips
 - B. Allocated tips
 - C. Supplemental tips
 - D. Estimated tips
- 7. Which act mandates the withholding of a percentage of an employee's salary for social security?**
- A. Employee Retirement Income Security Act (ERISA)
 - B. Federal Insurance Contributions Act (FICA)
 - C. Fair Labor Standards Act (FLSA)
 - D. Tax Equity and Fiscal Responsibility Act (TEFRA)
- 8. What does 'investment use' usually represent in terms of property?**
- A. A fixed value percentage
 - B. A percentage showing investment purpose use
 - C. A measure of total ownership
 - D. A determination of resale value
- 9. What type of tax is a sales tax?**
- A. A federal tax on corporate profits
 - B. A tax levied by local governments on retail sales
 - C. A tax on inherited assets
 - D. A property tax based on real estate value
- 10. What type of option includes debt options, commodity futures, and currency options?**
- A. Equity option
 - B. Debt option
 - C. Nonequity option
 - D. Stock option

Answers

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

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Explanations

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1. Which of the following describes the Section 179 deduction?

- A. A deduction for charitable contributions
- B. A reduction in taxes for property used in business**
- C. A credit for students enrolled in college
- D. A special allowance for retirement contributions

The Section 179 deduction allows businesses to deduct the full purchase price of qualifying equipment and software purchased or financed during the tax year, rather than capitalizing the asset and depreciating it over time. This enables businesses to reduce their taxable income significantly. This deduction is specifically designed for property used in a trade or business, such as machinery, equipment, and certain types of software, which aligns with the intent of encouraging investment in business assets that will aid in the growth and expansion of the business. The other options focus on financial aspects unrelated to business property. Contributions to charitable organizations, educational credits for students, and retirement contributions do not involve the direct expensing of business-related property purchases, which is the fundamental aspect of the Section 179 deduction. This makes the correct choice clearly distinct from the other options presented.

2. Which filing status applies to someone who is unmarried on the last day of the year?

- A. Married filing jointly
- B. Head of household
- C. Single**
- D. Married filing separately

The filing status of "Single" applies to an individual who is unmarried on the last day of the tax year. This means that the taxpayer does not have a spouse and has not married or filed jointly with anyone. The Single status generally results in specific tax brackets and standard deductions that are typically different from those applicable to married taxpayers. The individual must remain unmarried by December 31 to qualify for this status, which is straightforward for those without any other marital connections, such as divorce or death of a spouse during the year. Head of household is a valid filing status but requires the taxpayer to be unmarried and provide a home for a qualifying dependent, which is not applicable if there are no such dependents. Married filing jointly and married filing separately clearly pertain to individuals who are legally married, and therefore do not apply to someone who is unmarried on the last day of the year. Thus, Single is the most accurate designation for someone in this situation.

3. What is the purpose of personal property taxes?

- A. To fund community services
- B. To tax individual incomes
- C. To provide tax benefits for investments
- D. To levy fees on services

Personal property taxes serve as a crucial funding mechanism for various community services that benefit residents. These taxes are typically levied on movable assets such as vehicles, machinery, and equipment owned by individuals or businesses. The revenue generated from personal property taxes is allocated to support essential services like public education, emergency services, road maintenance, and local infrastructure improvements. By generating funds for these community-oriented services, personal property taxes contribute to the overall well-being and quality of life within the community. The other options do not align with the specific purpose of personal property taxes. Taxing individual incomes relates to income tax, which is a separate form of taxation focused on earnings rather than property ownership. Tax benefits for investments would pertain to incentives provided through tax laws to encourage certain types of financial investments rather than taxing property. Levying fees on services refers to charges for specific services provided by government entities, which is distinct from the broader funding goals of personal property taxes.

4. Which term refers to an intangible property that represents added business value?

- A. Asset
- B. Goodwill
- C. Capital gain
- D. Asset appreciation

Goodwill is a term used in accounting and business that specifically refers to an intangible asset that arises when a company acquires another business for more than the fair value of its net identifiable assets. It represents the extra value that a company has due to its brand reputation, customer relationships, employee relations, and other unique factors that contribute to a company's earning potential. When a business operates successfully over time, it often builds a positive reputation and loyal customer base, contributing to its overall value beyond just tangible assets like equipment or inventory. This intangible value, which cannot be easily quantified and does not have a physical presence, is what we refer to as goodwill. Understanding goodwill is crucial for accounting and financial reporting, as it plays a significant role in business valuations, mergers, and acquisitions. It is also essential to recognize that goodwill can fluctuate based on the business's performance and market conditions.

5. What is a term loan?

- A. A loan that is required to be paid back on demand
- B. Any loan that is not a demand loan**
- C. A type of loan given for a short duration of time
- D. A personal loan with a flexible repayment schedule

A term loan is typically understood as a specific type of loan that is borrowed for a set period of time with a fixed repayment schedule. The correct answer reflects the broader category of loans that are not demand loans, which implies that term loans have a defined maturity date and are not subject to recall on short notice by the lender. Term loans generally have a predetermined repayment schedule, which might include fixed monthly payments that encompass both principal and interest, making them different from demand loans that can be called by lenders at any time. While the correct choice indicates that a term loan could encompass various types of loans beyond just demand loans, it also highlights the essential characteristic of having a defined repayment plan. The other choices, such as those describing loans that are either required to be paid back on demand, offered for a short duration, or have flexible repayment schedules, do not appropriately capture the nature of a term loan, which is primarily defined by its fixed terms and structured repayment schedule.

6. What are tips assigned by an employer to an employee called?

- A. Declared tips
- B. Allocated tips**
- C. Supplemental tips
- D. Estimated tips

When tips are assigned by an employer to an employee, they are classified as allocated tips. This classification is crucial in the context of tax reporting and understanding how different types of tips are treated for tax purposes. Allocated tips refer specifically to tips that are assigned to employees by the employer, typically in situations where there is a custom of tipping or when employees do not report their actual tips. This means that the employer calculates a hypothetical amount of tips based on certain factors such as total sales and the number of employees. For example, if a restaurant uses a standard percentage of sales to determine what tips should be allocated to their servers, these figures are considered allocated tips. Understanding this distinction is important because allocated tips often have implications for tax reporting and can affect an employee's income tax liability. Properly classifying and reporting allocated tips ensures compliance with tax laws and federal guidelines regarding tip income. The other terms listed, while related to the concept of tips, do not accurately describe tips assigned by employers. "Declared tips" typically refers to the tips that an employee reports to their employer. "Supplemental tips" often implies additional remuneration beyond regular wages or tips, while "estimated tips" suggests an approximation, which does not align with the formal allocation process.

7. Which act mandates the withholding of a percentage of an employee's salary for social security?

- A. Employee Retirement Income Security Act (ERISA)
- B. Federal Insurance Contributions Act (FICA)**
- C. Fair Labor Standards Act (FLSA)
- D. Tax Equity and Fiscal Responsibility Act (TEFRA)

The Federal Insurance Contributions Act (FICA) is the legislation that mandates the withholding of a percentage of an employee's salary for Social Security and Medicare taxes. Under FICA, both employees and employers contribute to funding these social insurance programs. The act outlines the specific percentages to be withheld and is crucial for maintaining the financial support of Social Security benefits for retirees, disabled individuals, and survivors of deceased workers. FICA applies to nearly all wage earners, ensuring a broad base of funding for these critical government programs. This makes understanding FICA essential for anyone working in tax preparation or payroll processing, as compliance with these withholding requirements is necessary for proper tax reporting and employee benefit eligibility.

8. What does 'investment use' usually represent in terms of property?

- A. A fixed value percentage
- B. A percentage showing investment purpose use**
- C. A measure of total ownership
- D. A determination of resale value

'Investment use' generally signifies the percentage of property that is utilized for investment purposes. This is important in various contexts, such as tax reporting or investment analysis, where distinguishing between personal use and investment use can impact how income, expenses, and deductions are calculated. When a property is classified as being used for investment, it indicates that the owner intends to generate income from the property, whether through rental income, appreciation, or other means. This classification can have implications for tax treatment, as expenses related to investment properties may be deductible while personal-use properties may not be eligible for certain tax benefits. Understanding investment use helps in evaluating the financial performance of a property and facilitates decision-making regarding property sales, renovations, or other investment strategies. It focuses on the proportion of the property that is actively contributing to the owner's investment objectives.

9. What type of tax is a sales tax?

- A. A federal tax on corporate profits
- B. A tax levied by local governments on retail sales**
- C. A tax on inherited assets
- D. A property tax based on real estate value

Sales tax is classified as a tax levied by local governments on retail sales. This means that when consumers purchase goods or services, a percentage of the sales price is added as tax, which is collected at the point of sale. Local government entities, such as cities or counties, typically have the authority to impose this tax to generate revenue that can be used for community services, infrastructure, and other public needs. Unlike other tax types, sales tax is specifically focused on consumption and applies primarily to tangible personal property, though some services may also be taxable depending on the jurisdiction's laws. This distinguishes it from a federal tax on corporate profits, which targets business earnings, a tax on inherited assets that deals with estate transfers, or a property tax, which is based on the value of real estate owned. Each of those tax types serves different purposes and is applied under different circumstances, highlighting the unique nature of sales tax in relation to consumer purchases at the retail level.

10. What type of option includes debt options, commodity futures, and currency options?

- A. Equity option
- B. Debt option
- C. Nonequity option
- D. Stock option

The correct choice identifies a category of options that encompasses a diverse range of financial instruments, including debt options, commodity futures, and currency options. This classification is crucial because it distinguishes these types of options from equity or stock options, which relate specifically to shares of company stock. Nonequity options are broader in scope and may involve various asset classes beyond just stocks. They are used by investors and traders for different purposes, including hedging against risks in debt markets, commodities, or foreign exchange markets. The versatility of nonequity options allows participants to manage risk and speculate across multiple sectors of the financial market. Understanding this classification is vital for anyone looking to engage with different types of financial instruments, as it helps clarify the specific markets and risks associated with each type.

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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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