

LIBERTY TAX SCHOOL PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

<https://libertytaxschool.examzify.com>



Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

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

SAMPLE

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

SAMPLE

- 1. What is a futures contract primarily associated with?**
 - A. Buying or selling stocks
 - B. Buying or selling a specified commodity or financial instrument
 - C. Investing in mutual funds
 - D. Deriving income from real estate
- 2. What type of dividends are eligible for lower tax rates that apply to a net capital gain?**
 - A. Qualified dividends
 - B. Ordinary dividends
 - C. Preferred dividends
 - D. Common dividends
- 3. What defines an S Corporation?**
 - A. A corporation eligible to be taxed at lower rates
 - B. A type of corporation that avoids double taxation on income
 - C. A sole proprietorship with corporate status
 - D. A limited liability company with shareholder benefits
- 4. Which test states that you cannot claim dependents if you or your spouse can be claimed as a dependent by another taxpayer?**
 - A. Dependent taxpayer test
 - B. Qualifying child test
 - C. Multiple support agreement
 - D. Joint return test
- 5. What is the filing status for individuals who are married or live together in a common law marriage?**
 - A. Married filing jointly
 - B. Head of household
 - C. Single
 - D. Married filing separately

- 6. What is required for a taxpayer to claim a dependent?**
- A. The potential dependent must be a qualifying child or qualifying relative
 - B. The taxpayer must have claimed them in previous years
 - C. Only the taxpayer's children can be claimed as dependents
 - D. The dependent must be a US citizen
- 7. What is the maximum percentage an employer can contribute as a match in a 401(k) plan?**
- A. 25%
 - B. 50%
 - C. 100%
 - D. Varies by plan
- 8. What type of fees are generally paid by a buyer to research the title of real property?**
- A. Inspection fees
 - B. Abstract fees
 - C. Closing costs
 - D. Transfer taxes
- 9. Which method is used for calculating business automobile expenses by multiplying business miles by a set rate?**
- A. Actual expense method
 - B. Standard mileage method
 - C. Record keeping method
 - D. Fixed rate method
- 10. What are contributions to a Traditional IRA called when they cannot be deducted from adjusted gross income?**
- A. Nondeductible traditional IRA contributions
 - B. Deductible traditional IRA contributions
 - C. Qualified IRA contributions
 - D. Partial deductible IRA contributions

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What is a futures contract primarily associated with?

- A. Buying or selling stocks
- B. Buying or selling a specified commodity or financial instrument**
- C. Investing in mutual funds
- D. Deriving income from real estate

A futures contract is primarily associated with the buying or selling of a specified commodity or financial instrument at a predetermined price on a specified future date. This financial instrument is used by traders to hedge against price fluctuations or to speculate on future price movements. In essence, it creates a legal obligation for the buyer to purchase, and for the seller to sell, the underlying asset when the contract expires. The structure of a futures contract allows participants to manage their financial risk by locking in prices in advance, which is especially crucial in markets where prices can be volatile, such as those for agricultural products, oil, or financial indices. This characteristic of futures contracts makes them distinct from other investment options such as stocks or mutual funds, which do not typically involve such agreements for future delivery and payment.

2. What type of dividends are eligible for lower tax rates that apply to a net capital gain?

- A. Qualified dividends**
- B. Ordinary dividends
- C. Preferred dividends
- D. Common dividends

Qualified dividends are the type of dividends that are eligible for lower tax rates that apply to a net capital gain. This tax treatment means that instead of being taxed at the higher ordinary income tax rates, qualified dividends can be taxed at the more favorable long-term capital gains tax rates, which are typically lower. To qualify for these lower rates, dividends must meet specific requirements set forth by the IRS. This includes being paid by a U.S. corporation or a qualifying foreign corporation and having been held for a specific period prior to the dividend payment. These rules are designed to encourage investment in companies and promote long-term holding of stocks. Ordinary dividends, on the other hand, are taxed at the individual's ordinary income tax rate, which is generally higher than the capital gains rate. Preferred and common dividends do not inherently determine their tax treatment; rather, it depends on whether they meet the requirements to be classified as qualified dividends. Therefore, it's the specific qualifications surrounding qualified dividends that allow them to receive favorable tax rates, making them an important consideration for investors in tax planning.

3. What defines an S Corporation?

- A. A corporation eligible to be taxed at lower rates
- B. A type of corporation that avoids double taxation on income**
- C. A sole proprietorship with corporate status
- D. A limited liability company with shareholder benefits

An S Corporation is defined primarily by its tax structure, which allows it to avoid double taxation on income. In a standard corporation, also known as a C Corporation, income is taxed at the corporate level, and then again at the individual level when dividends are distributed to shareholders. However, an S Corporation, by electing this status with the IRS, has its income passed directly to shareholders without being subject to federal income tax at the corporate level. This means that the profits are reported on the shareholders' personal tax returns, effectively only taxed once, which is a key advantage of this structure. The other options describe different aspects related to corporate structures but do not accurately define the S Corporation's primary characteristic. For instance, while lower tax rates may be a benefit for certain businesses, it does not specifically define an S Corporation. A sole proprietorship and a limited liability company (LLC) represent different business structures altogether and are not synonymous with an S Corporation. The S Corporation status is unique in its approach to taxation and is not simply an enhancement of these other business structures.

4. Which test states that you cannot claim dependents if you or your spouse can be claimed as a dependent by another taxpayer?

- A. Dependent taxpayer test**
- B. Qualifying child test
- C. Multiple support agreement
- D. Joint return test

The dependent taxpayer test is the correct choice because it specifically addresses the situation where a taxpayer or their spouse cannot claim dependents if they can themselves be claimed as dependents by another taxpayer. This test ensures clarity regarding who is eligible to claim dependents, thereby preventing double claims and ensuring that each dependent is only claimed once. In the context of tax filing, this is particularly important as it helps maintain integrity in the tax system by preventing individuals from improperly benefitting from tax deductions or credits related to dependents if they are not eligible to do so. While the qualifying child test focuses on determining if a child meets the criteria to be claimed as a dependent based on specific relationship, age, residency, and support factors, it does not address the situation of the taxpayer or their spouse being claimed by someone else. The multiple support agreement pertains to cases where multiple taxpayers contribute support for a dependent but does not apply to the situation of claiming dependents when someone can be claimed themselves. Lastly, the joint return test deals with conditions under which married couples can file jointly or separately, rather than eligibility to claim dependents based on dependency status.

5. What is the filing status for individuals who are married or live together in a common law marriage?

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

Individuals who are married or in a common law marriage can file their tax returns under the "Married filing jointly" status. This status is available to couples who are legally married and provides various tax benefits, including higher income thresholds for tax brackets, eligibility for certain credits, and the ability to claim deductions that may be reduced or eliminated under other filing statuses. When two individuals choose to live together in a common law marriage, and if their union meets the requirements defined by state law for recognition as a legal marriage, they are treated the same as formally married couples for federal tax purposes. This means they can file jointly, which is typically advantageous. Other filing statuses, such as "Head of household" and "Single," are not applicable to married couples, as these categories are intended for single individuals or those who qualify under certain circumstances, like having dependents and being unmarried. "Married filing separately" is another option, but it often leads to a higher tax liability and fewer benefits than filing jointly. The option for married individuals to file jointly reflects the recognition of their partnership in the eyes of the tax code.

6. What is required for a taxpayer to claim a dependent?

- A. The potential dependent must be a qualifying child or qualifying relative**
- B. The taxpayer must have claimed them in previous years
- C. Only the taxpayer's children can be claimed as dependents
- D. The dependent must be a US citizen

To claim a dependent on a tax return, it is essential that the potential dependent qualifies as either a "qualifying child" or a "qualifying relative." This classification includes specific criteria that must be met, such as relationship, age, residency, and financial support, ensuring that the dependent fulfills IRS guidelines. A qualifying child must meet requirements related to their relationship to the taxpayer (like being a child, stepchild, or adopted child), age (usually under 19, or under 24 if a full-time student), residency (must live with the taxpayer for more than half the year), and support (the taxpayer must provide more than half of their financial support). A qualifying relative, on the other hand, does not have to meet the age requirement but must still be related to the taxpayer in a specified way and live with the taxpayer for a significant part of the year, or alternatively, be a specific relative regardless of residency. Meeting these criteria is crucial as it verifies the taxpayer's right to claim the dependents, allowing for potential deductions and tax credits that can significantly affect tax liability. The requirements are designed to ensure that those claimed as dependents genuinely have a support relationship with the taxpayer. The other options do not accurately represent the requirements

7. What is the maximum percentage an employer can contribute as a match in a 401(k) plan?

- A. 25%
- B. 50%
- C. 100%

D. Varies by plan

The maximum percentage an employer can contribute as a match in a 401(k) plan varies by plan. This is because each employer has the discretion to design their matching contributions according to their specific 401(k) plan provisions. There is no federal cap on the matching percentage specifically; thus, some employers may choose to match a certain percentage of employee contributions, such as 50% or even 100% of the employee's contribution up to a certain limit, while others may not match at all. The actual percentage will depend on the plan's rules and the employer's policy, which can consider various factors including the company's overall compensation structure and budget. Therefore, it is essential for employees to review their specific 401(k) plan documents to understand how much their employer is willing to contribute.

8. What type of fees are generally paid by a buyer to research the title of real property?

- A. Inspection fees
- B. Abstract fees**
- C. Closing costs
- D. Transfer taxes

The correct choice is the abstract fees, as these fees are specifically associated with the process of researching the title of real property. When a buyer is interested in purchasing real estate, it is crucial to verify that the title is clear, meaning there are no liens or claims against it that would affect ownership. Abstract fees cover the cost incurred when an abstractor examines the historical records related to the property to create a summary of the title history. This summary ensures that the property is free of any legal issues and provides a basis for the title insurance policy, which protects the buyer and lender from future claims. While inspection fees pertain to assessing the condition of the property itself, rather than its legal title, closing costs involve a variety of fees that a buyer and seller encounter at the conclusion of a real estate transaction, encompassing various services beyond just title research. Transfer taxes are taxes imposed by the state or local government when property title is transferred, which is unrelated to the specific act of researching a property's title.

9. Which method is used for calculating business automobile expenses by multiplying business miles by a set rate?

- A. Actual expense method
- B. Standard mileage method**
- C. Record keeping method
- D. Fixed rate method

The method used for calculating business automobile expenses by multiplying business miles driven by a predetermined rate is known as the standard mileage method. This approach simplifies the calculation of deducting automobile expenses for business purposes. Instead of tracking all actual expenses related to the operation of a vehicle (like fuel, maintenance, insurance, and depreciation), you simply need to keep a record of the total business miles driven during the year. At the end of the year, this total is then multiplied by the standard mileage rate set by the IRS. This rate is adjusted annually and reflects the average costs associated with operating a motor vehicle. Using this method can be advantageous as it alleviates the need for detailed record-keeping of all vehicle-related expenses, making it a practical option for many taxpayers. The other methods mentioned, such as the actual expense method, involve more complex computations and record-keeping, which are not necessary when using the standard mileage method. Therefore, opting for the standard mileage method is both convenient and efficient for calculating business automobile expenses.

10. What are contributions to a Traditional IRA called when they cannot be deducted from adjusted gross income?

- A. Nondeductible traditional IRA contributions**
- B. Deductible traditional IRA contributions
- C. Qualified IRA contributions
- D. Partial deductible IRA contributions

Contributions to a Traditional IRA that cannot be deducted from adjusted gross income are referred to as nondeductible traditional IRA contributions. This scenario typically arises when a taxpayer's income exceeds certain limits, making them ineligible for a deduction based on their modified adjusted gross income (MAGI). When these contributions are nondeductible, the account holder must keep track of them because, while they will not reduce taxable income in the year they are made, they will not be taxed again when withdrawn in retirement, as they have already been subjected to tax. This ensures that the contributions are treated fairly in terms of taxation over time. The other choices reference types of contributions that either allow for a deduction based on income (deductible contributions), are not a recognized category (qualified contributions), or suggest partial deductions, which implies a different treatment than nonscheduled deductions that arise from exceeding certain income limits. Thus, the clear distinction of nondeductible contributions accurately identifies the nature of the contributions made under the circumstances described.

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!

SAMPLE