

Tax Preparer Practice Exam (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

- 1. What is the significance of Form 8606 in IRA distributions?**
 - A. It reports capital gains.**
 - B. It computes the tax on any nondeductible contributions.**
 - C. It serves as an application for tax refunds.**
 - D. It is used to report social security benefits.**
- 2. To what level of earned income is the Additional Child Tax Credit available?**
 - A. Above \$5,000**
 - B. Above \$2,000**
 - C. Above \$3,000**
 - D. Above \$10,000**
- 3. What happens to one's AGI if it exceeds certain thresholds related to the exemption amount?**
 - A. It increases the exemption amount**
 - B. It triggers a reduction of 2% for each \$2,500 over the threshold**
 - C. There is no effect on AGI**
 - D. It qualifies for additional credits**
- 4. What amounts make up the gross income filing requirement for most taxpayers?**
 - A. Standard Deduction and Adjusted Gross Income**
 - B. Personal Exemption and Tax Credits**
 - C. Personal Exemption and Standard Deduction**
 - D. Standard Deduction and Capital Gains**
- 5. What age defines a qualified participant for early retirement plan distributions?**
 - A. 50 years old**
 - B. 55 years old**
 - C. 59 and a half years old**
 - D. 62 years old**

- 6. What type of client information must Tax Professionals keep confidential?**
- A. Only information related to tax payments**
 - B. Any information that could potentially identify the client**
 - C. Information available in public records**
 - D. Only social security numbers**
- 7. How do Tax Professionals fulfill their due diligence requirements?**
- A. By relying solely on client-provided information**
 - B. By making every effort to prepare accurate and complete returns**
 - C. By using tax software to process returns**
 - D. By verifying client information after submission**
- 8. Which of the following would typically be categorized under listed property?**
- A. Personal computers**
 - B. Company brick-and-mortar stores**
 - C. Owned real estate**
 - D. Office equipment**
- 9. What item must be reported on Schedule H?**
- A. Investment income**
 - B. Household employment taxes**
 - C. Sales tax**
 - D. Interest income**
- 10. What is the required form for reporting child care tax credits?**
- A. Form 1040**
 - B. Schedule C**
 - C. Form W-2**
 - D. Schedule A**

Answers

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

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Explanations

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1. What is the significance of Form 8606 in IRA distributions?

- A. It reports capital gains.**
- B. It computes the tax on any nondeductible contributions.**
- C. It serves as an application for tax refunds.**
- D. It is used to report social security benefits.**

Form 8606 is significant in the context of IRA distributions because it is specifically designed to compute the tax on any nondeductible contributions made to traditional IRAs. When individuals make nondeductible contributions to their IRAs, those contributions do not receive a tax deduction at the time of the contribution. Therefore, when the individual eventually withdraws funds from the IRA, it is crucial to differentiate the portion of the withdrawal that represents those nondeductible contributions from the taxable earnings. By using Form 8606, taxpayers can report their nondeductible contributions, which helps in calculating the taxable and non-taxable portions of their distributions. This ensures that they are only taxed on the earnings in the account and not on the contributions that have already been taxed. Furthermore, this form also serves to track the basis in the IRA, which is necessary for future withdrawals. The other options revolve around topics unrelated to the primary purpose of Form 8606, such as capital gains, applications for tax refunds, or the reporting of Social Security benefits, which is why they do not correctly identify the form's significance in IRA distributions.

2. To what level of earned income is the Additional Child Tax Credit available?

- A. Above \$5,000**
- B. Above \$2,000**
- C. Above \$3,000**
- D. Above \$10,000**

The Additional Child Tax Credit (ACTC) is designed to provide additional financial support to families who have qualifying children and meet certain income requirements. This credit is a refundable tax credit, meaning it can reduce the tax owed to zero and provide a refund for any excess amount. The key threshold for eligibility regarding earned income focuses on the minimum earned income level needed to claim the credit. For the Additional Child Tax Credit, the threshold is set at \$3,000. This means that a taxpayer must have earned income above \$3,000 to qualify for the ACTC. The credit itself is calculated based on the number of qualifying children and is contingent on the taxpayer's income level, making it essential for them to meet this income requirement to reap the benefits of the credit. Households earning less than \$3,000 would not be eligible for the Additional Child Tax Credit, as their income falls below the stipulated threshold. This special characteristic of the ACTC provides a safety net for lower-income families with children, allowing them a measure of financial assistance beyond what's provided through the regular Child Tax Credit, which is non-refundable.

3. What happens to one's AGI if it exceeds certain thresholds related to the exemption amount?

A. It increases the exemption amount

B. It triggers a reduction of 2% for each \$2,500 over the threshold

C. There is no effect on AGI

D. It qualifies for additional credits

When an individual's Adjusted Gross Income (AGI) exceeds specific thresholds, it triggers a reduction in the personal exemption amount. The mechanism for this reduction is quite precise: for every \$2,500 that AGI exceeds the threshold, the exemption amount is reduced by 2%. This systematic phasing out ensures that higher-income taxpayers receive less benefit from personal exemptions, aligning with tax policies aimed at equitable distribution of tax burdens. This reduction continues until the exemption is completely phased out based on the income level, impacting the taxpayer's overall deductions and potentially increasing their taxable income. Understanding this nuance is crucial for tax preparers as it directly influences tax liability and planning strategies for clients with AGI near these thresholds.

4. What amounts make up the gross income filing requirement for most taxpayers?

A. Standard Deduction and Adjusted Gross Income

B. Personal Exemption and Tax Credits

C. Personal Exemption and Standard Deduction

D. Standard Deduction and Capital Gains

The correct choice regarding the gross income filing requirement for most taxpayers is based on understanding the basic components of gross income that establish whether a taxpayer needs to file a return. Typically, gross income includes all income received in the form of money, goods, property, and services that are not exempt from tax. Taxpayers must assess their gross income against the standard deduction to determine if they need to file a federal tax return. The standard deduction reduces taxable income and is based on filing status, allowing taxpayers to lower their overall taxable income. In this context, personal exemptions were historically utilized to reduce taxable income further based on the number of dependents a taxpayer claimed. While personal exemptions are no longer in effect due to tax law changes starting in 2018, they were previously considered when determining gross income requirements. As such, understanding that the total gross income includes both standard deductions and exemptions (historically) helps frame the filing requirements. Tax credits, on the other hand, directly reduce tax liability but do not influence the determination of filing requirements based on gross income. Therefore, the combination of personal exemptions and the standard deduction elucidates the overall framework for assessing filing needs, making this the right choice in understanding gross income filing requirements.

5. What age defines a qualified participant for early retirement plan distributions?

- A. 50 years old
- B. 55 years old
- C. 59 and a half years old**
- D. 62 years old

The age that defines a qualified participant for early retirement plan distributions is 59 and a half years old. This is significant because, under IRS regulations, individuals can begin to take distributions from their retirement accounts without incurring the additional 10% early withdrawal penalty once they reach this age. For tax-preparation purposes, understanding this age threshold is crucial, as clients may seek to access their retirement funds before the traditional retirement age of 65. However, the distributions taken before reaching 59 and a half might be subject to penalties, so it's important to inform clients of this age marker. In contrast, ages like 50, 55, or 62 do not align with the IRS criteria for penalty-free withdrawals from most retirement accounts. Age 50 does have implications for catch-up contributions to retirement accounts, while 55 is specifically relevant for employees who leave a job and have access to their plans without penalty under certain conditions. Age 62 is typically associated with Social Security benefits, not early distributions from retirement accounts. Understanding these distinctions can help tax preparers guide their clients effectively regarding access to retirement funds.

6. What type of client information must Tax Professionals keep confidential?

- A. Only information related to tax payments
- B. Any information that could potentially identify the client**
- C. Information available in public records
- D. Only social security numbers

Tax professionals are obligated to maintain the confidentiality of any information that could potentially identify the client. This includes personal data such as names, addresses, Social Security numbers, financial information, and any other details that could lead to the identification of an individual or business. The core principle behind this requirement is to protect clients' privacy and uphold trust, which is fundamental in the client-professional relationship. Maintaining confidentiality is not only an ethical duty but also a legal requirement under laws such as the Internal Revenue Code and the Gramm-Leach-Bliley Act. Tax professionals must safeguard all client information, ensuring that it is not disclosed without the client's consent, unless legally mandated to do so. In contrast, other options like only focusing on tax payments, public records, or solely on social security numbers do not encompass the full spectrum of protective measures required. Information that is readily available in public records does not fall under the same confidentiality requirements since it is accessible to anyone. Overall, the confidentiality of client information is a comprehensive concept that focuses on protecting all personally identifiable information.

7. How do Tax Professionals fulfill their due diligence requirements?

- A. By relying solely on client-provided information**
- B. By making every effort to prepare accurate and complete returns**
- C. By using tax software to process returns**
- D. By verifying client information after submission**

Tax professionals fulfill their due diligence requirements primarily by making every effort to prepare accurate and complete returns. This involves a comprehensive process where the tax preparer actively engages in gathering, assessing, and verifying client information to ensure that the tax return is prepared according to the applicable laws and regulations. Completing due diligence means that tax professionals must take proactive steps to confirm the information given by clients, ask the necessary questions, and seek supporting documentation as needed. This diligence helps to reduce errors and minimizes the risk of penalties for both the client and the preparer. Relying solely on client-provided information does not meet due diligence standards, as it's essential that the tax preparer independently verifies the accuracy of the information to fulfill their ethical and legal obligations. Similarly, although the use of tax software can aid in processing returns efficiently, it does not replace the preparer's responsibility to review and ensure the correctness of the return. Lastly, verifying client information after submission does not align with the proactive nature of due diligence; verification should happen before the submission to avoid potential issues with accuracy and compliance.

8. Which of the following would typically be categorized under listed property?

- A. Personal computers**
- B. Company brick-and-mortar stores**
- C. Owned real estate**
- D. Office equipment**

Listed property refers to certain types of property that the IRS closely monitors due to potential for personal use. This classification includes items that can be used for both business and personal purposes, making it necessary to track and allocate expenses related to their use for tax purposes. Personal computers fall into this category because they can easily be used for both business and personal activities. The IRS requires taxpayers who claim a business deduction for the cost of listed property, like personal computers, to maintain records that substantiate their business use. In contrast, items such as company brick-and-mortar stores and owned real estate are considered real property or capital assets geared towards business operations and generally not classified under listed property. Office equipment, while it may have some dual-use categorization, does not typically fall into the same strict guidelines as personal computers set by the IRS for listed property.

9. What item must be reported on Schedule H?

- A. Investment income
- B. Household employment taxes**
- C. Sales tax
- D. Interest income

Schedule H is specifically designed for reporting household employment taxes. When an employer pays a household employee, such as a nanny, housekeeper, or gardener, they have certain tax obligations under the federal tax laws. These obligations include reporting and paying Social Security and Medicare taxes, as well as Federal Unemployment Tax Act (FUTA) taxes related to household employment. Household employers must report these taxes on Schedule H, which ultimately gets attached to their Form 1040 when they file their income taxes. This ensures that both the employers and the employees are in compliance with tax regulations regarding employment taxes in a household setting. The other options do not belong on Schedule H. Investment income, sales tax, and interest income are unrelated to household employment taxes and are reported on different forms or schedules as applicable. For example, investment income is typically reported on Schedule B, and sales tax would not be reported directly on the individual income tax return, as it relates more to sales tax returns or claims for refunds.

10. What is the required form for reporting child care tax credits?

- A. Form 1040**
- B. Schedule C
- C. Form W-2
- D. Schedule A

The required form for reporting child care tax credits is Form 1040. This form serves as the primary income tax return form used by individuals to report their income, claim deductions, and calculate their tax liability. Specifically, child care tax credits, such as the Child and Dependent Care Credit, are claimed on the tax return filed using Form 1040. Taxpayers indicate their eligibility for these credits and calculate the amount to be applied against their tax liability directly on this form. The Form 1040 includes spaces where taxpayers can provide necessary information about expenses incurred for child care while they work or look for work, enabling them to access these tax benefits. In practice, other forms like Schedule C, which is used to report income or loss from a business, or Schedule A, for itemized deductions, are not applicable for claiming child care tax credits. Form W-2 is an information return provided by employers to report wages and taxes withheld for an employee, but it is not used for directly claiming tax credits. Thus, Form 1040 is the comprehensive option that encompasses all necessary details needed for reporting child care tax credits.

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://taxpreparer.examzify.com>

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