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.

SAMPLE

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!

SAMPLE

Questions

SAMPLE

1. **What is considered the period of stay for foreign earned income exclusion eligibility?**

   A. The total number of days lived in the U.S.

   B. A continuous presence in the foreign country for 330 full days

   C. Temporary visits to foreign countries

   D. Any period worked overseas

2. **What type of military income is referred to as active pay?**

   A. Retirement pay

   B. Inactive reserves pay

   C. Active duty pay

   D. Service-related benefits

3. **What defines a net operating loss (NOL)?**

   A. The situation when income exceeds expenses for the year

   B. When deductions surpass income for the year

   C. Profit from all business activities

   D. A surplus in income from multiple investments

4. **Withholding tax is deposited for which of the following entities?**

   A. Insurance companies

   B. Local governments

   C. The government

   D. Retirement funds

5. **What financial situation does insolvency describe?**

   A. When total liabilities exceed total assets

   B. When net income is negative

   C. When liquid assets are lacking

   D. When investments yield no returns

6. **What defines a household employee?**

   A. If you can control what work is done and how it is done

   B. If they are hired full time only

   C. If they are paid on an hourly basis

   D. Only if they are hired through an agency

SAMPLE

7. What term describes property that has value but cannot be seen or touched?

A. Intangible property

B. Tangible property

C. Physical property

D. Marketable property

8. What is the most common form of military move?

A. Full DITY move

B. Partial DITY move

C. Standard military move

D. Government-arranged move

9. What condition must be met for a dividend on stock to be considered payable?

A. There is no separation between the stock and its dividends

B. Ownership must be fully transferred to the shareholder

C. There must be a separation in ownership between stock and unpaid dividends

D. The company must announce a stock split

10. What term describes someone who acts on behalf of another in a fiduciary capacity?

A. Executor

B. Administrator

C. Fiduciary

D. Conservator

SAMPLE

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What is considered the period of stay for foreign earned income exclusion eligibility?

A. The total number of days lived in the U.S.

B. A continuous presence in the foreign country for 330 full days

C. Temporary visits to foreign countries

D. Any period worked overseas

The period of stay for foreign earned income exclusion eligibility is defined by a continuous presence in a foreign country for 330 full days within a 12-month period. This requirement is specific to the Foreign Earned Income Exclusion (FEIE) and is intended to demonstrate that the individual is physically present in a foreign country for a significant time, thereby establishing a closer connection to the foreign economic environment than to the United States. To qualify for the exclusion, taxpayers must prove they have lived and worked abroad long enough to reap the benefits of the foreign economy and its tax system, which typically translates to showing that they have established a residence in that country. Simply counting total days spent in the U.S. or making temporary visits does not fulfill this requirement, as it would not reflect the intention or commitment to reside in another country. Also, any period worked overseas that does not meet the 330 full days criteria would not qualify, as the mere act of working abroad without the required time of residence is insufficient for exclusion eligibility.

2. What type of military income is referred to as active pay?

A. Retirement pay

B. Inactive reserves pay

C. Active duty pay

D. Service-related benefits

Active pay refers specifically to the compensation received by service members who are currently on active duty. This type of pay is what a military service member earns while actively engaged in their military role, such as during deployment or training exercises. It is considered ordinary income and is subject to federal taxation, similar to any other salary or wages. Active duty pay encompasses various forms of compensation, including base pay, special pays, bonuses, and other allowances. This income reflects the individual's ongoing commitment and responsibilities within the military. The other types of military income mentioned, such as retirement pay, inactive reserves pay, and service-related benefits, do not fit the definition of active pay. Retirement pay is for those who have completed their service and are receiving benefits based on their time in the military. Inactive reserves pay is applicable to those in reserve status but not actively serving on duty, and service-related benefits typically refer to veterans' assistance programs or healthcare benefits rather than direct compensation for active duty work.

SAMPLE

3. What defines a net operating loss (NOL)?

A. The situation when income exceeds expenses for the year

B. When deductions surpass income for the year

C. Profit from all business activities

D. A surplus in income from multiple investments

A net operating loss (NOL) is defined as the situation where a taxpayer's allowable deductions exceed their gross income for a particular tax year. This means that the business or entity is operating at a loss. Understanding NOL is crucial, as it can affect tax liability in future years. When an entity experiences an NOL, it may carry the loss forward or backward to offset taxable income in other years, effectively reducing tax liability. In this context, the other choices do not accurately describe a net operating loss. If income exceeds expenses for the year, it results in a profit rather than a loss. Profit from all business activities focuses on overall gain instead of the shortfall indicated by a net operating loss. A surplus in income from multiple investments suggests earning profit, which does not align with the concept of NOL. Therefore, the option indicating that deductions surpass income is the correct characterization of a net operating loss.

4. Withholding tax is deposited for which of the following entities?

A. Insurance companies

B. Local governments

C. The government

D. Retirement funds

Withholding tax refers to the income tax that an employer deducts from employees' wages and then remits directly to the government on behalf of the employees. It is a system in place to collect income tax in a timely manner, preventing large tax bills from accumulating for workers at the end of the tax year. In this context, the answer is correct because the government is the entity that ultimately receives these withheld funds. The employer acts as an intermediary, deducting the appropriate amount from employees' paychecks and ensuring that it is sent to the government. This helps streamline the process of tax collection and ensures compliance with tax obligations. The other entities listed, such as insurance companies, local governments, and retirement funds, do not directly receive withholding taxes in the same manner. Insurance companies and retirement funds may have different tax structures and obligations, while local governments are typically not the recipients of federal income tax withholdings. Thus, the correct answer highlights the role of the government as the entity that benefits from the withholding tax process.

5. What financial situation does insolvency describe?

A. When total liabilities exceed total assets

B. When net income is negative

C. When liquid assets are lacking

D. When investments yield no returns

Insolvency describes a financial situation where total liabilities exceed total assets. This means that the individual or entity owes more than it owns, which is a clear indicator of financial distress. When liabilities surpass assets, it raises concerns about the ability to pay debts as they come due. This situation can lead to bankruptcy if not resolved, as it implies a fundamental imbalance in financial health. The other options, while related to financial condition, do not specifically define insolvency. A negative net income indicates a loss but does not necessarily mean that the total liabilities exceed total assets. Lacking liquid assets refers to the availability of cash or easily convertible assets, but one could still technically be solvent if the total value of assets exceeds liabilities, albeit not liquid. Lastly, investments yielding no returns pertain to the performance of investments rather than a balance sheet analysis. Therefore, the essence of insolvency lies primarily in the relationship between total liabilities and total assets, making the first choice the most accurate representation.

SAMPLE

6. What defines a household employee?

A. If you can control what work is done and how it is done

B. If they are hired full time only

C. If they are paid on an hourly basis

D. Only if they are hired through an agency

A household employee is defined primarily by the level of control the employer has over the work being performed. If the employer can dictate not only the tasks to be completed but also how those tasks are to be executed, then the worker qualifies as a household employee. This relationship indicates a significant degree of oversight, distinguishing these employees from independent contractors who typically manage their own methods and means of accomplishing their work. The other options do not capture the essence of what defines a household employee. For instance, the idea that being a household employee requires full-time status is misleading, as household employees can be part-time as well. Similarly, payment structure, such as hourly pay, does not determine whether someone is classified as a household employee; it is the control over the work that carries the defining weight. Additionally, hiring through an agency does not influence the classification of a household employee either; what's crucial is the employer's level of control over work processes.

7. What term describes property that has value but cannot be seen or touched?

A. Intangible property

B. Tangible property

C. Physical property

D. Marketable property

The term that describes property with value that cannot be seen or touched is intangible property. Intangible property includes assets such as intellectual property (like patents, copyrights, and trademarks), brand names, and goodwill, which represent a value due to their potential economic benefit but do not have a physical form. Understanding intangible property is crucial in fields like business and taxation, as it often contributes significantly to a company's overall value and can impact financial statements and tax regulations. In contrast, tangible property refers to physical items that can be seen and touched, such as real estate, machinery, and inventory. Physical property is synonymous with tangible property, further emphasizing the contrast with intangible assets. Marketable property typically refers to assets that can be easily sold or traded in the marketplace, but this term doesn't specifically describe the observable nature of the property, as it can encompass both tangible and intangible assets.

SAMPLE

8. What is the most common form of military move?

A. Full DITY move

B. Partial DITY move

C. Standard military move

D. Government-arranged move

The most common form of military move is a Partial DITY (Do-It-Yourself) move. This option allows military personnel to take control of some of their moving process while still receiving reimbursement from the government for certain expenses. A Partial DITY move provides service members the flexibility and control over their belongings, as they can choose to move their household goods themselves or with the help of hired movers for part of the relocation. This is popular among those who prefer to manage their move directly, perhaps to save costs or accommodate specific needs. In contrast, a Full DITY move involves the service member moving all their goods entirely by themselves, which is less common due to the significant effort and responsibility involved in coordinating the entire transit and associated logistics. A Standard military move, often arranged by the government, involves the military handling the entire relocation process, which can be less flexible for members. Government-arranged moves are also popular but may not offer the personalized control over the process that a Partial DITY move affords.

9. What condition must be met for a dividend on stock to be considered payable?

A. There is no separation between the stock and its dividends

B. Ownership must be fully transferred to the shareholder

C. There must be a separation in ownership between stock and unpaid dividends

D. The company must announce a stock split

For a dividend on stock to be considered payable, there must be a clear distinction in ownership between the stock and the unpaid dividends. This means that once a dividend is declared by the company's board of directors, it becomes a liability for the company, and the shareholders are entitled to receive it. The separation indicates that even though dividends are tied to stock ownership, they are accounted for separately until they are actually distributed. When a dividend is declared, it creates an obligation that is independent of the stock itself, which is why this separation in ownership is crucial. The declaration of the dividend assigns it as a payable amount to the shareholders, and until payment is made, it remains distinct from the shares. In this manner, shareholders have a clear right to that economic benefit, independent of their stock ownership. This clarity is integral in accounting for dividends, ensuring that shareholders can anticipate their payments and that companies can manage their financial obligations effectively. Other options involve misunderstandings about the nature of dividends and their relationship with stock ownership, which do not accurately reflect the essential condition that classifies a dividend as payable.

SAMPLE

10. What term describes someone who acts on behalf of another in a fiduciary capacity?

A. Executor

B. Administrator

C. Fiduciary

D. Conservator

The term that describes someone who acts on behalf of another in a fiduciary capacity is "fiduciary." A fiduciary is an individual or entity trusted to manage assets or interests for another party, often with a legal or ethical requirement to act in the best interest of the person they represent. This role can involve handling financial matters, legal protocols, or personal affairs, depending on the circumstances. The fiduciary's responsibilities include loyalty, care, and good faith towards the person being represented, ensuring that decisions made prioritize the beneficiary's welfare. This concept is foundational in many legal and financial contexts, emphasizing the trust placed in the fiduciary to act diligently and responsibly. In contrast, an executor is appointed to manage the estate of a deceased person according to their will, while an administrator performs similar functions but usually when there is no will. A conservator is responsible for managing the affairs of an individual deemed unable to do so themselves, typically related to health or age. Each of these roles has specific functions, but they do not encapsulate the broader fiduciary responsibilities inherent in the role of a fiduciary.

SAMPLE

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