

# 1 Exam Prep

## Prov Florida Business and Law Study Guide for Contractors

### Tax Law Questions

The answers to the following practice exams are based on the 2012 Circular E.

#### Part 1

1. You should calculate federal unemployment taxes \_\_\_\_\_ for deposit purposes.
  - A. Annually
  - B. Quarterly
  - C. Monthly
  - D. Biannually
2. Which of the following is not generally considered an employee for federal tax purposes?
  - A. A supervisor
  - B. A part-time employee
  - C. A construction contractor
  - D. An officer of a corporation
3. The IRS is made aware of a new employee \_\_\_\_\_.
  - A. On the day he or she is hired
  - B. At the end of the first pay period
  - C. When you file Form 8190.
  - D. When you send in your W-4 forms.
4. The rate of contribution to Social Security from employees is \_\_\_\_\_.
  - A. 6.2%
  - B. 1.45%
  - C. 7.65%
  - D. 15.3%
5. Provided you have deposited all FUTA taxes timely, you have until \_\_\_\_\_ to file Form 940.
  - A. Dec. 31
  - B. Jan. 31
  - C. Feb. 10 or 11
  - D. Feb. 28

6. Form 941 or 941E is filed on a \_\_\_\_\_ basis.

- A. Monthly
- B. Bimonthly
- C. Weekly
- D. Quarterly

7. For a quarterly deposit of \$150.00 for FUTA tax, you must use \_\_\_\_\_.

- A. Form W-2
- B. Form 940
- C. Form 941
- D. Form 8109

8. Regarding federal taxes, which of the following statements is incorrect with regard to the Employer Identification Number.

- A. You should have only one identification number.
- B. Form SS-4 is the form used to apply for an ID number.
- C. If you acquire the business of another employer, use his number.
- D. You may file a tax return before receiving an ID number.

9. You employ your 17-year-old daughter as a secretary for the three summer months at \$1,500 per month. Your tax liability is \_\_\_\_\_.

- A. Income Tax, Social Security, and Federal Unemployment Tax.
- B. Income Tax and Federal Unemployment Tax.
- C. Social Security and Federal Unemployment Tax.
- D. Income Tax only.

10. Your un-deposited withholding tax and Social Security tax totals \$2,650.00. At the end of the month you must deposit these taxes on or before the \_\_\_\_\_ of the following month.

- A. 30th day
- B. 15th day
- C. 10th day
- D. 7th day

11. All construction related employers must file Form \_\_\_\_\_ quarterly with the IRS.

- A. 941
- B. 941ES
- C. 942
- D. 941SS

12. An employer must make a month deposit if the total amount of income tax, Medicare, Social Security withheld is \_\_\_\_\_ or less for the four-quarter *look back period*.
- A. \$5,000
  - B. \$100,000
  - C. \$50,000
  - D. \$30,000
13. Form \_\_\_\_\_ must be filed to report payments of \$600.00 or more to persons not treated as employees.
- A. 5498
  - B. 1099
  - C. INS-19
  - D. W-4
14. The combined amount of Social Security and Medicare taxes to be withheld from employees' wages is \_\_\_\_\_ .
- A. 2.7%
  - B. 5.4%
  - C. 6.2%
  - D. 7.65%
15. According to the Circular E, Employer's Tax Guide, if taxes are deposited by mail and received by an authorized depository or FRB after the due date, the deposit is considered to be timely if the employer can prove that they were mailed by at least \_\_\_\_\_.
- A. Two days before the due date.
  - B. One day before the due date.
  - C. The day after the due date.
  - D. The same day as the due date.
16. Copy A of Form W-2 must be sent to the Social Security Administration no later than \_\_\_\_\_ .
- A. The last day of the first month following the end of the quarter in which the employee commenced work
  - B. January 15 of the following year.
  - C. January 31 of the following year.
  - D. February 28.
17. If an employee does not give you a valid Form W-4, withholding tax is figured as if he or she were \_\_\_\_\_ .
- A. Single with zero withholding allowances
  - B. Single with 1 withholding allowance
  - C. Married with no allowances
  - D. Married with 2 allowances

18. Any employee without a Social Security number can get one by completing form \_\_\_\_\_ .

- A. 1-9
- B. SS-5
- C. SS-4
- D. 8109

19. Federal income tax withholding deposits that are made four days late are subject to a \_\_\_\_\_ penalty.

- A. Zero
- B. 2%
- C. 5%
- D. 6.2%

20. A contractor withholds backup withholding on a 1099 contractor. He must report this backup withholding on IRS form \_\_\_\_\_.

- A. 941
- B. 943
- C. 945
- D. 940

21. If an error is discovered in reporting withheld income and FICA taxes, you can generally use Form \_\_\_\_\_ to correct it.

- A. W-3c
- B. W-4
- C. 941
- D. 941c

22. For Federal Unemployment Tax purposes, the term "Employer" includes any person of organization that paid a wage of \_\_\_\_\_ or more in any calendar quarter during the current or preceding calendar year, or had one or more employees at any time.

- A. \$400.00
- B. \$750.00
- C. \$980.00
- D. \$1,500.00

23. In the Circular E Tax Guide, it states that if an employer deducts no Social Security or Medicare taxes or less than the required amount from the employee's wages, \_\_\_\_\_.

- A. The employee is responsible for the underpayment.
- B. The employer must make adjustments within 30 days.
- C. The employer may forego reimbursement after 30 days.
- D. The employer can make it up from later pay to that employee.

24. When you don't have a payroll period, you must withhold taxes as if you paid wages on a daily or miscellaneous payroll period. Figuring the number of days, you must include \_\_\_\_\_ in the period covered by the wage payment.

- A. Saturdays only
- B. Sundays only
- C. Holidays only
- D. All of the above

25. In cases where income, Social Security and Medicare taxes that should be withheld, are not withheld or not paid to the IRS, certain officers or employees of a corporation, or certain members or employees of a partnership may become personally liable for the payment of the taxes and penalized \_\_\_\_\_ of the unpaid trust fund tax.

- A. 10%
- B. 25%
- C. 15%
- D. 100%

26. A contractor pays an employee supplemental vacation pay in addition to his/her regular wages. The contractor withholds income tax from the employee's regular wages and may choose the option to withhold a flat \_\_\_\_\_ percent from the Supplemental.

- A. 7%
- B. 10%
- C. 15%
- D. 25%

27. If Federal Unemployment (FUTA) tax is more than \_\_\_\_\_ it must be deposited quarterly.

- A. \$212
- B. \$115
- C. \$500
- D. \$100

28. The wages of a child 18 years of age employed by a parent are not exempt from \_\_\_\_\_ .

- A. Income Tax, Social Security, Medicaid
- B. Federal Unemployment Tax.
- C. Income Tax
- D. All Taxes

29. Of the following, \_\_\_\_\_ are not included in the term "taxable wages".

- A. Services paid "in kind."
- B. Salaries
- C. Vacation allowances
- D. Meals for the convenience of the employer

30. Owners who work for their partnerships are not considered to be \_\_\_\_\_ .
- A. General partners
  - B. Employees
  - C. Self-employed
  - D. Investors
31. A person who is self-employed is considered an employee \_\_\_\_\_ .
- A. Only if he offers his services to the public.
  - B. Always.
  - C. Only if he forms a corporation.
  - D. Only if he has employees.
32. Supplement wages include \_\_\_\_\_ .
- A. Bonuses
  - B. Commissions
  - C. Over-time pay
  - D. All of the above
33. Given: An employer has 4 employees:, Employee #1 earns \$ 9,200. Employee #2 earns \$ 6,500. Employee #3 earns \$4,500. Employee #4 earns \$22,000. What is total FUTA unemployment compensation tax the employer must pay if he has paid all state FUTA taxes and is eligible for maximum credit?
- A. \$43.00
  - B. \$25.00
  - C. \$200.00
  - D. \$1,125.00
34. FICA is made up of \_\_\_\_\_ .
- A. FUTA and SUTA.
  - B. Social Security and Medicare.
  - C. Social Security, Medicaid and withholding
  - D. Workers' Comp and unemployment insurance.
35. A student working for a private school, college, or university, if enrolled and regularly attending classes is exempt from \_\_\_\_\_ .
- A. FIT
  - B. FIT and FICA
  - C. FIT, Social Security, Medicare and FUTA
  - D. Social Security, Medicare and FUTA

36. A small business with only one employee owes less than \$500 in withheld income and FICA taxes at the end of the month. His look back period deposits were less than \$50,000. When should they be deposited?
- A. By the end of the first week of the new quarter.
  - B. You do not have to deposit any for the month.
  - C. At the end of the year.
  - D. By the 15th of the next month.
37. A son has his 65-year-old father working in his construction office. Which of the following taxes is the company not required to pay?
- A. Social security and Medicare
  - B. Income Tax
  - C. Medicare Only
  - D. Federal unemployment
38. If a tax deposit is made 18 days late, it may be subject to a penalty of \_\_\_\_\_ .
- A. 15%
  - B. 10%
  - C. 5%
  - D. 2%
39. The form used to send in federal income tax withholding money to Federal Reserve banks is \_\_\_\_\_ .
- A. 940
  - B. 941
  - C. 1099
  - D. W-5
40. A change or unauthorized addition to a Form W-4 makes it \_\_\_\_\_ .
- A. Invalid at the end of 90 days.
  - B. Invalid at the end of 120 days.
  - C. Invalid
  - D. Valid
41. If you accumulate tax liability of \$100,000 or more on any day during a deposit period, you are subject to the \_\_\_\_\_ .
- A. Semi-monthly deposit rule.
  - B. Next tax audit.
  - C. Next-Day Deposit Rule.
  - D. Deposit within 3 banking days rule.

42. If \$50,000 or more is paid in income and FICA taxes during the four quarters of your look back period, a deposit must be made \_\_\_\_\_ .
- A. Semiweekly
  - B. Within 15 days after the end of the eight month period
  - C. Within the first month of the next eight-month period
  - D. By the end of the next quarter
43. Payments made for pensions, annuities and IRS's must be reported on Form \_\_\_\_\_ .
- A. 1098
  - B. 945
  - C. 941
  - D. W-2
44. The maximum credit against FUTA tax for contributions you paid into state unemployment funds is \_\_\_\_\_ .
- A. 2.7%
  - B. 5.4%
  - C. 6.7%
  - D. None of the above
45. An employer must give an employee a W-2 form by \_\_\_\_\_ .
- A. The end of January the following year
  - B. The end of each quarter the work was performed
  - C. The end of year
  - D. None of the above
46. You will be considered to have satisfied the deposit requirements if you deposited timely at least \_\_\_\_% of your liability or if the shortfall does not exceed \_\_\_\_\_ .
- A. 95% - \$500.00
  - B. 98% - \$500.00
  - C. 95% - \$100.00
  - D. 98% - \$100.00
47. The form used to file for an employer identification number (EIN) is called a \_\_\_\_\_ .
- A. Form SS-4.
  - B. Form 1-9.
  - C. Form 940.
  - D. Form W-5.



48. Using the Percentage Method of Withholding, what is the income tax deducted from an employee's wages that earns \$1,500 per pay period, is paid bi-weekly, is single, and claims no deductions?
- A. \$82.95
  - B. \$165.90
  - C. \$214.40
  - D. \$294.70
49. What is the penalty for submitting an IRS payroll tax deposit in the amount of \$5,000 that is 2 days late?
- A. \$100
  - B. \$250
  - C. \$500
  - D. \$750
50. Non-employees are considered independent contractors in Florida and are therefore required to be separately licensed.
- A. True
  - B. False

## **Part 2**

1. If an employee left your employ on November 15th and was given his final wage payment on this day, you must furnish him with a completed form W-2 \_\_\_\_\_ .
  - A. By November 30th
  - B. By January 31
  - C. Within 30 days
  - D. By February 28
  
2. Use Form \_\_\_\_\_ for depositing Federal Unemployment Tax Funds in excess of \$500 for the quarter.
  - A. 940
  - B. 941
  - C. 8109
  - D. W-4
  
3. ACSL Inc's Federal Employment taxes for the quarter ending September 30 have all been filed on time. IRS Form 941 must be filed not later than \_\_\_\_\_ .
  - A. October 16th
  - B. October 31st
  - C. November 10th
  - D. November 22<sup>nd</sup>
  
4. The prime contractor pays the plumbing contractor \$10,000. During the calendar year. In reporting this income to the plumber, what income tax form is the contractor required to file with the IRS?
  - A. Form 940
  - B. Form 1040
  - C. Form 1099-Misc
  - D. Form 8300
  
5. An employer is required to maintain all records pertaining to Federal Employment Taxes for a period of \_\_\_\_\_ .
  - A. 2 years
  - B. 3 years
  - C. 4 years
  - D. 5 years
  
6. Select the FALSE statement below concerning the employer's compensation number.
  - A. If you pay wages for a construction worker, you need a number
  - B. If you bought a business you may use the former owner's number
  - C. In the case of two different numbers, the IRS will tell you which one to use
  - D. Apply for a number, if you need one, on Form SS-4

7. The wages of a son under 18 years of age, employed by a parent, are NOT exempt from the following:

- A. Income tax.
- B. Social Security tax
- C. Federal unemployment tax
- D. Income and Social Security tax.

8. A contractor pays an employee supplemental vacations pay in addition to his/her regular wages. The contractor withholds income tax from the employee's regular wages and may choose the option to withhold a flat \_\_\_\_\_ percent from the supplemental wages.

- A. 16.7%
- B. 17.0%
- C. 27.0%
- D. 25.0%

9. The frequency with which an employer must deposit income tax and social security tax depend on \_\_\_\_\_.

- A. the amount of taxes reported on forms 941 for the four quarters in the lookback period.
- B. the number of employees
- C. the company net worth.
- D. The employer must pay monthly

10. A penalty of \_\_\_\_\_ is assessed to the employer who fails, without reasonable cause, to make federal income tax deposits when due. [More than 15 days late]

- A. 3%
- B. 5%
- C. 10%
- D. \$100.00 plus 5%

11. An employer must make a monthly deposit if the total amount of income tax, Medicare and social security in the four quarter lookback period is \_\_\_\_\_.

- A. Greater than \$50,000.00
- B. Greater than \$60,000.00
- C. \$50,000.00 or less
- D. \$60,000.00 or less

12. If the total un-deposited employment taxes do not reach \$3,000. by the end of the month, but is at least \$2,600, the taxes for such month will be deposited in accordance with which of the following:

Note: The four quarters in the look back period is \$30,000.

- A. within the following month
- B. held until end of the quarter
- C. within 10 days after the end of the month
- D. within 15 days after the end of the month

13. Form \_\_\_\_\_ tells how to correct mistakes in reporting withheld income and FICA taxes.
- A. W - 2P
  - B. W - 4
  - C. 1745
  - D. 941C
14. In the Circular E Tax Guide it states that if an employer deducts no tax or less than the correct amount of taxes from an employee's wages \_\_\_\_\_.
- A. The employee is responsible for the underpayment.
  - B. The employer must make adjustments within 30 days.
  - C. The employer may forego reimbursement after 30 days.
  - D. The employer can make it up from later pay to that employee.
15. Workers' Compensation is exempt from which of the following?
- A. Income Tax withholding.
  - B. Social Security.
  - C. Federal Unemployment
  - D. All of the above.
16. If a married employee claiming a total of four (4) exemptions earned \$290 per weekly payroll period during January according to the wage bracket tables, his weekly payroll deduction for Federal Income Tax is \_\_\_\_\_.
- A. 0
  - B. \$21.00
  - C. \$20.00
  - D. \$27.00
17. A married employee is paid weekly, with four deductions. How much is withheld for income tax on weekly earnings of \$600?
- A. \$25.00
  - B. \$18.00
  - C. \$44.00
  - D. \$53.00
18. A salary employee earns a yearly salary of \$44,500 and is classified exempt under the Circular E. He is single and claims four withholding allowances. He is paid biweekly and receives a yearend bonus of \$10,500. What is the total withholding for the year's last pay period in which the bonus is given? Use the fiat percentage method for determining withholding for the bonus.
- A. \$3,938.18
  - B. \$3,705.18
  - C. \$3,159.00
  - D. \$3,411.09

19. A contractor pays his/her office manager \$19,700 salary per calendar year. The total amount of Federal Unemployment (FUTA) tax which must be submitted for this employee for the year is \_\_\_\_\_ Assume no credit for amounts paid into State unemployment funds. Select the closest answer.

- A. \$245.00
- B. \$434.00
- C. \$364.00
- D. \$527.00

20. What is the amount paid if credit is taken for State unemployment funds that have been promptly paid? Refer to the previous questions.

- A. \$42.00
- B. \$49.00
- C. \$56.00
- D. \$63.00

21. **Given:** A contractor's biweekly payroll is shown below. Overtime is figured at one and one-half times the regular rate.

**PAY PERIOD - FEBRUARY 13 - 26**

Name	Marital Status	Total Number Exemptions	Hourly Rate	Regular Hours	Overtime- Hours
Davis	Married	3	\$9.50	80	4

The total amount of Federal Income Tax (only), to be deducted from Davis' gross wages is \_\_\_\_\_ Select the closest answer.

- A. \$21.00
- B. \$45.00
- C. \$48.00
- D. \$52.00

22. Refer to the previous question. Calculate the amount of Federal Income Tax to be deducted from Davis' gross wages using the percentage method.

- A. \$70.00
- B. \$21.70
- C. \$72.50
- D. \$73.75

23. If an employee earns \$19,450. The employer's contribution to Social Security and Medicare would be \_\_\_\_\_.

- A. \$139.06
- B. \$685.52
- C. \$965.25
- D. \$1,487.93

## ANSWER KEY

Answer	<u>Circular E Page # and Section</u>	<u>Prov Pg. #</u>
1. B	Pg. 20, Circular E, When to Deposit?	4-44
2. C	Pg 9, Circular E, Who Are Employees?	4-33
3. D	Pg 3, Circular E, Hiring New Employees. Not clear.	4-27
4. A	Pg 19, Circular E, Social Security & Medicare Taxes.	4-43
5. C	Pg 20, Circular E, When to Deposit. Also Pg 2.	4-44
6. D	Pg 24, Circular E, File Form 941.	4-48
7. D	Pg 29, Circular E, Depositing FUTA taxes. If over \$500 use Form 8109. Form 940 is used to report FUTA Taxes. Real answer should be None (Under \$500), but that's not a choice.	
8. C	Pg 8, Circular E, Employer Identification Number (EIN).	4-32
9. D	Pg 10, Circular E, Family Employees.	4-34
10. B	Pg 21, Circular E, Monthly Deposit Schedule.	4-45
11. A	Pg. 24, Circular E, Filing Form 941.,	4-48
12. C	Pg 20 Circular E, When To Deposit.	4-44
13. B	Pg 4, Circular E, Information Returns	4-28
14. D	Pg 19, Circular E, Tax rates and the Social Security wage base limit.	4-43
15. A	Pg 23, Circular E, Depositing on Time.	4-47
16. D	Pg 6, Circular E, By February 28. File Forms W-2 and W-3.	4-30
17. A	Pg 19, Circular E, Invalid Forms W-4	4-43
18. B	Pg 11, Circular E, Employee's Social Security Number (SSN).	4-35
19. B	Pg 23, Circular E, Deposit Penalties.	4-47
20. C	Pg 4, Circular E, Non-payroll Income Tax Withholding.	4-28
21. D	Pg 27, Circular E, Prior Period Adjustments.	4-51
22. D	Pg 28, Circular E, Federal Unemployment (FUTA) Tax, 1) General test.	4-52
23. D	Pg 28 Circular E, Collecting Under withheld taxes.	4-52
24. D	Pg 16, Circular E, Payroll Period.	4-40
25. D	Pg 23, Circular E, Accuracy of Deposit.	4-47
26. D	Pg 15, Circular E, Supplement Wages (a).	4-39
27. C	Pg 29, Circular E, Deposit FUTA taxes.	4-53
28. A	Pg 10, Circular E, Family Employees.	4-34
29. D	Pg 11 Cir E, Wages and Other Compensation.	4-35
30. B	Pg 9, Circular E, Who Are Employees?	4-33
31. C	Pg 9, Circular E, Employee status under common law	4-33
32. D	Pg. 15, Circular E, Supplemental Wages.	4-39
33. C	Pg 29, Circular E, Computing FUTA #1 = \$7,000 x 0.8% = \$56.00 (\$7,000 is max., \$2,200 is exempt). #2 = \$6,500 x 0.8% = \$52.00. #3 = \$4,500 x 0.8% = \$36.00. #4 = \$7,000 x 0.8% = \$56.00 (1,500 is exempt). Total = \$200.00.	4-53
34. B	Pg 19, Circular E, Social Security and Medicare Taxes.	4-43
35. D	Pg 30, Circular E, Special Types of Payments.	4-54
36. D	Pg 21 Circular E, Monthly Deposit Schedule.	4-45
37. D	Pg 10, Circular E, Parent Employed by Child.	4-34
38. B	Pg 23, Circular E, Deposit Penalties.	4-47
39. B	Pg 20, Circular E, Depositing Taxes, Pg 19. Also see Filing Form 941, Pg 24.	4-44
40. C	Pg 19, Circular E, Invalid Forms W-4.	4-43

41.	C	Pg 22, Circular E, \$100,000 Next-Day Deposit Rule.	4-46
42.	A	Pg 21, Circular E, Look back period.	4-45
43.	B	Pg 4, Circular E, Non-payroll Income Tax Withholding.	4-28
44.	B	Pg 29, Circular E, Computing Futa Tax	4-53
45.	A	Pg 6, Circular E, By January 31.	4-30
46.	D	Pg 23, Circular E, Accuracy of Deposit Rule.	4-47
47.	A	Pg 8, Circular E, Employer ID Number.	4-32
48.	C	Pg 35, Percentage Method of Withholding	4-45
49.	A	Pg 23, Circular E, Deposit Penalties	4-47
50.	A		4-1

**Part 2**

No answers