

AIPB Mastering Payroll (National) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Employers may optionally withhold federal tax at what maximum rate if certain conditions are met?**
 - A. 20%**
 - B. 25%**
 - C. 30%**
 - D. 35%**

- 2. What is the retention period for payroll tax records and receipts, including various tax forms?**
 - A. 3 years from April 15 following the tax year**
 - B. 4 years from April 15 following the tax year**
 - C. 5 years from April 15 following the tax year**
 - D. 1 year from the issuance date**

- 3. Under the rule of constructive receipt, when are wages taxable in relation to when they are earned?**
 - A. Paid; requested**
 - B. Paid; earned**
 - C. Paid; filed**
 - D. Earned; paid**

- 4. New employees are classified as what kind of depositors until the end of the calendar year unless the one business day rule is triggered?**
 - A. Weekly depositors**
 - B. Monthly depositors**
 - C. Quarterly depositors**
 - D. Annual depositors**

- 5. Which form is one that must be submitted annually?**
 - A. W-2**
 - B. W-3**
 - C. 945**
 - D. 1099**

- 6. Which document is used to establish employment authorization?**
- A. Voter's registration card**
 - B. Social Security card**
 - C. US military ID card**
 - D. School ID with photo**
- 7. Which form is used to report an employer's FUTA tax liability?**
- A. 941**
 - B. 940**
 - C. 945**
 - D. W-2**
- 8. Which of the following represents a payroll expense for an employer?**
- A. Cash paid to employees**
 - B. State unemployment tax**
 - C. FICA taxes withheld from employees**
 - D. Net income from operations**
- 9. How often is the Social Security tax rate established?**
- A. Every year**
 - B. Every five years**
 - C. Once during an employee's career**
 - D. Every two years**
- 10. Who is responsible for determining the deposit status for payroll taxes?**
- A. Employees**
 - B. Payroll service providers**
 - C. Employers**
 - D. State governments**

Answers

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

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Explanations

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1. Employers may optionally withhold federal tax at what maximum rate if certain conditions are met?

- A. 20%**
- B. 25%**
- C. 30%**
- D. 35%**

Employers may optionally withhold federal tax at a maximum rate of 25% under specific conditions when an employee receives supplemental wages. Supplemental wages include bonuses, commissions, and overtime pay, which are treated differently from regular wages for tax withholding purposes. The 25% flat rate applies when employers choose not to combine supplemental wages with the employee's regular wages for the withholding calculation, or when the supplemental wages are paid separately. This ruling is in accordance with IRS guidelines, ensuring consistency in the tax treatment of supplemental pay. Other rates such as 20%, 30%, and 35% are not applicable as flat withholding rates for federal taxes on supplemental wages, making 25% the correct maximum optional withholding rate. This distinction is important for employers to grasp to remain compliant and ensure accurate payroll processing.

2. What is the retention period for payroll tax records and receipts, including various tax forms?

- A. 3 years from April 15 following the tax year**
- B. 4 years from April 15 following the tax year**
- C. 5 years from April 15 following the tax year**
- D. 1 year from the issuance date**

The retention period for payroll tax records and receipts, including various tax forms, is generally four years from April 15 following the tax year. This duration aligns with the Internal Revenue Service (IRS) requirements, which stipulate that employers must keep records related to employment taxes for this specific timeframe to ensure compliance and facilitate any potential audits or discrepancies that may arise. Keeping payroll records for four years helps ensure that all necessary documentation is available in case of audits by the IRS or state agencies, or if there are inquiries regarding the accuracy of payroll tax submissions. This retention period accounts for the time limit under which the IRS can initiate assessments for unpaid taxes based on information reported, making it a crucial aspect of payroll recordkeeping. Other options suggesting different durations do not align with the established IRS guidelines, thus reflecting improper understanding of the regulatory requirements for record retention in payroll management.

3. Under the rule of constructive receipt, when are wages taxable in relation to when they are earned?

A. Paid; requested

B. Paid; earned

C. Paid; filed

D. Earned; paid

The concept of constructive receipt establishes that wages are taxable in the year they are paid, regardless of when they are earned. This principle maintains that if an employee has the option to receive payment, it is considered as income for tax purposes at that moment. Therefore, wages are taxable when they are paid, not when they are earned. This distinction is important for tax reporting and compliance. For example, if an employee earns wages in December but does not receive payment until January, under the rule of constructive receipt, those wages would still be taxable in January when actually paid. Understanding this timing helps ensure accurate income reporting and tax liability calculations.

4. New employees are classified as what kind of depositors until the end of the calendar year unless the one business day rule is triggered?

A. Weekly depositors

B. Monthly depositors

C. Quarterly depositors

D. Annual depositors

New employees are classified as monthly depositors until the end of the calendar year unless they trigger the one business day rule, which pertains to the amount of payroll taxes being deposited. This classification is based on the Internal Revenue Service (IRS) regulations regarding the deposit schedule for federal payroll taxes. When a business has newly hired employees, their deposit frequency is generally classified as monthly for the remainder of that calendar year. This provides companies with a more manageable obligation initially, allowing them time to adjust to their payroll operations. If the business accumulates a certain amount of payroll tax liability, it may be required to switch to a more frequent deposit schedule, which is where the one business day rule comes into play. This rule dictates that if the accumulated payroll taxes exceed a specific threshold, the business must deposit those taxes within one business day, effectively elevating their deposit frequency from monthly to potentially semi-weekly or even daily, depending on the circumstances. This classification allows new employers a buffer period to become accustomed to payroll responsibilities and helps the IRS manage cash flow from payroll taxes more efficiently.

5. Which form is one that must be submitted annually?

- A. W-2
- B. W-3
- C. 945**
- D. 1099

The correct answer is the form that must be submitted annually is the 945. This form is used to report withheld federal income tax from nonpayroll payments, such as payments made to independent contractors and certain other types of payments reported on forms like the 1099 series. Form 945 is required to be filed once a year, typically by January 31 of the following year, which aligns with the requirement to report the withholding to the IRS for nonpayroll transactions. This annual submission allows the IRS to track withholding for nonpayroll income, ensuring compliance with tax law. In contrast, the other forms mentioned serve different reporting purposes. For example, the W-2 is filed annually but is specific to wages paid to employees and needs to be submitted for each employee. Similarly, the W-3 is a summary form that reconciles the total W-2s submitted and is also submitted yearly but is dependent on the W-2 forms. The 1099 form is used for reporting various types of income other than wages, salaries, and tips, with different 1099 forms having varying filing frequencies, but many are required to be submitted on a basis other than annually. Understanding the specific requirements and purposes of these forms is crucial for

6. Which document is used to establish employment authorization?

- A. Voter's registration card
- B. Social Security card**
- C. US military ID card
- D. School ID with photo

The document used to establish employment authorization is the Social Security card. This is crucial because the Social Security card is specifically designed to facilitate the reporting of income and the accounting of earnings for taxation and social security benefits. When an individual is hired, employers are required to verify the identity and employment eligibility of their employees, often through Form I-9. The Social Security card serves as one of the acceptable documents to demonstrate eligibility for employment in the United States. It indicates that the individual has been assigned a Social Security number, which is essential for tax reporting and regulating labor within the U.S. economy. While other documents such as a military ID or a school ID may provide identification, they do not specifically establish employment authorization like the Social Security card does. A voter's registration card is also not considered a valid form of employment authorization, as it does not pertain to work eligibility or tax identification.

7. Which form is used to report an employer's FUTA tax liability?

- A. 941
- B. 940**
- C. 945
- D. W-2

The form used to report an employer's Federal Unemployment Tax Act (FUTA) tax liability is the 940. This annual tax return is specifically designed for employers to report their federal unemployment taxes, which are used to fund unemployment compensation programs. It is important for employers to accurately complete and submit this form to ensure compliance with federal laws governing unemployment insurance. The 940 form focuses solely on the employer's FUTA tax responsibilities, allowing for proper reporting of taxable wages and calculation of the tax owed. Since FUTA tax is based on employee wages and is distinct from other payroll taxes, such as the federal income tax or Social Security and Medicare taxes, the 940 specifically addresses this aspect of payroll tax reporting. In contrast, Form 941 is used for reporting income taxes, Social Security tax, and Medicare tax withheld from employees, while Form 945 is utilized for reporting nonpayroll distributions. The W-2 form is used to report wages paid to employees and the taxes withheld, rather than tax liabilities for the employer. Each of these forms serves a different purpose in the payroll reporting framework, but the 940 is the correct form for FUTA tax liability reporting.

8. Which of the following represents a payroll expense for an employer?

- A. Cash paid to employees
- B. State unemployment tax**
- C. FICA taxes withheld from employees
- D. Net income from operations

The recognition of payroll expenses for an employer includes obligations that contribute to employee compensation and related costs, and this is why state unemployment tax is considered a payroll expense. State unemployment tax is assessed on employers based on the wages paid to their employees, and it is a necessary cost of employing staff, reflecting the employer's investment in the workforce. While cash paid to employees is also a significant aspect of payroll expenses, it is merely the distribution of wages rather than a component that accounts for the overall cost to the employer. FICA taxes withheld from employees represent amounts that are deducted from employees' wages and remitted to the federal government, and thus they do not constitute a direct expense for the employer in terms of payroll costs. Net income from operations is a financial measure that indicates the profitability of a business, but it does not directly relate to expenses incurred in the payroll process. Therefore, the state unemployment tax stands out as the key payroll expense representing an employer's statutory obligations.

9. How often is the Social Security tax rate established?

- A. Every year**
- B. Every five years**
- C. Once during an employee's career**
- D. Every two years**

The Social Security tax rate is established annually by the Federal Insurance Contributions Act (FICA). The Social Security Administration assesses economic conditions, budget considerations, and program requirements to determine the suitable tax rate for each year, which can lead to adjustments in the payroll tax rates. This annual determination helps ensure that the program remains adequately funded to provide retirement, disability, and survivor benefits to eligible individuals. The other options suggest either less frequent adjustments or a one-time setting, which do not align with the regular practice of reviewing and updating the tax rates annually. Therefore, establishing the rate every year reflects the dynamic nature of economic factors influencing the Social Security program and the revenue needed to sustain it.

10. Who is responsible for determining the deposit status for payroll taxes?

- A. Employees**
- B. Payroll service providers**
- C. Employers**
- D. State governments**

The responsibility for determining the deposit status for payroll taxes lies with employers. Employers are required to classify their payroll tax deposits based on factors such as the amount of payroll taxes they accumulate and the frequency with which they are required to make deposits. This classification will dictate whether they must deposit payroll taxes on a monthly or semi-weekly basis and ensures that they are compliant with federal and state regulations regarding payroll taxes. Employers must stay informed about their obligations, including changes in tax laws or regulations that may affect their deposit schedule. They are also responsible for accurately calculating the amount of taxes owed and ensuring that the payments are made on time to avoid penalties and interest. In contrast, while payroll service providers may assist with calculating and submitting these payments, the ultimate responsibility for compliance and adherence to regulations rests with the employer. Employees and state governments do not determine deposit status; employees are subject to withholding, and state governments may provide guidelines but do not manage individual employer tax deposits.