

Social Security Taxes Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

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- 1. If an employee defers compensation into a 401(k) plan, are those deferrals subject to social security taxes?**
 - A. Yes, they are still subject to social security taxes**
 - B. No, they are exempt from social security taxes**
 - C. Only if the deferral is above a certain limit**
 - D. Only if the employee is under 50 years of age**
- 2. What must all employers of one or more persons file for compliance with tax regulations?**
 - A. A tax exemption form**
 - B. A withholding statement**
 - C. An application for an identification number**
 - D. A payroll report**
- 3. When is Form 941 due for employers?**
 - A. On or before the 5th day of the month following the quarter**
 - B. On or before the 15th day of the month following the quarter**
 - C. On or before the last day of the quarter**
 - D. On or before the 1st day of the following month**
- 4. Do employees and independent contractors pay different FICA tax rates?**
 - A. Yes, they pay different rates**
 - B. No, they pay the same rate**
 - C. Only if they work for the same employer**
 - D. Only if they earn different amounts**
- 5. Does receiving Social Security benefits affect the amount of taxes owed?**
 - A. Yes, it can influence taxable income levels**
 - B. No, it has no impact**
 - C. Only if earned income is present**
 - D. Yes, but only for certain age groups**

- 6. Is there a penalty for late filing of Form 941 if tax deposits are made on time?**
- A. Yes**
 - B. No**
 - C. Only if the amount is substantial**
 - D. Only for late deposits**
- 7. Are the highest paid executives of a firm covered under FICA?**
- A. Yes, they are**
 - B. No, they are excluded**
 - C. Only if they are salaried**
 - D. Only if they opt into FICA**
- 8. Which tax form is commonly used to report income that may affect Social Security benefits?**
- A. IRS Form 1040 and Schedule SE**
 - B. IRS Form 1099**
 - C. IRS Form W-2**
 - D. IRS Form 1040X**
- 9. What is the penalty for not filing an employment tax return by the due date?**
- A. There is no penalty**
 - B. Flat fee penalty**
 - C. Percentage-based penalty on unpaid taxes**
 - D. Extended filing time without penalties**
- 10. How many work credits must one typically earn to qualify for Social Security retirement benefits?**
- A. 30 credits**
 - B. 40 credits**
 - C. 20 credits**
 - D. 50 credits**

Answers

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

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Explanations

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1. If an employee defers compensation into a 401(k) plan, are those deferrals subject to social security taxes?

A. Yes, they are still subject to social security taxes

B. No, they are exempt from social security taxes

C. Only if the deferral is above a certain limit

D. Only if the employee is under 50 years of age

When an employee defers compensation into a 401(k) plan, those deferrals are indeed subject to social security taxes. This is because contributions to a 401(k) are made with pre-tax income, which helps lower the individual's taxable income for federal income tax purposes, but this does not exempt the income from social security taxes. The rationale is that social security benefits are ultimately based on wages that are subject to these taxes, ensuring that the funding for the Social Security system remains stable. To elaborate, while the contributions reduce the employee's current income tax liability, the amount of wages that are subject to social security taxes includes the total compensation before any 401(k) deferral. Hence, the deferred amounts still contribute to the employee's future social security benefits based on taxed income throughout their working years. The other options relate to conditions that do not apply in this context; deferrals are treated uniformly concerning social security taxes without regard to specific limitations or age criteria.

2. What must all employers of one or more persons file for compliance with tax regulations?

A. A tax exemption form

B. A withholding statement

C. An application for an identification number

D. A payroll report

For compliance with tax regulations, all employers must file an application for an identification number, also known as an Employer Identification Number (EIN). This number is essential for several reasons: it uniquely identifies the business entity to the Internal Revenue Service (IRS) and is required for the reporting of taxes and for various other compliance responsibilities. The EIN is crucial for filing tax returns, making tax payments, and handling employees' tax withholdings. Employers need this identification number to report and pay payroll taxes, including Social Security and Medicare taxes. It's also needed when filing other forms that might be linked to the business's operations, such as income tax returns or excise tax forms. Thus, obtaining an EIN is a foundational step for businesses when establishing their tax compliance and operational framework. While the other options relate to specific aspects of tax compliance, they do not serve the same foundational purpose as the identification number. A tax exemption form is more relevant for entities seeking exemption from certain taxes, a withholding statement is related to the amounts taken from an employee's paycheck for taxes, and a payroll report typically details payroll information but does not establish the employer's identity with tax authorities.

3. When is Form 941 due for employers?

- A. On or before the 5th day of the month following the quarter
- B. On or before the 15th day of the month following the quarter**
- C. On or before the last day of the quarter
- D. On or before the 1st day of the following month

Form 941 is an important tax form that employers use to report income taxes, Social Security tax, and Medicare tax withheld from employee wages, as well as to pay the employer's portion of Social Security and Medicare taxes. The due date for filing Form 941 is established to ensure that the Internal Revenue Service (IRS) receives accurate information regarding employment taxes in a timely manner. The correct answer indicates that Form 941 is due on or before the 15th day of the month following the end of a quarter. Specifically, this means that for the first quarter (January to March), the form is due by April 15; for the second quarter (April to June), it is due by July 15; for the third quarter (July to September), it is due by October 15; and for the fourth quarter (October to December), it is due by January 31 of the following year. This timeframe allows the IRS to process the forms and payments associated with those periods efficiently. In contrast to this correct answer, other options suggest timelines that do not align with IRS guidelines. For instance, the 5th day and the last day of the quarter do not correspond with the established due dates for Form 941, and the 1

4. Do employees and independent contractors pay different FICA tax rates?

- A. Yes, they pay different rates**
- B. No, they pay the same rate
- C. Only if they work for the same employer
- D. Only if they earn different amounts

Employees and independent contractors indeed face different FICA (Federal Insurance Contributions Act) tax structures, leading to differing effective rates. Employees typically have FICA taxes withheld from their paychecks, which includes both Social Security and Medicare taxes. Employers are also required to match the employee's contribution, meaning the effective rate is shared between the two parties. On the other hand, independent contractors are responsible for paying the entire FICA tax themselves, as they do not have an employer to withhold and match contributions. Instead, they report and pay this tax as part of their self-employment tax on their tax returns. As a result, while the nominal rates for Social Security and Medicare do not differ, the total tax burden effectively differs because of the employer match for employees.

5. Does receiving Social Security benefits affect the amount of taxes owed?

A. Yes, it can influence taxable income levels

B. No, it has no impact

C. Only if earned income is present

D. Yes, but only for certain age groups

Receiving Social Security benefits can indeed influence taxable income levels for individuals. The amount of Social Security benefits that are subject to taxation depends on the person's total income, which includes wages, interest, dividends, and other sources of income in addition to Social Security payments. According to the IRS guidelines, if an individual's combined income (which includes adjusted gross income, nontaxable interest, and half of their Social Security benefits) exceeds a certain threshold, a portion of their benefits may become taxable. For example, if the combined income exceeds \$25,000 for single filers or \$32,000 for married couples filing jointly, then up to 85% of Social Security benefits could be subject to income tax. This interplay highlights how receiving Social Security can influence overall tax burdens, making it crucial for beneficiaries to understand their financial situation in relation to tax obligations. This understanding helps beneficiaries plan better for their tax liabilities and manage their overall income effectively.

6. Is there a penalty for late filing of Form 941 if tax deposits are made on time?

A. Yes

B. No

C. Only if the amount is substantial

D. Only for late deposits

The situation regarding late filing of Form 941, which is the Employer's Quarterly Federal Tax Return, is nuanced. When a business makes its tax deposits on time, it is important to note that there is generally no penalty for late filing of Form 941 itself. The rationale behind this is that the primary obligation is to ensure that the tax liabilities are paid on time. When the deposits are punctual, the IRS recognizes that the employer has fulfilled the most critical requirement — to remit the taxes owed on time. Consequently, a late filed Form 941 does not incur a penalty as long as the tax deposits were made correctly and on schedule. It is important for employers to comply with filing deadlines to avoid any administrative issues, but the rule provides some leeway by not imposing penalties when tax deposits are timely submitted. This highlights the importance of understanding the differing obligations of filing and paying tax liabilities.

7. Are the highest paid executives of a firm covered under FICA?

- A. Yes, they are**
- B. No, they are excluded**
- C. Only if they are salaried**
- D. Only if they opt into FICA**

The correct answer indicates that the highest-paid executives of a firm are not excluded from FICA (Federal Insurance Contributions Act) taxes. However, under certain circumstances, their earnings may be subject to different limits for Social Security taxes. The FICA tax comprises two parts: one for Social Security and another for Medicare. While it is true that all employees, including executives, typically pay Social Security and Medicare taxes on their income, there is an annual income cap for Social Security taxes. For high earners, any income above that cap is not subject to Social Security tax, but they still contribute to Medicare without a cap applicable. When discussing high-level executives, it's important to differentiate their eligibility for FICA contributions from the specific limits on income. Thus, saying they are excluded is incorrect; rather, they are subject to the same FICA tax rules as all employees, albeit with a threshold impacting only the Social Security portion. The other options may suggest misunderstandings about the blanket coverage of all employees under FICA, or create unnecessary conditions, such as only offering FICA coverage to salaried individuals or those who 'opt in', which is not applicable in the general context of FICA.

8. Which tax form is commonly used to report income that may affect Social Security benefits?

- A. IRS Form 1040 and Schedule SE**
- B. IRS Form 1099**
- C. IRS Form W-2**
- D. IRS Form 1040X**

The commonly used tax form to report income that may affect Social Security benefits is IRS Form 1040 along with Schedule SE. The IRS Form 1040 is the standard individual income tax return form used to report earnings, and it includes various schedules to provide additional detail about specific types of income, deductions, and credits. Schedule SE (Self-Employment Tax) is particularly relevant for individuals who earn income through self-employment. This schedule is used to calculate the Self-Employment Tax, which is comprised of Social Security and Medicare taxes. The income reported on Form 1040, particularly when accompanied by Schedule SE, is closely monitored by the Social Security Administration to determine eligibility for Social Security benefits and to calculate the benefit amount. The other forms mentioned do not serve the same purpose. For instance, Form 1099 is typically used to report other types of income, such as independent contractor earnings or interest income, but it does not encompass all income that might influence a person's overall Social Security benefits as comprehensively as the 1040 and Schedule SE combination does. Similarly, Form W-2 is utilized by employers to report wages paid to employees but does not detail self-employment income. Form 1040X is an amended return used to

9. What is the penalty for not filing an employment tax return by the due date?

- A. There is no penalty**
- B. Flat fee penalty**
- C. Percentage-based penalty on unpaid taxes**
- D. Extended filing time without penalties**

The penalty for not filing an employment tax return by the due date is based on a percentage of the unpaid taxes. This means that if a taxpayer fails to file their employment tax return on time, they will incur a penalty calculated as a percentage of the taxes that were supposed to be reported. The percentage-based penalty incentivizes timely filing and payment of employment taxes, which are crucial for funding Social Security and Medicare benefits. By imposing a financial consequence based on the amount owed, the IRS encourages compliance with tax regulations. This penalty can accumulate over time, increasing the overall financial impact on the taxpayer. Understanding this framework reinforces the importance of meeting tax deadlines, as failing to do so not only leads to a penalty but can also result in additional interest charges on the unpaid balance.

10. How many work credits must one typically earn to qualify for Social Security retirement benefits?

- A. 30 credits**
- B. 40 credits**
- C. 20 credits**
- D. 50 credits**

To qualify for Social Security retirement benefits, an individual needs to earn 40 work credits. Work credits are a measure used by the Social Security Administration to determine eligibility for benefits. As of the current guidelines, one can earn up to four credits per year based on their earnings, so it usually takes about 10 years of work to accumulate the necessary 40 credits. This requirement ensures that only those who have contributed a significant amount of time to the workforce are eligible for retirement benefits, reflecting the principle of mutual assistance that underlies Social Security. Other choices do not represent the correct number of credits needed for retirement benefits. For instance, while 30, 20, or even 50 credits might seem plausible, they do not align with the established requirement of 40 credits, which is explicitly defined to ensure a certain level of financial contribution to the system before benefits can be claimed.