

Section 2.1: Federal Income Tax

Learning Target: We are learning about federal income taxes and how to determine how much is withheld from a paycheck.

Success Criteria:

- I can determine use the number of allowances, marital status and weekly gross wages to use the federal income tax tables

_____ : taxes taken out of a paycheck that go to the **federal government**

- The IRS [_____] provides employers with table that show how much money to withhold depending on the employees income, marital status and number of people the employee supports [_____]
- A person may claim a maximum of: 1 allowance for self, 1 allowance for spouse and additional allowances for others supported financially (kids)
- The more allowances claimed, the less money will be withheld for federal taxes
- The more money made in wages, the more money that is withheld for federal taxes

Ex1: Velma's gross pay for the week is \$321.85. She is married claiming 2 allowances- one for herself and one for her husband. What amount will be withheld from Velma's pay for federal income tax?

Ex2: Davis and Charlotte's gross pay for the week is \$645.22. They are married with 3 children. How many allowances can they claim if the plan on claiming the maximum number of allowances permitted?

What amount will be withheld if the maximum number of allowances are claimed?

Try This:

1. Mary's gross pay for last week was \$585.40. If she claims 0 allowances, what amount will be withheld from her pay? If she claims 1 allowance, what amount will be withheld from her pay? What is the difference in withholdings for the year (52 weeks in a year)?

Analyzing Taxes & Deductions

Learning Target: We are learning about different types of taxes and deductions that are withheld from a paycheck.

Success Criteria:

- I can find and understand the information provided on an earnings statement (pay stub)
- I can determine which deductions are pre-tax and calculate the deductions and taxable wages.
- I can determine the net wages

_____ : information attached to your paycheck listing all of your deductions as well as your gross pay and net pay

_____ : total amount of money paid before taxes or deductions are taken out

_____ : amount of money received after taxes and deductions are taken out

_____ : money taken out of a paycheck for retirement accounts, union dues and eligible medical/ dental plans. Deductions for many of these types of benefits are not taxed by the federal government

The following are _____, meaning the deductions are taken from your gross pay before federal taxes are calculated, reducing the amount of your paycheck taxed by the federal government.

- _____ : a tax-deferred investment that is contributed into an employee's retirement account
 - _____ means the employee does not pay taxes until contributions and earnings are distributed (not until retirement)

Delaying the taxes = more is going towards the investment so that it can increase in value more quickly. Additionally, when a person retires they will be earning less money (which puts them in a lower tax bracket.) By deferring the tax, a person often gets a benefit twice- when they contribute to the account tax free and when they take money out upon retirement (often at a lower rate than earlier in life)

- _____ : contribution to an eligible dental insurance account
- _____ : contribution to an eligible medical insurance account
- _____ : contribution to a health savings account if paired with an eligible high deductible health plan

- _____ : contribution to account for child care or care for the sick/ elderly. This is non-taxed income set aside in a spending account to use to pay for these expenses.

_____ : payments made to the government that are withheld from income

- _____ : money withheld from paycheck to pay federal government taxes
- _____ : money withheld from paycheck to pay state government taxes
- _____ : money withheld from paycheck to pay city/ local government taxes. Not all cities/ local governments levy taxes
- _____ : tax withholdings paid into the federal government program that provides income support to people who are unemployed, disabled or over the age of 65
- _____ : tax withholdings paid into the federal health insurance program for disabled individuals and people over the age of 65

Ex1: Emily makes \$36,150.40 a year. She contributes 3% of her weekly pay pretax to participate in her company's medical coverage and \$25 per pay to her FSA. She also contributes 2% of her pay tax-deferred to her 401k. The state tax rate is 5.5% and the federal tax rate is 9.7%

A. Find her gross weekly wage

B. Find the individual and total amount of pre-tax and tax-deferred deductions taken

C. Find her taxable wages after pre-tax/tax-deferred deductions have been taken

D. Find the amounts of her state and federal taxes

E. Find her net pay for the each weekly paycheck

F. Find total amount of deductions and taxes taken from her paycheck

G. What percent of her gross pay are the deductions/taxes?

Section 2.2 – 3: State and Graduated State Income Tax
Learning Target: We are learning about different types of state income taxes and how to determine how much is withheld from a paycheck.
Success Criteria: <ul style="list-style-type: none">• I can find total exemptions for state income taxes• I can calculate taxable wages from annual gross and exemptions• I can calculate annual tax withheld for states using flat tax• I can calculate annual tax withheld for states using graduated tax• I can determine state taxes withheld per pay period

_____ : taxes taken out of a paycheck that go to the **state government**

• 2 types:

○ _____ or

○ _____

• Depends on _____ permitted for supporting yourself and others in your family

Taxable Wages = _____ – _____
Annual Tax Withheld = _____ X _____

Sample Personal Exemptions:

Single: \$1500

Married: \$3000

Each Dependant: \$700

Tax withheld = _____
per pay period

_____ : tax rate is the same for every income level

Ex1: Sara's gross pay is \$18,900 a year. She is single and claims one dependent. The state income tax rate is 4%. Find the state taxable wages, annual state taxes withheld and state taxes withheld from a monthly paycheck.

_____ : tax rate is different at each of several levels of income

- Tax rate increases as income increases
- Low incomes generally have a lower tax rate
- Higher incomes generally have a higher tax rate

Graduated State Tax

Annual Gross Pay	Tax Rate
First \$1000	1.5%
Next \$2000	3.0%
Next \$2000	4.5%
Over \$5000	5.0%

Ex2: Lois's annual salary is \$24,800. She is paid semi-monthly. Her personal exemptions total \$1500. How much does her employer deduct from each of Lois's semi-monthly paychecks for graduated state income tax?

Try This:

1. Samuel's gross pay is \$34,000 a year. He is married and claims three dependents. The state income tax rate is 5%. Find the state taxable wages, annual state taxes withheld and state taxes withheld from a weekly paycheck.

2. Julia's annual salary is \$19,400. She has personal exemptions of \$1500. She is paid biweekly. How much state tax is withheld each pay period?

Section 2.4 – 5: Social Security, Medicare & Group Insurance

Learning Target: We are learning about Social Security, Medicare and group insurance premiums that are withheld from a paycheck.

Success Criteria:

- I can calculate the amount deducted from each paycheck for Medicare
- I can find the YTD salary to determine if Social Security max has been met or if Social Security still is to be deducted.
- I can calculate the amount deducted from each paycheck for Social Security
- I can determine the percent of group medical insurance paid by employee
- I can calculate amount of insurance coverage paid by employee
- I can find deduction per paycheck for employee medical insurance

_____ : Federal Insurance Contributions Act

_____ : deduction that FICA requires employers to take from your paycheck for retirement and disability

- 6.2% is deducted on the first \$113,700 (max for 2013) of your earnings

_____ : deduction that FICA requires employers to deduct from your paycheck hospitalization and medical costs

- 1.45% is deducted on ALL your earnings

Tax Withheld = _____ x _____

Ex1: Carl's gross weekly pay is \$232.00. His earnings to date for the year total \$11,136. What amount is deducted from his pay this week for Social Security taxes? How much this week for Medicare taxes?

_____ : insurance that businesses offer to their employees because it can be purchased for a lower cost than individual insurance

- Businesses/ employers often pay part of the cost
- Remaining amount is deducted from worker's/ employee's paycheck

Deduction per _____
pay period

Ex3: Nikki has family medical coverage through her employer's group medical plan. The total annual cost of Nikki's family membership is \$14,200 and the company pays 80% of the cost. How much is deducted from her weekly paycheck for medical insurance?

Try this:

1. Lisa earns \$210,000 per year. She is paid monthly.
A. Create a monthly YTD salary chart from Jan thru Dec.

Jan:	Jul:
Feb:	Aug:
Mar:	Sep:
Apr:	Oct:
May:	Nov:
Jun:	Dec:

Determine the "special calculation" month. _____

- B. Calculate January's Social Security and Medicare taxes.
- C. For what months do the answers for part B apply?
- D. Determine the amount withheld for Social Security for the "special" month.
- E. What is true about amount withheld for Social Security for the months AFTER the "special" month?

2. Rebekah works at a company where the annual cost of group medical insurance is \$12,400. Her employer pays 75%. She is paid monthly. How much does Rebekah have deducted for insurance per pay period?