

Taxes and Your Paycheck



Goals

- Describe Payroll Taxes and Withholding
- Understand a paycheck stub
- Understand the Form W-4

Payroll Taxes

- Taxes based on the payroll of a business
- Largest part of federal gov' t revenue
- Based on total employee payroll earnings
- Paid by employee/employer
 - Income taxes
 - Social security taxes
 - Medicare taxes

Income Taxes

- Taxes you pay on most kinds of income you receive
 - Not a fixed percentage
 - Based on taxpayer financial & family situation
 - You are responsible to calculate what you owe

FICA Taxes

- Federal Insurance Contributions Act
 - Supports social programs
 - Includes social security and medicare
 - [Online Resource/FICA](#)

Withholding

- The process of an employer deducting payroll taxes from an employee's paycheck
 - Used to prepay income/social security taxes
 - Allows gov't to collect taxes at a steady rate
 - Makes it more likely people will pay their taxes
 - Spreads out tax payments over time

Your Pay Stub

- Attached to your paycheck
 - Shows gross income/withholding/net income
 - Includes itemized amounts for each withholding item
- Gross Income—amount earned before taxes/withholding
- Net Income—amount you receive after withholdings are subtracted

Sample Pay Stub

The Video Store, Inc.
494 Main Street
Hometown, ST 12345

CHECK NO. **06825**

Employee Name: Kelly O'Rourke
Employee Address: 188 Oak Street
Hometown, ST 12345

**Employee social
security number:** 127-83-4545

Check date: 09/15/--
Pay period ending: 09/15/--

EARNINGS

Hours 7
Rate \$ 7.50
Gross Pay \$52.50

DEDUCTIONS

Federal Income Tax \$ 7.88
Social Security Tax \$ 3.26
Medicare Tax \$ 0.76
State Tax \$ 0.21
Local Tax \$ 0.00
Total Withholding \$12.11

Gross Pay \$52.50
Total Deductions \$12.11
Net Pay \$40.39

Student Activity

- Pay Stub/Tax Withholding Worksheet from Instructor
 - Calculate amount of gross pay, deductions, net pay for various employees
 - State Tax Withholding Tables
<http://www.ksrevenue.org/pdf/forms/kw100.pdf>
 - Federal Tax Withholding Tables
<http://www.irs.gov/pub/irs-pdf/p15t.pdf>

Form W-4

- Required form provides information employer needs to determine amount of withholding.
 - Amount withheld depends on
 - Gross income
 - # of allowances (people you support)
 - Employee completes when hired
 - Update as life situation changes

Sample Form W-4

Personal Allowances Worksheet										
A	Enter "1" for yourself if no one else can claim you as a dependent A									
B	Enter "1" if: { • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. } B									
C	Enter "1" for your spouse . But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) C									
D	Enter number of dependents (other than your spouse or yourself) you will claim on your tax return D									
E	Enter "1" if you will file as head of household on your tax return (see conditions under Head of Household above) E									
F	Enter "1" if you have at least \$1,500 of child or dependent care expenses for which you plan to claim a credit F									
G	Add lines A through F and enter total here. Note: This amount may be different from the number of exemptions you claim on your return G									
<p>For accuracy, complete all worksheets that apply.</p> <ul style="list-style-type: none"> • If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2. • If you are single and have more than one job and your combined earnings from all jobs exceed \$32,000 OR if you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$55,000, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld. • If neither of the above situations applies, stop here and enter the number from line G on line 5 of Form W-4 below. 										
----- Cut here and give the certificate to your employer. Keep the top portion for your records. -----										
<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;">Form W-4 Department of the Treasury Internal Revenue Service</td> <td style="width: 40%; text-align: center;">Employee's Withholding Allowance Certificate</td> <td style="width: 30%; text-align: right;">OMB No. 1545-0018 20--</td> </tr> <tr> <td colspan="3" style="text-align: center;">▶ For Privacy Act and Paperwork Reduction Act Notice, see reverse.</td> </tr> </table>		Form W-4 Department of the Treasury Internal Revenue Service	Employee's Withholding Allowance Certificate	OMB No. 1545-0018 20--	▶ For Privacy Act and Paperwork Reduction Act Notice, see reverse.					
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<table border="1" style="width: 100%;"> <tr> <td style="width: 50%;">1 Type or print your first name and middle initial Kelly A.</td> <td style="width: 20%;">Last name O'Rourke</td> <td style="width: 30%;">2 Your social security number 127 83 4545</td> </tr> <tr> <td colspan="2">Home address (number and street or rural route) 188 Oak Street</td> <td>3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <i>Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.</i></td> </tr> <tr> <td colspan="2">City or town, state, and ZIP code Hometown, ST 12345</td> <td>4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for a new card ▶</td> </tr> </table>		1 Type or print your first name and middle initial Kelly A.	Last name O'Rourke	2 Your social security number 127 83 4545	Home address (number and street or rural route) 188 Oak Street		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <i>Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.</i>	City or town, state, and ZIP code Hometown, ST 12345		4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for a new card ▶
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City or town, state, and ZIP code Hometown, ST 12345		4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for a new card ▶								
5 Total number of allowances you are claiming (from line G above or from the worksheets on page 2 if they apply)		5 1								
6 Additional amount, if any, you want withheld from each paycheck		6 \$								
7 I claim exemption from withholding for 20--, and I certify that I meet BOTH of the following conditions for exemption: <ul style="list-style-type: none"> • Last year I had a right to a refund of ALL Federal income tax withheld because I had NO tax liability; AND • This year I expect a refund of ALL Federal income tax withheld because I expect to have NO tax liability. If you meet both conditions, enter "EXEMPT" here ▶		7								
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.										
Employee's signature ▶ Kelly A. O'Rourke		Date ▶ Sept. 4 , 20--								
8 Employer's name and address (Employer: Complete 8 and 10 only if sending to the IRS)		9 Office code (optional)								
		10 Employer identification number								

Allowances

- The number that reduces the amount of money withheld from your paycheck
 - Larger allowances result in less money withheld
 - Lower allowances result in more money withheld
 - Make as Accurate as possible

Your Responsibility

- You are responsible to withhold the correct amount.
 - You may be fined if not enough withheld

Withholding Too Much

- Students often withhold too much as their hours worked/paycheck earned varies over summer breaks and during school year.
- Some choose to have extra withheld as a way of savings
 - Generally considered a bad idea—gov't uses your money all year and does not pay you interest.

Withholding Too Little

- You can be fined if not enough withheld.
- Solve this by
 - Send extra payment to IRS
 - Claim fewer allowances
 - Have extra amount withheld

IRS Activity

- Activity: Students download and complete form W-4 from [irs.gov](https://www.irs.gov)