

Net Income

Before YOU READ

What You'll Learn

- Section 2-1** Read tables to find the amount withheld for federal income tax.
- Section 2-2** Compute the state taxes on a straight percent basis.
- Section 2-3** Determine the state taxes on a graduated income basis.
- Section 2-4** Work out the amount of income withheld for Social Security and Medicare taxes.
- Section 2-5** Calculate the deduction for group insurance.
- Section 2-6** Figure out net pay per pay period.

When Will You Ever Use This?

If you earn money, you pay taxes . . . if you don't, you could end up in jail. Set a realistic budget when you know the amount of taxes and insurance withheld from your paycheck.

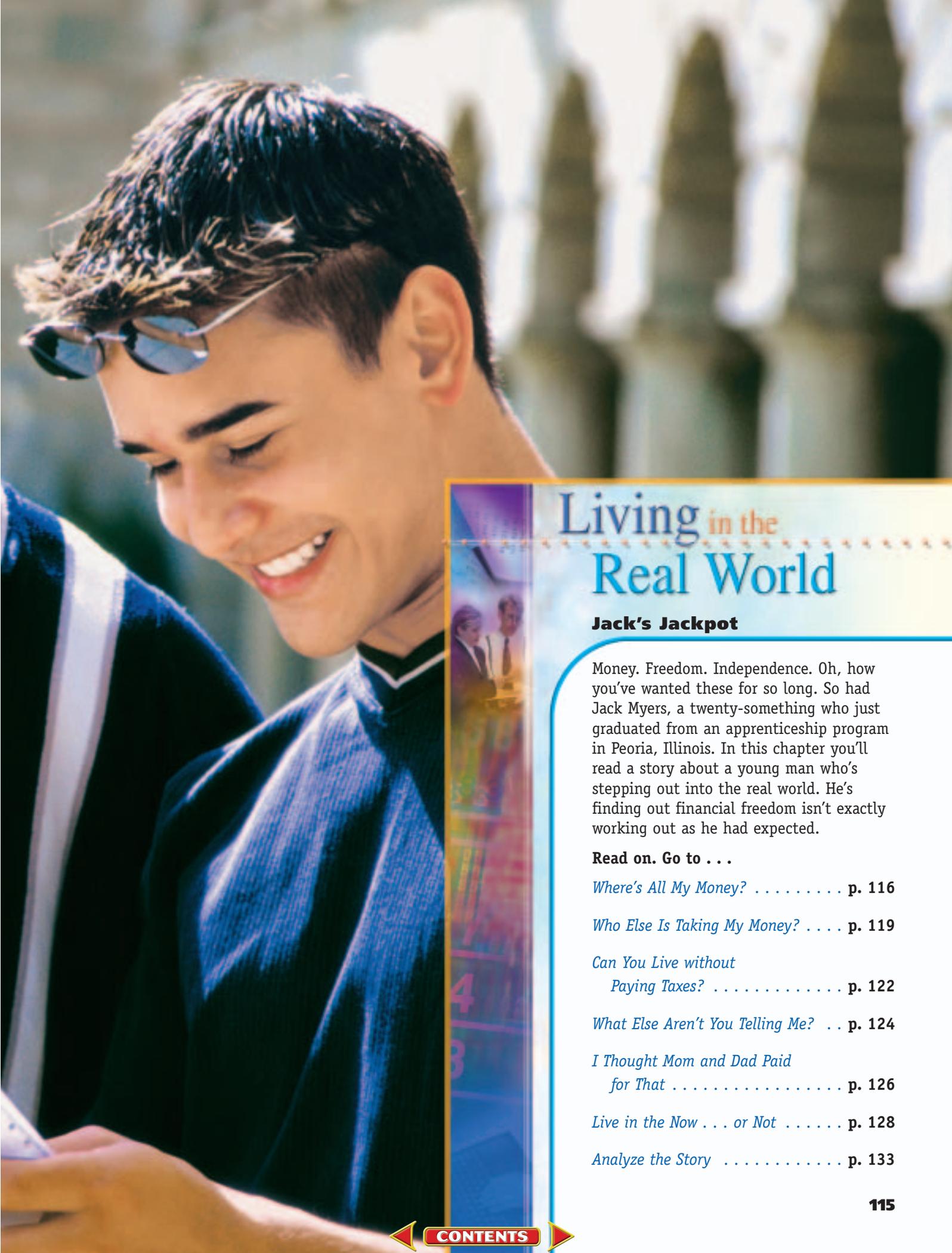
Key Words to Know

- federal income tax
- personal exemptions
- graduated income tax
- Social Security
- Medicare
- group insurance
- net pay

Mathematics Online

To learn more about net income, visit busmath.glencoe.com.





Living in the Real World

Jack's Jackpot

Money. Freedom. Independence. Oh, how you've wanted these for so long. So had Jack Myers, a twenty-something who just graduated from an apprenticeship program in Peoria, Illinois. In this chapter you'll read a story about a young man who's stepping out into the real world. He's finding out financial freedom isn't exactly working out as he had expected.

Read on. Go to . . .

Where's All My Money? p. 116

Who Else Is Taking My Money? p. 119

*Can You Live without
Paying Taxes?* p. 122

What Else Aren't You Telling Me? . . p. 124

*I Thought Mom and Dad Paid
for That* p. 126

Live in the Now . . . or Not p. 128

Analyze the Story p. 133

SECTION 2-1 Federal Income Tax

Section Objective

Read tables to find the amount withheld for federal income tax.

Federal taxes are necessary to keep the government agencies and services afloat. Employers are required by law to withhold a certain amount of your pay for **federal income tax** (or FIT). The Internal Revenue Service (IRS) provides employers with tables that show how much money to withhold. The amount withheld depends on your income, marital status, and withholding allowances. You may claim 1 allowance for yourself and 1 allowance for your spouse if you are married. You may claim additional allowances for any others you support.

Living in the Real World

Jack's Jackpot

Where's All My Money? Jack Myers blinks, rubs his eyes, and blinks again. "Wait. Hey, there's no \$1,200 in this paycheck." His brother Jon, a certified public accountant, has been trying to tell him that he needs to take into account withholdings from his paycheck. One large chunk of the money he thought he was going to get actually goes to paying FIT. "This is going to affect my truck payment," Jack said. "I thought there was going to be more."

Draw Conclusions What do you do when your bills are more than your paycheck amount?

Continued on page 119



FYI

Federal prosecutors convict those who fail to file a tax return. The average sentence is more than three years.



Use table Married Persons Weekly Payroll on page 790 for Examples 1 and 2.

Example 1

Carla Garza's gross pay for this week is \$425.88. She is married and claims 2 allowances — herself and her husband. What amount will be withheld from Garza's pay for FIT?

STEPS:

1. Find the income range from the table. (It's 420–430.)
2. Find the column for 2 allowances.
3. The amount of income to be withheld is \$15.

Example 2

Lance Han's gross pay for this week is \$460.00. He is married and claims 1 allowance. What amount will be withheld from Han's pay for FIT?

STEPS:

1. Find the income range from the table. (It's at least 460, but less than 470.)
2. Find the column for 1 allowance.
3. The amount of income to be withheld is \$25.

Need Help? Go to...

► **Skill 1: Numbers,**
page 727

► **Application C:**
Tables and Charts,
page 762

CONCEPT CHECK**SELF-CHECK**

Complete Problems 1–7 using the Married Persons Weekly Payroll table (see page 790), then check your answers at the end of the chapter.

A Payroll Period				
	Employee	Weekly Income	Allowances	Amount Withheld
1.	D. Caine	\$390.50	1	
2.	A. Kim	435.95	2	
3.	D. Cadena	399.95	2	
4.	H. Nguyen	444.23	1	
5.	G. Ginn	382.23	1	
6.	K. Morris	421.98	0	
7.	C. Dukowski	371.09	4	

SECTION 2-1 PRACTICE

Use the Single Persons Weekly Payroll and Married Persons Weekly Payroll tables on pages 788–791 to find the amount withheld.

8. Carrie Burnside, single. Earns \$350.15 weekly. Claims 1 allowance. What is the FIT withheld?
9. Raymond Barbee, single. Earns \$300.74 weekly. Claims 2 allowances. What is the FIT withheld?
10. Stephen Cabellero, married. Earns \$369.23 weekly. Claims 2 allowances. What is the FIT withheld?
11. Lisa Steamer, married. Earns \$290.34 weekly. Claims no allowances. What is the FIT withheld?
12. Catherine Hanna earns \$208.35 a week. She is single and claims 2 allowances. What amount is withheld weekly for federal income tax?
13. Ike Svenious earns \$225.32 a week. He is single and claims 1 allowance. What amount is withheld weekly for federal income tax?
14. Doug Smalley is married and earns \$304.30 a week. He claims 2 allowances. What amount is withheld weekly for federal income tax?
15. Kristen Martinez is married, earns \$252.75 a week, and claims 1 allowance. What amount is withheld weekly for federal income tax?

Continued on next page

Some companies use a percentage method instead of the tax tables to compute the income tax withheld. Use Figure 2.1 to find the amount withheld for the single employees below. Each weekly allowance is \$61.54.

STEP 1: Find the allowance amount.

$$\text{Number of Allowances} \times \$61.54$$

STEP 2: Find the taxable wages.

$$\text{Weekly Wage} - \text{Allowance Amount}$$

STEP 3: Find the amount withheld for the employees below.

Figure 2.1

Weekly Payroll Period — Single Person			
Weekly Wage (after Subtracting Withholdings)		Amount of Income Tax Withheld	
Not over \$51		\$0	
Over	But not over		of excess over
\$ 51.00	\$ 188.00	10%	\$ 51.00
188.00	606.00	\$13.70 plus 15%	188.00
606.00	1,341.00	\$76.40 plus 25%	606.00

Amount Withheld					
Employee	Weekly Wage	Number of Allowances	Allowance Amount	Taxable Wages	Amount Withheld
D. Boon	\$ 293.23	2	\$123.08	\$170.15	\$11.92
16. M. Watt	587.94	4	246.16	341.78	a.
17. B. Mould	792.02	1	a.	b.	c.
18. C. Kirkwood	1,243.49	3	a.	b.	c.

MAINTAINING YOUR SKILLS

Need Help? Go to...

► Skill 1: Numbers,
page 727

► Skill 30: Finding
the Percentage,
page 757

Give the place and value of the underlined digit.

19. 8,943

20. 63.12

21. 543

22. 92.32

23. 231

24. 243.234

Find the percentage.

25. 228% \times \$52.00

26. 26.50% \times \$656.00

27. $\frac{1}{4}$ % \times \$621.00

28. 22.50% \times \$120.00

Subtract.

29. \$6003.04 $-$ \$68.45

30. \$920.03 $-$ \$803.76

31. \$823.45 $-$ \$21.76

SECTION 2-2 State Income Tax

Section Objective

Compute the state taxes on a straight percent basis.

Most states require employers to withhold a certain amount of your pay for state income tax. In some states, the tax withheld is a percent of your taxable wages. Your taxable wages depend on **personal exemptions**, or withholding allowances, which allow for supporting yourself and others in your family.

Important Questions	What Formula Do I Use?
How do I calculate taxable wages?	$\text{Taxable Wages} = \text{Annual Gross Pay} - \text{Personal Exemptions}$
How do I calculate annual tax withheld?	$\text{Annual Tax Withheld} = \text{Taxable Wages} \times \text{Tax Rate}$

Need Help? Go to...

- **Skill 1: Numbers**, page 727
- **Application C: Tables and Charts**, page 762

Living in the Real World

Jack's Jackpot

Who Else Is Taking My Money? "I mean," Jack said, "how can this really be fair? You mean I work from seven-thirty in the morning until five at night, forty hours a week . . . and the STATE also takes out money? Isn't it enough that the Fed takes out taxes?"

Draw Conclusions Why do most states charge taxes?

Continued on page 122

Example 1

Patricia Line's gross pay is \$65,800 a year. The state income tax rate is 3 percent of taxable wages. Line takes a married exemption for herself and her husband. How much is withheld from her gross earnings for state income tax within the year?

STEP 1: Find the taxable wages.

Annual Gross Pay − **Personal Exemptions**

$$\$65,800 - \$4,000 = \$61,800$$

STEP 2: Find the annual tax withheld.

Taxable Wages × **Tax Rate**

$$\$61,800 \times 3\% = \$1,854 \text{ annual tax withheld}$$



$$65800 - 4000 = 61800 \times 3 \% = 1854$$

PERSONAL EXEMPTIONS

Single—\$2,000
Married—\$4,000
Each Dependent—\$2,000

CONCEPT CHECK

SELF-CHECK

Check your answers at the end of the chapter. Find the taxable wages and the annual tax withheld. State income tax rate is 1.5 percent of taxable income. (Remember to refer to the Personal Exemptions table on page 119.)

1. Annual gross pay is \$28,000.
Married.
2. Annual gross pay is \$34,300.
Single.

Example 2

Tony Yamakoshi's gross pay is \$44,750 a year. The state income tax rate is 3 percent of taxable wages. Yamakoshi takes a single exemption for himself and 1 personal exemption for a child. How much is withheld from his gross earnings for state income tax for the year? (Again, use the Personal Exemptions table on page 119 to complete this example.)

STEP 1: Find the taxable wages.

$$\begin{array}{r r r r r r}
 \text{Annual Gross Pay} & - & \text{Personal Exemptions} & & & \\
 \$44,750 & - & (\$2,000 + \$2,000) & = & & \\
 \$44,750 & - & \$4,000 & = & \$40,750 &
 \end{array}$$

STEP 2: Find the annual tax withheld.

$$\begin{array}{r r r r r}
 \text{Taxable Wages} & \times & \text{Tax Rate} & & \\
 \$40,750 & \times & 3\% & = & \$1,220.50 \text{ annual tax withheld}
 \end{array}$$

CONCEPT CHECK

SELF-CHECK

Complete the problems, then check your answers at the end of the chapter. Find the amount withheld annually for state tax.

3. Gross pay: \$23,760.
Married, 3 dependents.
State income tax rate: 4 percent.
4. Gross pay: \$43,300.
Single, 1 dependent.
State income tax rate: 5 percent.

SECTION 2-2 PRACTICE

Complete the formula to find the tax withheld.

$$\begin{array}{r}
 \left(\begin{array}{c} \text{Gross} \\ \text{Pay} \end{array} - \begin{array}{c} \text{Personal} \\ \text{Exemptions} \end{array} = \begin{array}{c} \text{Taxable} \\ \text{Wages} \end{array} \right) \times \begin{array}{c} \text{State Tax} \\ \text{Rate} \end{array} = \begin{array}{c} \text{Tax} \\ \text{Withheld} \end{array} \\
 5. (\$27,000 - \$2,200 = \$24,800) \times 2\% = \\
 6. (\$32,000 - \$3,000 = \quad) \times 5\% = \\
 7. (\$12,500 - \$1,500 = \quad) \times 3.5\% =
 \end{array}$$

Use the Personal Exemptions table on page 119 for personal exemptions, and find the amount withheld annually for state income taxes.

8. Farouc Jaffer.
Earns \$57,900 annually.
Single, 3 dependents.
State tax rate is 3 percent.

9. Monica Mooney.
Earns \$63,840 annually.
Married, 2 dependents.
State tax rate is 4 percent.
10. Dean Delgado.
Earns \$43,500 annually.
Married, no dependents.
State tax rate is 4.6 percent.
 - a. What are his personal exemptions?
 - b. What is withheld for state tax?
11. Julie Bookwalter.
Earns \$32,300 annually.
Single, 1 dependent.
State tax rate is 2.5 percent.
 - a. What are her personal exemptions?
 - b. What is withheld for state tax?
12. Wayne Ko earns \$36,200 annually as a college instructor. He is married and supports 2 children. The state tax rate in his state is 4 percent of taxable income. What amount is withheld yearly for state income tax?
13. Erica Matthies is married and earns \$28,640 per year as a video editor. The state tax rate in her state is 3.5 percent of taxable income. What amount is withheld yearly for state income tax?
14. Dale Yngvesson is a physical therapist. He earns \$49,830 a year and is single. The state income tax rate is 5 percent of taxable income. What amount is withheld yearly for state income tax?

Use the Married Persons Weekly Payroll table on pages 790–791 for federal withholding taxes.

15. David Chow earns \$42,000 a year as an artist. He is paid on a weekly basis. He is married, with no dependents, and claims 2 withholding allowances for federal income tax purposes. The state tax rate is 2 percent of taxable income. How much is withheld annually from Chow’s gross pay for state and federal income taxes?

MAINTAINING YOUR SKILLS

Subtract.

16. $83.17 - 56.19$

17. $43 - 16.02$

18. $65.2 - 34.309$

Find the percentage.

19. 220% of 79

20. 9% of 522

21. $\frac{1}{4}\%$ of 2,500

Need Help? Go to...

- Skill 6: Subtracting Decimals, page 733
- Skill 30: Finding the Percentage, page 757

SECTION 2-3

Graduated State Income Tax

Section Objective

Determine the state taxes on a graduated income basis.

Some states have a graduated income tax. **Graduated income tax** involves a different tax rate for each of several levels of income. The tax rate increases as income increases. The tax rate on low incomes is usually 1 percent to 3 percent. The tax rate on high incomes may be as much as 20 percent.

$$\text{Tax Withheld per Pay Period} = \frac{\text{Annual Tax Withheld}}{\text{Number of Pay Periods per Year}}$$

Living in the Real World

Jack's Jackpot

Can You Live without Paying Taxes? "You can't escape taxes being deducted. But you can be smart about how you calculate state tax, since the percentage differs state to state. If you understand the proper taxation, then you'll pay the proper amount and you're not overtaxed or penalized," Jon says to Jack.

Draw Conclusions Each year the Tax Foundation determines how much of the year the average person works to pay taxes. How many months do you think the average person works just to pay taxes?

Continued on page 124

Need Help? Go to...

- ▶ **Workshop 4:** Adding Decimals, page 10
- ▶ **Workshop 7:** Dividing Decimals, page 16
- ▶ **Skill 5:** Adding Decimals, page 732
- ▶ **Skill 11:** Dividing Decimals, page 738
- ▶ **Application K:** Chronological Expressions, page 766

Example 1

Louise Maffeo's annual salary is \$34,500. She is paid semimonthly. Her personal exemptions total \$2,000. How much does her employer deduct from each of Maffeo's semimonthly paychecks for state income tax?

Figure 2.2

State Tax	
Annual Gross Pay	Tax Rate
First \$1,000	1.5%
Next \$2,000	3.0%
Next \$2,000	4.5%
Over \$5,000	5.0%

STEP 1: Find the taxable wages.

$$\begin{array}{r} \text{Annual} \\ \text{Gross Pay} \end{array} - \begin{array}{r} \text{Personal} \\ \text{Exemptions} \end{array} = \$32,500.00$$

$$\$34,500.00 - \$2,000.00 = \$32,500.00$$

STEP 2: Find the annual tax withheld.

(1) First \$1,000:
1.5% of \$1,000.00 \$ 15.00

(2) Next \$2,000:
3.0% of \$2,000.00 60.00

(3) Next \$2,000: 4.5% of \$2,000.00 90.00

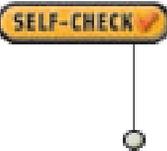
(4) Over \$5,000: 5.0% of (\$32,500.00 - \$5,000.00) =
5.0% of \$27,500.00 = 1,375.00

Total \$ 1,540.00

STEP 3: Find the tax withheld per pay period.

$$\begin{array}{r} \text{Annual Tax Withheld} \\ \$1,540.00 \end{array} \div \begin{array}{r} \text{Number of Pay Periods per Year} \\ 24 \end{array} = \$64.166 \text{ or } \$64.17 \text{ tax withheld semimonthly}$$

CONCEPT CHECK



Complete the problem, then check your answer at the end of the chapter. Using the graduated income tax rates in Figure 2.2 on page 122, find the tax withheld per pay period.

- Annual salary: \$21,350. Personal exemptions: \$3,000. 26 pay periods.

SECTION 2-3 PRACTICE

Find the taxable wages for Problems 2 and 3.

- Toby Vail.
Annual gross pay of \$18,200.
Personal exemptions of \$1,500.
State tax on first \$3,000: 1.5 percent.
Tax on amount over \$3,000: 3 percent.
- Carl Brownstein.
Annual gross pay of \$45,500.
Personal exemptions of \$3,000.
State tax on first \$2,500: 1.5 percent.
Tax on amount over \$2,500: 3 percent.

Figure 2.3

Personal Exemptions	
Single	\$2,000
Married	4,000
Each Dependent	2,000
State Tax	
Annual Gross Pay	Tax Rate
First \$3,500	3.0%
Next \$3,500	4.5%
Over \$7,000	7.0%

Use Figure 2.3 to compute the state tax for Problems 4–5.

- Leslie Channings’s annual gross pay is \$54,400. He is single and is paid on a monthly basis. How much is withheld monthly for state tax?
- Anita Muzquiz’s annual gross pay is \$45,520. She is married with 2 dependents. How much is withheld from her biweekly paycheck for state income tax?

Need Help? Go to...

- Skill 5: Adding**
Decimals, page 732
- Skill 11: Dividing**
Decimals, page 738
- Application K: Chronological Expressions,**
page 766

MAINTAINING YOUR SKILLS

$$\begin{array}{r} 6. \quad 0.014 \\ \quad 0.937 \\ \quad + 0.341 \\ \hline \end{array} \qquad \begin{array}{r} 7. \quad 2.342 \\ \quad 223.670 \\ \quad + 15.131 \\ \hline \end{array}$$

Divide. Round answers to the nearest hundredth.

- $327 \div 73$
- $67.632 \div 3.3$

Find the number of occurrences.

- Weekly for 3 years
- Monthly for 11 years
- Quarterly for 4 years
- Daily for 4 years



SECTION 2-4

Social Security and Medicare Taxes

Section Objective

Work out the amount of income withheld for Social Security and Medicare taxes.

The Federal Insurance Contributions Act (FICA) requires employers to deduct 7.65 percent of your income for **Social Security** and **Medicare** taxes. **Social Security** (6.2 percent) is deducted on the first \$90,000 of income, but Medicare (1.45 percent) is paid on all your earnings. The employer must contribute an amount that equals your contribution. The federal government uses Social Security to pay for retirement and disability benefits and Medicare to provide health insurance for those 65 and older.

$$\text{Tax Withheld} = \text{Gross Pay} \times \text{Tax Rate}$$

Living in the Real World

Jack's Jackpot

What Else Aren't You Telling Me? Jack is starting to accept that he doesn't get to take home all the money he actually earns. Jon tells him not to forget the Social Security and Medicare taxes withheld from his paycheck.

Draw Conclusions Why is Social Security important?

Continued on page 126



Example 1

Otis Hassan's gross biweekly pay is \$648.00. His earnings to date for the year total \$15,228. What amount is deducted from his pay this week for Social Security taxes? For Medicare taxes? What is the total deduction? His earnings to date are less than \$90,000.

STEP 1: Find the Social Security tax withheld.

$$\text{Gross Pay} \times \text{Tax Rate}$$

$$\$648.00 \times 6.2\% = \$40.176 = \$40.18 \text{ Social Security tax}$$

STEP 2: Find the Medicare tax withheld.

$$\text{Gross Pay} \times \text{Tax Rate}$$

$$\$648.00 \times 1.45\% = \$9.396 = \$9.40 \text{ Medicare tax}$$

STEP 3: Find the total deduction.

$$\text{Social Security Tax} + \text{Medicare Tax}$$

$$\$40.18 + \$9.40 = \$49.58 \text{ total deduction}$$

CONCEPT CHECK

Complete the problems, then check your answers at the end of the chapter. Find the amount withheld for Social Security, Medicare, and total deductions.

1. Monthly salary: \$3,100.
Earnings to date: \$15,500.
2. Weekly salary: \$350.
Earnings to date: \$16,800.

Need Help? Go to...

► **Skill 2: Rounding Numbers**, page 729

► **Skill 30: Finding the Percentage**, page 757

► **Application A: Formulas**, page 760

SELF-CHECK

SECTION 2-4 PRACTICE

For problems 3–7 use the Social Security tax rate of 6.2 percent and Medicare tax rate of 1.45 percent to determine each tax and the total deduction.

	Gross Pay	Soc. Sec. Tax Withheld	Medicare Tax Withheld	Total Deduction
3.	\$ 125.00	a.	b.	c.
4.	432.00	a.	b.	c.
5.	241.00	a.	b.	c.
6.	1,562.00	a.	b.	c.
7.	2,521.00	a.	b.	c.

Use the Social Security tax rate of 6.2 percent of the first \$90,000 and Medicare tax rate of 1.45 percent on all income when solving Problems 8 and 9.

8. Shelly Kugo is paid monthly. Her gross pay this month is \$6,223. Her earnings to date for this year are \$23,631. How much is deducted from her paycheck this month for Social Security? For Medicare?
9. Oliver Gelfand earns \$45,440 a year, paid on a semimonthly basis. How much is deducted per pay period for Social Security tax? For Medicare tax? What is the total?

Use the Married Persons Weekly Payroll table on pages 790–791 for federal withholding taxes.

10. Thomas Schmitt is a designer for Stix Toys. He is married, earns \$526 weekly, and claims no allowances. His gross pay to date this year is \$9,912. How much is deducted from his paycheck this week for federal income, Social Security, and Medicare taxes? What is the total?
11. Jorge Powell is married and claims 2 allowances. How much is withheld from his weekly paycheck of \$550 for the last week of December for federal income, Social Security, and Medicare taxes? What is the total?
12. Stacey Peralta was hired on January 2 for the supervisory position. She earns a salary of \$98,000 and is paid monthly. How much is withheld in December for Social Security and Medicare? What is the total?

MAINTAINING YOUR SKILLS

Find the percentage. Round to the nearest hundredth.

- | | | |
|-----------------|----------------|------------------|
| 13. 8.9% of 543 | 14. 5.43% of 4 | 15. 723.6% of 62 |
|-----------------|----------------|------------------|

Round to the place value indicated.

Nearest ten.

- | | | |
|---------|------------|--------------|
| 16. 216 | 17. 624.83 | 18. 8,990.97 |
|---------|------------|--------------|

Nearest hundred.

- | | | |
|-----------|-----------|-------------|
| 19. 8,231 | 20. 9,851 | 21. 623,201 |
|-----------|-----------|-------------|

Need Help? Go to...

➤ **Skill 30: Finding the Percentage,**
page 757

➤ **Skill 2: Rounding Numbers,** page 729

SECTION 2-5 Group Health Insurance

Section Objective

Calculate the deduction for group insurance.

Many businesses offer group insurance plans to their employees. You can purchase **group insurance** for a lower cost than individual insurance. Businesses often pay part of the cost of the insurance and the employee pays the remaining amount.

$$\text{Employee's Share} = \text{Annual Amount} \times \text{Employee's Percent}$$

The employee's amount is usually deducted each pay period. Remember that:

$$\text{Deduction per Pay Period} = \frac{\text{Total Annual Amount Paid by Employee}}{\text{Number of Pay Periods per Year}}$$

Living in the Real World

Jack's Jackpot

I Thought Mom and Dad Paid for That "You have to remember not only are your deductions for federal and state taxes, but you also have to take into account deductions for your medical plan."

"Wait, I thought mom and dad took care of this?"

"Not anymore. Not when you're dependent on yourself."

"Jack, everyone needs health insurance. If you ever broke your leg or got into a car accident, you'd be paying for your medical bills for the rest of your life."

Draw Conclusions Describe at least two scenarios when a young, healthy person would need health insurance.

Continued on page 128

Need Help? Go to...

- **Workshop 5:**
Subtracting Decimals, page 12
- **Workshop 7:**
Dividing Decimals, page 16
- **Workshop 14:**
Finding the Percentage, page 30
- **Skill 6:** Subtracting Decimals, page 733
- **Skill 11:** Dividing Decimals, page 738
- **Skill 30:** Finding the Percentage, page 757
- **Application A:**
Formulas, page 760

Example 1

Lawrence Butler is a manager for Sound Pharmaceuticals. He has family medical coverage through the group medical plan that Sound provides for its employees. The annual cost of Butler's family membership is \$9,000. The company pays 80 percent of the cost. How much does he pay annually for medical insurance?

STEP 1: Find the percent paid by employee.

$$\begin{array}{r} 100\% - \text{Percent Company Pays} \\ 100\% - \quad 80\% \qquad \qquad = 20\% \end{array}$$

STEP 2: Find the total amount paid by employee.

$$\begin{array}{r} \text{Annual Amount} \times \text{Employee's Percent} \\ \$9,000.00 \times \quad 20\% \qquad \qquad = \$1,800.00 \text{ total paid} \\ \qquad \text{by employee} \end{array}$$

CONCEPT CHECK

Complete the problems, then check your answers at the end of the chapter. Find the total amount paid by the employee.

1. Annual cost of insurance: \$4,400. Employer pays 80 percent.
2. Annual cost of insurance: \$6,700. Employer pays 60 percent.

SELF-CHECK

Example 2

Nicholette McClure is a carpenter for Olympia Construction Company. She has family medical coverage through the group medical plan that Olympia provides for its employees. The annual cost of McClure's family membership is \$5,000. The company pays 75 percent of the cost. How much is deducted from her biweekly paycheck for medical insurance?

STEP 1: Find the percent paid by employee.

$$\begin{array}{r} 100\% - \text{Percent Company Pays} \\ 100\% - \qquad 75\% \qquad \qquad = 25\% \end{array}$$

STEP 2: Find the total amount paid by employee.

$$\begin{array}{r} \text{Annual Amount} \times \text{Employee's Percent} \\ \$5,000 \qquad \times \qquad 25\% \qquad = \$1,250 \end{array}$$

STEP 3: Find the deduction per pay period.

$$\frac{\text{Total Annual Amount Paid by Employee}}{\text{Number of Pay Periods per Year}} = \frac{\$1,250}{26} = \$48.076 \text{ or } \$48.08 \text{ deducted per pay period}$$

SELF-CHECK

Complete the problems, then check your answers at the end of the chapter. Find the deduction per pay period.

3. Annual cost of insurance: \$3,570. Employer pays 70 percent. 12 pay periods.
4. Annual cost of insurance: \$6,000. Employer pays 80 percent. 26 pay periods.

SECTION 2-5 PRACTICE

5. Margie Yang, pilot. Annual group insurance costs \$3,800. Company pays 50 percent of the cost. How much does Yang pay monthly?
6. Maxwell Fischer, beekeeper. Annual group insurance costs \$5,400. Employer pays 70 percent of the cost. How much does Fischer pay semimonthly?
7. Bill Bernstein's group medical insurance coverage costs \$5,480 a year. The company pays 65 percent of the cost. How much is deducted each month from his paycheck for medical insurance?
8. Catherine Parker, a clerk at La Mirage Motel, earns \$342.22 weekly. Her group medical insurance costs \$2,650 a year, of which the company pays 70 percent of the costs. How much is deducted weekly from her paycheck for medical insurance?

MAINTAINING YOUR SKILLS

Divide. Round answers to the nearest hundredth.

9. $4.48 \div 4$
10. $8.123 \div 2.2$
11. $0.00532 \div 0.31$

Find the percentage.

12. 5% of 340
13. 98% of 742
14. $5\frac{1}{4}\%$ of 56

Need Help? Go to...

- Skill 11: Dividing Decimals, page 738
- Skill 30: Finding the Percentage, page 757

SECTION 2-6 Statement of Earnings

Section Objective

Figure out net pay per pay period.

You may have additional deductions taken from your gross pay for union dues, contributions to community funds, savings plans, and so on. The earnings statement attached to your paycheck lists all your deductions, your gross pay, and your **net pay** for the pay period. Net pay is the amount you have left after all tax withholdings and personal deductions have been subtracted.

$$\text{Net Pay} = \text{Gross Pay} - \text{Total Deductions}$$

Living in the Real World

Jack's Jackpot

Live in the Now . . . or Not Oh, brotherly love. The competition never stops, especially when their philosophies on money aren't shared. Jon encourages investing in a retirement account. Jack prefers to live in the now and worry about life at 65 later.

Draw Conclusions Describe your philosophy on money.

Continued on page 133

Need Help? Go to...

- ▶ Skill 5: Adding Decimals, page 732
- ▶ Skill 6: Subtracting Decimals, page 733
- ▶ Application A: Formulas, page 760

Example 1

Alyasha Moore's gross weekly salary is \$600. She is married and claims 3 allowances. The Social Security tax is 6.2 percent of the first \$90,000. On a paycheck stub, it shows up as Federal Insurance Corporation Act (FICA). The Medicare tax is 1.45 percent of gross pay. The state tax is 1.5 percent of gross pay. Each week she pays \$12.40 for medical insurance and \$2.50 for charity. Is Moore's earnings statement correct?

Figure 2.4

Dept		Employee		Check Number	Gross Pay	Net Pay	
15		Alyasha Moore		1501	\$600.00	\$503.20	
Tax Deductions				Other Deductions			
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others
27	37.20	8.70	9.00	—	12.40	—	2.50

STEP 1: Find the total deductions.

- | | |
|--|----------|
| a. Federal withholding: (from table on page 790) | \$ 27.00 |
| b. Social Security: 6.2% of \$600.00 = | 37.20 |
| c. Medicare: 1.45% of \$600.00 = | 8.70 |
| d. State tax: 1.5% of \$600.00 = | 9.00 |
| e. Medical insurance | 12.40 |
| f. Charity | + 2.50 |
| Total | \$96.80 |

STEP 2: Find the net pay.**Gross Pay – Total Deductions**

$$\$600.00 - \$96.80 = \$503.20 \text{ net pay}$$

Her statement is correct.

CONCEPT CHECK**SELF-CHECK**

Complete the problem, then check your answer at the end of the chapter.

- Ron Regent is single and claims 1 allowance. His gross weekly salary is \$320. Each week he pays federal, Social Security, and Medicare taxes, \$16.20 for medical insurance, and \$25 for the credit union. What is his net pay?

Example 2

Mandy Jenkins's gross weekly salary is \$450. She is single and claims 2 allowances. The Social Security tax is 6.2 percent of the first \$90,000. The Medicare tax is 1.45 percent of gross pay. The state tax is 2.5 percent of gross pay. Each week she pays \$20.40 for medical insurance and \$2.50 for charity. Is Jenkins's earnings statement correct?

Figure 2.5

Dept		Employee			Check Number	Gross Pay	Net Pay	
2		Mandy Jenkins			14	\$450.00	\$346.42	
Tax Deductions					Other Deductions			
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others	
35	27.90	6.53	11.25	—	20.40	—	2.50	

STEP 1: Find the total deductions.

a. Federal withholding: (from table on page 788)	\$35.00
b. Social Security: 6.2% of \$450.00	27.90
c. Medicare: 1.45% of \$450.00	6.53
d. State tax: 2.5% of \$450.00	11.25
e. Medical insurance	20.40
f. Charity	+ 2.50
Total	\$103.58

STEP 2: Find the net pay.**Gross Pay – Total Deductions**

$$\$450.00 - \$103.58 = \$346.42 \text{ net pay}$$

Her statement is correct.

CONCEPT CHECK**SELF-CHECK**

Complete the problem, then check your answer at the end of the chapter.

- Briana Ralph is married and claims 2 allowances. Her gross weekly salary is \$450. Each week she pays federal, Social Security, and Medicare taxes, \$21.20 for medical insurance, and \$5.00 for the credit union. What is her net pay?

SECTION 2-6 PRACTICE

Find the deductions and the net pay. Social Security is 6.2 percent of the first \$90,000. Medicare is 1.45 percent of all income. Use the tax tables on pages 788–791 for federal tax. For Problems 3–7, the state tax is 2 percent of gross pay and the local tax is 1.5 percent of gross pay.

3. Terence Hall is single and claims 1 allowance.

Figure 2.6

Dept		Employee		Check Number	Gross Pay	Net Pay	
23		Terence Hall		463	\$598.00		
Tax Deductions					Other Deductions		
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others
					15.50	14.00	6.00

4. Jeri Dammers is married and claims 3 allowances.

Figure 2.7

Dept		Employee		Check Number	Gross Pay	Net Pay	
44B		Jeri Dammers		3205	\$735.00		
Tax Deductions					Other Deductions		
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others
					32.00	—	—

5. Rhonda Dakar, an interior decorator for Special Design, is married and claims 1 allowance. Each week she pays \$18 for medical insurance, \$10 union dues, and \$20 for a stock option plan.

Figure 2.8

Dept		Employee		Check Number	Gross Pay	Net Pay	
SPDI		Rhonda Dakar		1574	\$425.00		
Tax Deductions					Other Deductions		
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others
					18.00	10.00	20.00

6. Orville Staples is a painter who earns \$30,000 a year. He is single and claims 3 allowances. Weekly deductions include \$14.50 for medical insurance and union dues of \$15.

Figure 2.9

Dept		Employee		Check Number		Gross Pay		Net Pay		
		Orville Staples		235						
Tax Deductions					Other Deductions					
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others			
								0.00		

7. Lynn Golding is employed as a payroll supervisor and earns \$18.00 per hour. She is married and claims 6 allowances. The state tax is 3.0 percent of gross earnings and the local tax is 1.5 percent of gross earnings. She pays \$35.00 for medical insurance and \$17.00 in union dues. She worked 40 hours.

Figure 2.10

Dept		Employee		Check Number		Gross Pay		Net Pay		
PAYR		Lynn Golding		355-5887-01						
Tax Deductions					Other Deductions					
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others			
								0.00		

MAINTAINING YOUR SKILLS

Need Help? Go to...

- Skill 1: Numbers, page 727
- Skill 2: Rounding Numbers, page 729
- Skill 5: Adding Decimals, page 732
- Skill 6: Subtracting Decimals, page 733
- Skill 11: Dividing Decimals, page 738
- Skill 30: Finding the Percentage, page 757

Add.

8. 125.231 1.008 + 42.112 <hr style="width: 100%;"/>	9. 16.3 2 + 43.432 <hr style="width: 100%;"/>	10. 231.9 6.157 + 33.45 <hr style="width: 100%;"/>
--	---	--

Subtract.

11. 432.21 - 32.96 <hr style="width: 100%;"/>	12. 75.1 - 5.26 <hr style="width: 100%;"/>	13. 43.98 - 46.19 <hr style="width: 100%;"/>
--	---	---

Write the number that is greater.

- 14.** \$439.00 or \$430.98 **15.** \$94.45 or \$100.45

Round to the nearest cent.

- 16.** \$432.801 **17.** \$5.308 **18.** \$40.0947

Solve. Round answers to the nearest cent.

- 19.** \$65.72 + \$63.59 **20.** \$84.71 - \$80.72
- 21.** \$432.75 ÷ 12 **22.** 4.5% of \$105.45

SECTION 2-1 **CONCEPT CHECK** (p. 117)

1. \$18
2. \$16
3. \$12
4. \$23
5. \$17
6. \$27
7. \$0

SECTION 2-2 **CONCEPT CHECK** (p. 120)

1. $\$28,000 - \$4,000 = \$24,000 \times 0.015 = \360
2. $\$34,300 - \$2,000 = \$32,300 \times 0.015 = \484.50
3. $\$23,760 - (\$4,000 + \$2,000 + \$2,000 + \$2,000) = \$13,760 \times 0.04 = \$550.40$
4. $\$43,300 - (\$2,000 + \$2,000) = \$39,300 \times 0.05 = \$1,965$

SECTION 2-3 **CONCEPT CHECK** (p. 123)

1. Taxable wage = $\$21,350 - \$3,000 = \$18,350$

First \$1,000	1.5%	\$15
Next \$2,000	3.0%	\$60
Next \$2,000	4.5%	\$90
Over \$5,000	$5.0\% \times \$13,350 =$	\$667.50
Total Annual Tax		\$832.50
Tax per pay period	$= \$832.50 \div 26 =$	\$32.02

SECTION 2-4 **CONCEPT CHECK** (p. 124)

1. $\$3,100 \times 0.062 = \192.20 Social Security; $\$3,100 \times 0.0145 = \44.95 Medicare; $\$192.20 + \$44.95 = \$237.15$ total deductions
2. $\$350 \times 0.062 = \21.70 Social Security; $\$350 \times 0.0145 = \5.08 Medicare; $\$21.70 + \$5.08 = \$26.78$ total deductions

SECTION 2-5 **CONCEPT CHECK** (p. 126, 127)

1. $\$4,400 \times (100\% - 80\%) = \$4,400 \times 0.2 = \$880$
2. $\$6,700 \times (100\% - 60\%) = \$6,700 \times 0.4 = \$2,680$
3. $100\% - 70\% = 30\%$; $\$3,570 \times 30\% = \$1,071$; $\$1,071 \div 12 = \89.25
4. $100\% - 80\% = 20\%$; $\$6,000 \times 20\% = \$1,200$; $\$1,200 \div 26 = \46.15

SECTION 2-6 **CONCEPT CHECK** (p. 129)

1. $\$320 - (\$25.00 + \$19.84 + \$4.64 + \$16.20 + \$25.00) = \$229.32$
2. $\$450 - (\$18.00 + \$27.90 + \$6.53 + \$21.20 + \$5.00) = \$371.37$

Living in the Real World

Jack's Jackpot

Analyze the Story As Jack has found out from his paycheck stub and Jon's advice, money is docked from each paycheck. He can start to pre-plan his expenses by putting together a budget.

1. **Reasoning.** In small groups discuss and explain why such a deduction system has been established. How does it affect the national and state economies? Create a master list of these influences.
2. **Writing and Analyzing.** Create a table that shows the strengths and weaknesses of Jon's and Jack's philosophies on money. How do their financial philosophies differ? Which one do you side with more?
3. **Debating Your Position.** Decide whose position you're going to defend: Jon's or Jack's. Create a mini-mock trial and defend Jon's or Jack's position in front of the class. Make sure your position addresses:
 - A. Why is it important to know how much is being deducted from your paycheck?
 - B. Why is or why isn't a budget important?
 - C. How does your spending reflect your outlook on money?

After YOU READ

REVIEW OF KEY WORDS

federal income tax (p. 116)

personal exemptions (p. 119)

graduated income tax (p. 122)

Social Security (p. 124)

Medicare (p. 124)

group insurance (p. 126)

net pay (p. 128)

Determine if the following statements are true or false.

1. **Federal income tax** is handled by the Federal Bureau of Investigation.
2. Employers are not required by law to withhold a certain amount of pay for **federal income tax**.
3. It is not possible to have zero **withholding allowances** when calculating income tax.
4. **Withholding allowances** are also known as personal exemptions.
5. The **graduated income tax** for high incomes may be as much as 20 percent.
6. **Personal exemptions** are deducted on the first \$90,000 of income annually.
7. The **Social Security** tax is 0.062 percent.
8. **Medicare** taxes are paid on all earnings.
9. **Group insurance** allows employees to gain medical coverage for less than the individual rate.
10. **Net pay** plus total deductions equals gross pay.

Skills and Concepts

SECTION OBJECTIVE 2-1 AND EXAMPLES

Read the Married Persons Weekly Payroll and Single Persons Weekly Payroll tables on pages 788–791 to find the amount withheld for federal income taxes.

William Stevenson, who is married and claims 2 allowances, earns \$600.50 a week. How much is withheld from his weekly paycheck for federal income tax?

STEP 1: Find the income range from the table.

STEP 2: Find the column for 2 allowances.

STEP 3: Amount to be withheld is \$35.

REVIEW EXERCISES

Use these exercises to review and prepare for the chapter test.

A Payroll Period				
	Marital Status	Weekly Gross Income	Allowances	FIT Withheld
11.	B. Brown	Single	\$450.00	2
12.	M. Shah	Married	500.00	2
13.	S. Sheeks	Single	330.00	3
14.	J. Williams	Married	590.00	2

SECTION OBJECTIVE 2-2 AND EXAMPLES

Compute the state taxes on a straight percent basis.

Mila Aukerman earns \$38,000 a year as a professor. The state income tax rate is 2.6 percent of taxable income. Her personal exemptions total \$3,700. How much is withheld from Aukerman's gross pay for state income tax for the year?

STEP 1: Find the taxable wages.

$$\begin{array}{rclcl} \text{Annual Gross Pay} & - & \text{Personal Exemptions} & & \\ \$38,000 & - & \$3,700 & & = \$34,300 \end{array}$$

STEP 2: Find the annual tax withheld.

$$\begin{array}{rclcl} \text{Taxable Wages} & \times & \text{Tax Rate} & & \\ \$34,300 & \times & 0.026 & & = \$891.80 \text{ annual tax withheld} \end{array}$$

REVIEW EXERCISES

Find the state tax withheld using the following figures:

Personal Exemptions

Single \$1,500

Married \$3,000

Each Dependent \$1,500

15. Chris Butcher earns \$21,423 per year. His personal exemptions include himself, his wife, and their son. The state tax rate in his state is 4.5 percent of taxable income. What amount is withheld yearly for state income tax?
16. Queena Kimbrell earns \$32,000 per year as a journalist. She is single. The state tax rate in her state is 2 percent of taxable income. What amount is withheld from each of her monthly paychecks for state income tax?
17. Rita Yucatan earns \$42,000 as a TV producer. She is married with two dependents. The state tax in her state is 3 percent of taxable income. What amount is withheld from each of her biweekly paychecks for state income tax?
18. Al Masters earns \$22,500 as a lab technician. He is single with 1 dependent. The state tax in his state is 5 percent of taxable income. What amount is withheld from each of his monthly paychecks for state income tax?

SECTION OBJECTIVE 2-3 AND EXAMPLES

Determine the state taxes on a graduated income basis.

Raymond Cooper, an oceanographer, earns an annual salary of \$32,540. He is paid monthly. His personal exemptions total \$2,400. How much is deducted each pay period from his paycheck for state income tax?

STEP 1: Find the taxable wages.

Annual Gross Pay	–	Personal Exemptions		=		Taxable Wages
\$32,540	–	\$2,400		=		\$30,140

STEP 2: Find the annual tax withheld. Base your calculations on the state's graduated income tax rate.

(1) First \$1,000:	1.5% of \$1,000	\$	15
(2) Next \$2,000:	3.0% of \$2,000		60
(3) Next \$2,000:	4.5% of \$2,000		90
(4) Over \$5,000:	5.0% of (\$30,140 – \$5,000)	=	
	5.0% of \$25,140	=	1,257
			Total \$ 1,422

STEP 3: Find how much is deducted per pay period.

$$\$1,422 \div 12 = \$118.50 \text{ deducted per pay period}$$

Continued on next page



REVIEW EXERCISES

Find the state tax withheld per pay period using the exemptions on page 123 and the graduated tax rates below:

State Tax	
Taxable Wages	Tax Rate
First \$1,000	1.5%
Next \$2,000	3.0%
Next \$2,000	4.5%
Over \$5,000	5.0%

- 19. Annual salary: \$18,750
Married
26 pay periods
- 20. Annual salary: \$24,400
Single
24 pay periods
- 21. Annual salary: \$30,000
Married, one dependent
Weekly
- 22. Annual salary: \$95,000
Married, two dependents
Biweekly

SECTION OBJECTIVE 2-4 AND EXAMPLES

Work out the amount of income withheld for Social Security and Medicare taxes.

Douglas Carrion, a musician, is paid \$255.20 a week. His earnings to date this year total \$10,718.40. The Social Security tax rate is 6.2 percent of the first \$90,000 earned. The Medicare tax is 1.45 percent of gross pay. How much is deducted from his paycheck this week for Social Security tax and Medicare tax?

STEP 1: Find the Social Security tax withheld.

$$\begin{array}{rclcl} \text{Gross Pay} & \times & \text{Tax Rate} & & \\ \$255.20 & \times & 6.2\% & = & \$15.82 \text{ Social Security tax} \end{array}$$

STEP 2: Find the Medicare tax withheld.

$$\begin{array}{rclcl} \text{Gross Pay} & \times & \text{Tax Rate} & & \\ \$255.20 & \times & 1.45\% & = & \$3.70 \text{ Medicare tax} \end{array}$$

REVIEW EXERCISES

Find the Social Security (6.2 percent up to \$90,000) and Medicare (1.45 percent) taxes withheld per pay period in the following chart.

Gross Annual Pay					
		Annual Gross Pay	Pay Periods per Year	Soc. Sec. Tax Withheld per Paycheck	Medicare Tax Withheld per Paycheck
23.	J. Otto	\$76,432	12	a.	b.
24.	G. Hernandez	43,902	26	a.	b.
25.	A. Tomine	20,235	24	a.	b.
26.	R. Greenblat	32,231	52	a.	b.

SECTION OBJECTIVE 2-5 AND EXAMPLES

Calculate the deduction for group insurance.

Karla Alvarez, a technical writer for All Electronics, earns \$550 a week. Her medical insurance costs \$3,500 a year, of which her company pays 65 percent of the costs. How much is deducted each week from her paycheck for medical insurance?

STEP 1: Find the percent paid by employee.

$$100\% - \text{Percent Company Pays} \\ 100\% - 65\% = 35\%$$

STEP 2: Find the total amount paid by the employee.

$$\text{Annual Amount} \times \text{Employee's Percent} \\ \$3,500 \times 0.35 = \$1,225$$

STEP 3: Find the deduction per pay period.

$$\text{Total Amount Paid} \div \text{Number of Pay Periods} \\ \$1,225 \div 52 = \$23.56 \text{ deducted}$$

REVIEW EXERCISES

Find the deduction per pay period.

27. Annual cost of insurance: \$6,800
Employer pays 75%
24 pay periods
28. Annual cost of insurance: \$6,000
Employer pays 60%
52 pay periods
29. J. McDonald is a jeweler. She earns an annual salary of \$40,000. Her annual medical insurance costs \$4,300. Her employer pays 70 percent of the costs. How much is deducted each week from her paycheck?
30. S. McDonald is a tailor. He earns an annual salary of \$23,000. His annual medical insurance costs \$4,800. His employer pays 85 percent of the costs. How much is deducted each month from his paycheck?

SECTION OBJECTIVE 2-6 AND EXAMPLES

Figure out the net pay per pay period.

Toni Lombardo is married and claims 2 allowances. She earns \$432.75 a week. The Social Security tax rate is 6.2 percent of the first \$90,000 earned. The Medicare tax rate is 1.45 percent of gross. The state tax is \$10.82 a week. She has weekly deductions of \$21.00 for medical insurance and \$30.00 for payroll savings. Use the table on page 790 to find Lombardo's federal tax withheld. What is her net pay for a week?

Continued on next page

STEP 1: Find the total deductions.

Federal withholding (from table)	\$ 16.00
Social Security: 6.2% of \$432.75	26.83
Medicare: 1.45% of \$432.75	6.27
State tax	10.82
Medical insurance	21.00
Payroll savings	+ 30.00
Total Deductions	\$ 110.92

STEP 2: Find the net pay.**Weekly Income – Deductions**

$$\$432.75 - \$110.92 = \$321.83 \text{ net pay}$$

REVIEW EXERCISES

Find the deductions and the net pay. Social Security is 6.2 percent of the first \$90,000. Medicare is 1.45 percent of all income. Use the tax tables on pages 788–791 for federal tax. The state tax is 2 percent of gross pay and the local tax is 1.5 percent of gross pay.

31. Don Chapman, single, 1 allowance

General Check Information							
Dept.	Employee	Check #	Week Ending	Gross pay	Net pay		
23	Chapman, D.	432	3/5/--	\$640.00			
Tax and Personal Deductions							
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others
					10.00	—	—

32. Jen Weiss, married, 2 allowances

General Check Information							
Dept.	Employee	Check #	Week Ending	Gross pay	Net pay		
3	Weiss, J.	352	11/4/--	\$324.00			
Tax and Personal Deductions							
FIT	FICA	Medicare	State	Local	Medical	Union Dues	Others
					12.00	20.00	—



Sweet Rewards Locals flock to Frozen Custard, a legendary stand where the servers hand to you its special custard “concrete” upside down. (And it doesn’t fall flat on the ground. Now that’s a thick, sweet treat.)

Behind the counter are plenty of high school students dressed in bright yellow uniforms. It pays an hourly wage of \$6.25. Deductions are taken out of each paycheck for federal withholding, Social Security, Medicare, and city income tax (CIT) of 1.5 percent. Input the information in the following problems to determine the net income.

Snapshot of June's Work Schedule			
Employee	Hours Worked		Income Tax Information
	June 15	June 22	
Cole, Dan	32	34	Single, 1 allowance
Drake, Ann	36	35	Single, 0 allowance
Lusetti, Marie	25	27	Single, 1 allowance
Pappas, Mike	30	30	Single, 0 allowance
Smith, Luellen	32	20	Single, 1 allowance

33. Explain how you find net pay.
34. Name examples of total deductions.
35. What additional information do you need to know in order to calculate each employee’s standard deductions?
36. Calculate how much each employee takes home every two weeks by working at Frozen Custard.



Thinking Critically

- Before you figure out your deductions, is it wise to overestimate your take-home pay? Give an example when it is better to give a conservative estimate.
- Explain why you think city income tax is different than federal income tax.
- What is the city income tax in your hometown?



Portfolio

Select one of the assignments from this chapter that you found especially challenging and place it in your portfolio.

Getting Ready for Tax Day

A part-time job means money in your bank account and perhaps spoiling yourself on a little shopping spree. On the job you're already learning important communication skills that you can take on to bigger and brighter endeavors. What you're also learning is how to become an independent adult. This requires anyone receiving money for a job to file a tax return.

Purpose

The law requires anyone who has a job to prepare an income tax return. Every year it is due by April 15. You send it to the Internal Revenue Service (IRS).

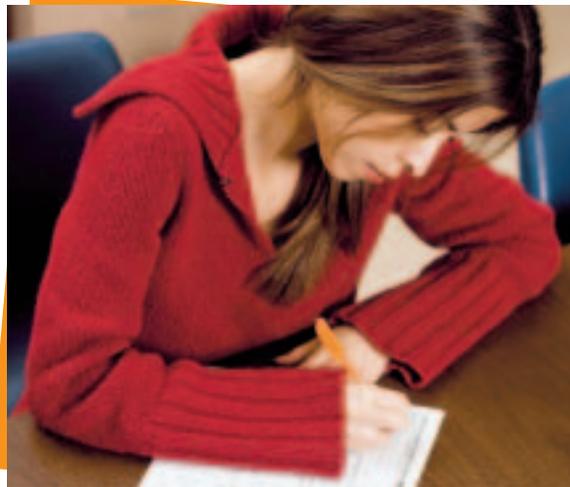
Supplies Needed

- Pencil
- 1040EZ (see pages 792–793)
- Eraser
- W-2 forms (see page 141)
- Tax computer software (optional)

Your Activity

You'll be preparing a 1040EZ income tax return, because you'll have to do this sooner than later in life. When you file your tax return you must report your gross income (the total of your wages, salaries, tips, interest, and other income). Based on your adjusted gross income, use tax tables to figure out your tax liability (or the amount of income tax you must pay). Keep in mind that:

- if your tax liability is *greater than* your withholdings, you must pay the IRS an amount called the "amount you owe."
- if your tax liability is *less than* your withholdings, the IRS will return the extra money to you as a tax refund.



Don't blow your tax return. Instead be smart and plan for the unexpected in life. Financial advisors suggest having three to six months of "rainy day" savings. If you bring home \$1,200 a month, how much should you have in savings?

Each year your employer must send you a Wage and Tax Statement form called a W-2 form. This form tells how much money you earned, and how much was withheld for federal, state, and local income taxes.

It's very important to remember that you'll receive copies of your W-2 form to send with your federal, state, and local income tax returns, as well as a copy to keep for your records. (So it's not a mistake that you get so many copies. Don't dispose of any of them!)

a Control number		22222		Void <input type="checkbox"/>		For Official Use Only OMB No. 1545-0008	
b Employer identification number		12-345678					
c Employer's name, address, and ZIP code							
Big Drill Company 123 Green Fields Road Costa Mesa, CA 92627							
d Employee's social security number							
123-45-6789							
e Employee's first name and initial				Last name			
1 Employee's address and ZIP code							
15 State Employer's state ID number CA 123-4567-8							
16 State wages, tips, etc.		\$ 14,560.00		17 State income tax		\$ 271	
18 Local wages, tips, etc.		\$		19 Local income tax		\$	
1		Wages, tips, other compensation		2		Federal income tax withheld	
\$		14,560.00		\$		2,243.63	
3		Social security wages		4		Social security tax withheld	
\$		14,560.00		\$		902.72	
5		Medicare wages and tips		6		Medicare tax withheld	
\$		14,560.00		\$		211.12	
7		Social security tips		8		Allocated tips	
\$				\$			
9		Advance EIC payment		10		Dependent care benefits	
\$				\$			
11		Nonqualified plans		12a		See instructions for box 12	
\$				\$			
13		Statutory employee		12b			
<input type="checkbox"/>		Retirement plan		<input type="checkbox"/>			
<input type="checkbox"/>		Third-party sick pay		<input type="checkbox"/>			
14		Other		12c			
\$				\$			
				12d			
				\$			
				\$			

Form **W-2** Wage and Tax Statement (99)
 Copy A For Social Security Administration—Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

Department of the Treasury—Internal Revenue Service
 For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 10134D

Step 1: Use the information in the W-2 form to fill out a photocopy of the 1040EZ on pages 792–793. Assume that you received \$10.66 in interest on your savings account and no unemployment compensation.

- What amount would you write on line 1?
- What amount would you write on line 2?
- What amount would you write on line 3?
- Add the amounts on lines 1, 2, and 3 to find your adjusted gross income. Write this sum on line 4.

Step 2: For this Math Studio, assume you'll be claimed as a dependent on another person's return. Then check "Yes" on line 5 and complete the following. Turn to page 793 and find the section titled "Worksheet for Dependents Who Checked 'Yes' on Line 5." (Directly below, letters A–E correspond to letters A–E on page 793.)

- Enter the amount from line 1.
- Minimum standard deduction.

- Compare the amounts on lines A and B. Enter the larger of the two amounts here.
- Enter the maximum standard deduction.
- Compare the amounts on lines C and D. Enter the smaller of the two amounts here and on line 5.

Step 3: Subtract line 5 from line 4 and write the difference on line 6. This is your taxable income.

Step 4: Refer to the federal income tax withheld from box 2 of your W-2 form. What amount will go on line 7? Assume that you did not receive the earned income credit on line 8; add lines 7 and 8 and then write the answer on line 9.

Step 5: For line 10 of a 1040EZ return, you need to find your tax liability. To do this, you use tax tables like the one on page 143. Your tax liability depends on your filing status, the number of exemptions you claim, and your taxable income. (See line 6 on the 1040EZ).

Continued on next page

Example

So, how do you read a tax table?

1. Say, Debra Lopez is single. Her taxable income is \$20,650.
2. On line 6 of the 1040EZ Tax Table, she must find the range in which her taxable income falls. (Remember, her taxable income is \$20,650.) Find \$20,650 on the table.
3. Note that Lopez made at least \$20,650 (but not less than \$20,650). She finds 20,650 to 20,700 on the income line.

If Form 1040EZ line 6 is—		And you are—	
At least	But less than	Single	Married filing jointly
20,600	20,650	2,736	2,379
20,650	20,700	2,744	2,386
20,700	20,750	2,751	2,394
20,750	20,800	2,759	2,401

4. Next she finds the “And you are—” heading. Under the “Single” column, she reads down the column. The amount shown where the income line and filing status column meet is \$2,744. This is the tax amount she should enter on line 10 of Form 1040EZ.

Step 6: Refer to the tax table on page 143. What amount would you write as your tax on line 10?

Step 7: Is line 9 larger than line 10? If yes, subtract line 10 from line 9 and this is your refund.

Step 8: Is line 10 larger than line 9? If yes, subtract line 9 from line 10. This is the amount you owe.

Step 9: To complete the tax return, sign your name, write the date, and attach a copy of your W-2 form. If you owe a balance due, you attach a check or money order for the amount you owe. If you owe less than \$1, you do not have to pay.

Step 10: Make a copy of your completed return for your records.

Step 11: Then you would send the tax return to the address listed in the instruction booklet that came with the return.

Critique It

Define What computational skills did you use to complete the tax return?

- Why is it necessary to correctly file your return?
- Discuss what happens when someone incorrectly calculates the amount due or amount withheld.

If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—	
At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly
Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—	
9,000															
9,000	9,050	995	903	12,000	12,050	1,446	1,203	15,000	15,050	1,896	1,539	18,000	18,050	2,346	1,989
9,050	9,100	1,004	908	12,050	12,100	1,454	1,208	15,050	15,100	1,904	1,546	18,050	18,100	2,354	1,996
9,100	9,150	1,011	913	12,100	12,150	1,461	1,213	15,100	15,150	1,911	1,554	18,100	18,150	2,361	2,004
9,150	9,200	1,019	918	12,150	12,200	1,469	1,218	15,150	15,200	1,919	1,561	18,150	18,200	2,369	2,011
9,200	9,250	1,026	923	12,200	12,250	1,476	1,223	15,200	15,250	1,926	1,569	18,200	18,250	2,376	2,019
9,250	9,300	1,034	928	12,250	12,300	1,484	1,228	15,250	15,300	1,934	1,576	18,250	18,300	2,384	2,026
9,300	9,350	1,041	933	12,300	12,350	1,491	1,233	15,300	15,350	1,941	1,584	18,300	18,350	2,391	2,034
9,350	9,400	1,049	938	12,350	12,400	1,499	1,238	15,350	15,400	1,949	1,591	18,350	18,400	2,399	2,041
9,400	9,450	1,056	943	12,400	12,450	1,506	1,243	15,400	15,450	1,956	1,599	18,400	18,450	2,406	2,049
9,450	9,500	1,064	948	12,450	12,500	1,514	1,248	15,450	15,500	1,964	1,606	18,450	18,500	2,414	2,056
9,500	9,550	1,071	953	12,500	12,550	1,521	1,253	15,500	15,550	1,971	1,614	18,500	18,550	2,421	2,064
9,550	9,600	1,079	958	12,550	12,600	1,529	1,258	15,550	15,600	1,979	1,621	18,550	18,600	2,429	2,071
9,600	9,650	1,086	963	12,600	12,650	1,536	1,263	15,600	15,650	1,986	1,629	18,600	18,650	2,436	2,079
9,650	9,700	1,094	968	12,650	12,700	1,544	1,268	15,650	15,700	1,994	1,636	18,650	18,700	2,444	2,086
9,700	9,750	1,101	973	12,700	12,750	1,551	1,273	15,700	15,750	2,001	1,644	18,700	18,750	2,451	2,094
9,750	9,800	1,109	978	12,750	12,800	1,559	1,278	15,750	15,800	2,009	1,651	18,750	18,800	2,459	2,101
9,800	9,850	1,116	983	12,800	12,850	1,566	1,283	15,800	15,850	2,016	1,659	18,800	18,850	2,466	2,109
9,850	9,900	1,124	988	12,850	12,900	1,574	1,288	15,850	15,900	2,024	1,666	18,850	18,900	2,474	2,116
9,900	9,950	1,131	993	12,900	12,950	1,581	1,293	15,900	15,950	2,031	1,674	18,900	18,950	2,481	2,124
9,950	10,000	1,139	998	12,950	13,000	1,589	1,298	15,950	16,000	2,039	1,681	18,950	19,000	2,489	2,131
10,000															
10,000	10,050	1,146	1,003	13,000	13,050	1,596	1,303	16,000	16,050	2,046	1,689	19,000	19,050	2,496	2,139
10,050	10,100	1,154	1,008	13,050	13,100	1,604	1,308	16,050	16,100	2,054	1,696	19,050	19,100	2,504	2,146
10,100	10,150	1,161	1,013	13,100	13,150	1,611	1,313	16,100	16,150	2,061	1,704	19,100	19,150	2,511	2,154
10,150	10,200	1,169	1,018	13,150	13,200	1,619	1,318	16,150	16,200	2,069	1,711	19,150	19,200	2,519	2,161
10,200	10,250	1,176	1,023	13,200	13,250	1,626	1,323	16,200	16,250	2,076	1,719	19,200	19,250	2,526	2,169
10,250	10,300	1,184	1,028	13,250	13,300	1,634	1,328	16,250	16,300	2,084	1,726	19,250	19,300	2,534	2,176
10,300	10,350	1,191	1,033	13,300	13,350	1,641	1,333	16,300	16,350	2,091	1,734	19,300	19,350	2,541	2,184
10,350	10,400	1,199	1,038	13,350	13,400	1,649	1,338	16,350	16,400	2,099	1,741	19,350	19,400	2,549	2,191
10,400	10,450	1,206	1,043	13,400	13,450	1,656	1,343	16,400	16,450	2,106	1,749	19,400	19,450	2,556	2,199
10,450	10,500	1,214	1,048	13,450	13,500	1,664	1,348	16,450	16,500	2,114	1,756	19,450	19,500	2,564	2,206
10,500	10,550	1,221	1,053	13,500	13,550	1,671	1,353	16,500	16,550	2,121	1,764	19,500	19,550	2,571	2,214
10,550	10,600	1,229	1,058	13,550	13,600	1,679	1,358	16,550	16,600	2,129	1,771	19,550	19,600	2,579	2,221
10,600	10,650	1,236	1,063	13,600	13,650	1,686	1,363	16,600	16,650	2,136	1,779	19,600	19,650	2,586	2,229
10,650	10,700	1,244	1,068	13,650	13,700	1,694	1,368	16,650	16,700	2,144	1,786	19,650	19,700	2,594	2,236
10,700	10,750	1,251	1,073	13,700	13,750	1,701	1,373	16,700	16,750	2,151	1,794	19,700	19,750	2,601	2,244
10,750	10,800	1,259	1,078	13,750	13,800	1,709	1,378	16,750	16,800	2,159	1,801	19,750	19,800	2,609	2,251
10,800	10,850	1,266	1,083	13,800	13,850	1,716	1,383	16,800	16,850	2,166	1,809	19,800	19,850	2,616	2,259
10,850	10,900	1,274	1,088	13,850	13,900	1,724	1,388	16,850	16,900	2,174	1,816	19,850	19,900	2,624	2,266
10,900	10,950	1,281	1,093	13,900	13,950	1,731	1,393	16,900	16,950	2,181	1,824	19,900	19,950	2,631	2,274
10,950	11,000	1,289	1,098	13,950	14,000	1,739	1,398	16,950	17,000	2,189	1,831	19,950	20,000	2,639	2,281
11,000															
11,000	11,050	1,296	1,103	14,000	14,050	1,746	1,403	17,000	17,050	2,196	1,839	20,000	20,050	2,646	2,289
11,050	11,100	1,304	1,108	14,050	14,100	1,754	1,408	17,050	17,100	2,204	1,846	20,050	20,100	2,654	2,296
11,100	11,150	1,311	1,113	14,100	14,150	1,761	1,413	17,100	17,150	2,211	1,854	20,100	20,150	2,661	2,304
11,150	11,200	1,319	1,118	14,150	14,200	1,769	1,418	17,150	17,200	2,219	1,861	20,150	20,200	2,669	2,311
11,200	11,250	1,326	1,123	14,200	14,250	1,776	1,423	17,200	17,250	2,226	1,869	20,200	20,250	2,676	2,319
11,250	11,300	1,334	1,128	14,250	14,300	1,784	1,428	17,250	17,300	2,234	1,876	20,250	20,300	2,684	2,326
11,300	11,350	1,341	1,133	14,300	14,350	1,791	1,434	17,300	17,350	2,241	1,884	20,300	20,350	2,691	2,334
11,350	11,400	1,349	1,138	14,350	14,400	1,799	1,441	17,350	17,400	2,249	1,891	20,350	20,400	2,699	2,341
11,400	11,450	1,356	1,143	14,400	14,450	1,806	1,449	17,400	17,450	2,256	1,899	20,400	20,450	2,706	2,349
11,450	11,500	1,364	1,148	14,450	14,500	1,814	1,456	17,450	17,500	2,264	1,906	20,450	20,500	2,714	2,356
11,500	11,550	1,371	1,153	14,500	14,550	1,821	1,464	17,500	17,550	2,271	1,914	20,500	20,550	2,721	2,364
11,550	11,600	1,379	1,158	14,550	14,600	1,829	1,471	17,550	17,600	2,279	1,921	20,550	20,600	2,729	2,371
11,600	11,650	1,386	1,163	14,600	14,650	1,836	1,479	17,600	17,650	2,286	1,929	20,600	20,650	2,736	2,379
11,650	11,700	1,394	1,168	14,650	14,700	1,844	1,486	17,650	17,700	2,294	1,936	20,650	20,700	2,744	2,386
11,700	11,750	1,401	1,173	14,700	14,750	1,851	1,494	17,700	17,750	2,301	1,944	20,700	20,750	2,751	2,394
11,750	11,800	1,409	1,178	14,750	14,800	1,859	1,501	17,750	17,800	2,309	1,951	20,750	20,800	2,759	2,401
11,800	11,850	1,416	1,183	14,800	14,850	1,866	1,509	17,800	17,850	2,316	1,959	20,800	20,850	2,766	2,409
11,850	11,900	1,424	1,188	14,850	14,900	1,874	1,516	17,850	17,900	2,324	1,966	20,850	20,900	2,774	2,416
11,900	11,950	1,431	1,193	14,900	14,950	1,881	1,524	17,900	17,950	2,331	1,974	20,900	20,950	2,781	2,424
11,950	12,000	1,439	1,198	14,950	15,000	1,889	1,531	17,950	18,000	2,339	1,981	20,950	21,000	2,789	2,431

