

Pay and Taxes (3.3)



In this section we will answer:

- Why don't I get all of my pay?
- How are payroll taxes calculated?
- Do I have any control over the amount of my net pay?

Check it Out

Directions: Use the information provided to calculate Kevin's net pay.

Kevin earns \$6.50 an hour and worked 60 hours last month. During the month he received \$148 in tips. He also used his employee food discount and chose to have the cost of his meals deducted from his paycheck.

If Kevin had \$21 deducted last month for meals, what was his net pay?

Calculating Your Income		Kevin's Monthly Pay
	Regular Pay	
+	Tips	
=	Gross Pay	
-	Payroll Taxes	\$ 77
-	Other Deductions	
=	Net Pay	

Salary and Beyond

If your job pays \$8 an hour and you work 20 hours, your paycheck will be \$160, right?

Wrong!

Earning money makes you responsible for paying taxes on that income. Luckily, employers make that easy to do by withholding money from your paycheck and sending it to the government for you throughout the year. Otherwise, you'd face paying a large lump sum every April when your income taxes are due.

Your pay stub shows all the deductions your employer makes from your income, including the taxes in the chart below:

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all, the total amount of federal and state taxes you'll pay each year depends on these conditions:

- The current income tax rates
- Your gross income
- Your filing status (such as single or married)
- The number of dependents (children, for example) you have
- Employee benefit programs you participate in that reduce or defer taxes
- Specific deductions you record on your IRS Form 1040 tax return

1. The dollar amount the employer withholds from your pay depends on your income, current tax rates, and what you enter on **IRS Form W-4 Employee's Withholding Allowance Certificate** when you start your job.

You will need to complete a new Form W-4 when you get married or divorced, add or drop a second job, have a child, or experience a big change in earnings. Ideally, the total amount your employer withholds during the year will equal what you owe on your annual tax return.

If not enough money is withheld, you'll have to pay the difference to the IRS at tax time. If too much is withheld, you'll receive a refund at tax time—but when that happens it means you've basically loaned the government your overpayment interest-free over the course of a year.

Tax Tips for Teens

- You must pay taxes on all income earned over a certain threshold, even if you're a full-time student.
- The threshold depends on your age and whether a parent or guardian claims you as a dependent on his or her tax return.
- All tips earned must be reported as taxable income.
- Even if you're not required to file a tax return, you should do so if you qualify for a tax refund.

Activity 3.7 Get the W - 4 Right

Directions:

When you begin a new job, you will complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Use the form below to practice filling out a form based on your current situation.

You can download a copy of the full IRS Form W-4 from www.irs.gov for additional instructions to fill out the withholding allowance information.

Keep your Social Security number a secret; use 000-00-0000 to fill out this form.

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 2015
1 Your first name and middle initial		Last name		2 Your social security number
Home address (number and street or rural route)		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5
6 Additional amount, if any, you want withheld from each paycheck				6 \$
7 I claim exemption from withholding for 2015, 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, write "Exempt" here ▶				7
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.				
Employee's signature (This form is not valid unless you sign it.) ▶				Date ▶
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)	10 Employer identification number (EIN)	
For Privacy Act and Paperwork Reduction Act Notice, see page 2.		Cat. No. 10220Q		Form W-4 (2015)

All about income

Now that you understand more about taxes, let's look at how they affect your paycheck.

When an employer says a job will pay an hourly wage of \$8 or an annual salary of \$25,000, he's talking about **gross pay**—the total amount of income you earn in a pay period. If this job is your only income source, your gross pay equals your gross income.

But your employer deducts payroll taxes and may deduct other items from your pay, such as health insurance premiums and union dues. As a strategy to manage your money, you may have the option to request automatic payroll deductions for regular payments such as:

- Depositing 10 percent of each paycheck into your savings account
- Donating \$20 per paycheck to the United Way
- Contributing to your retirement fund

After subtracting the deductions, the amount left is your **net pay**. The cost of your deductions will lower your net pay, but handling these payments as you are paid can help you stick to a regular saving and spending plan.

Evaluating Salary

When you're comparing job offers, you'll mainly be focusing on the gross pay. But you can get a clearer picture of a job's pay potential by finding out about five income influencers:

- **Overtime pay.** In a job that qualifies for overtime pay, you're entitled to make 150 percent of your normal hourly rate for each hour worked beyond 40 in a work week. If you regularly earn \$8 an hour, your hourly overtime rate is \$12.
- **Commission.** Sales jobs often include commission compensation, which means you're paid based on a percentage of the cost of the products you sell. So, someone earning a 10 percent commission would get \$50 on a \$500 sale.
- **Tips.** Many who work in the hospitality and service industries receive tips that increase their earnings. Be aware that employers can pay less than the regular minimum wage to workers who typically receive tips on the job, as Kevin does at the restaurant.
- **Bonuses.** Many sales and non-sales jobs pay bonuses when you or the company as a whole performs exceptionally well.
- **Performance reviews.** Your supervisor should rate your performance—giving you the chance to earn a raise—at least once per year. Some firms will schedule your first review after your first three to six months on the job.

- **Opportunities for promotion.** High-performing workers can move up the ladder quickly, with good pay hikes along the way.

Task: Figure the Net Pay

Directions:

Situation A. Congratulations! You are now getting a regular paycheck. Although your annual salary is \$30,000, you know that there are several deductions that will be taken out of your paycheck. Use the data provided in the chart to calculate your net pay (aka take-home pay) for each pay period.

Situation B. You just found out that your employer will match a portion of any contributions you make to a retirement fund. To take advantage of this generous benefit, you have chosen the option to automatically have \$100 deducted from each paycheck to build up your retirement fund. You can take this as a pre-tax deduction, meaning your income taxes will be calculated *after* subtracting your retirement fund deduction of \$100 per pay period. Calculate how this pre-tax deduction impacts your total taxes and your net pay.

Situation C. At your one-year review you received good news—you have earned a three percent raise for taking on new responsibilities and being a valued employee! Recalculate your net pay to see how your raise impacts your tax liability and net pay.

What is the difference between your original **gross pay** (A1) and your **gross pay** after your raise (C1)?

Gross Pay: \$_____ after raise per pay period \$_____ after raise over one year

If you continue to contribute \$100 to your retirement fund each pay period, what is the difference in what you owe in **taxes** and your **net pay** comparing Situation A and Situation C?

Total Taxes: \$_____ after raise per pay period \$_____ after raise over one year

Net Pay: \$_____ after raise per pay period \$_____ after raise over one year

	Filing Status: ✓ Single ✓ 1 Withholding Allowance ✓ Paid semimonthly	Situation A	Situation B	Situation C	Difference C-A	Difference Over One Year (C-A)
1	Gross Pay	\$1,250	\$1,250	\$1,287.50		
2	Retirement Fund Contribution Pre-Tax Deduction	\$0	\$100	\$100		
3	Taxable Pay					
4	Federal Income Tax*	\$129.00	\$114.00	\$120.00		
5	State Income Tax (4.63% of taxable income, CO rate)					
6	Social Security FICA Tax (6.2% of gross income)					
7	Medicare FICA Tax (1.45% of gross income)					
8	Total Tax Deduction					
9	Union Dues	\$15.71	\$15.71	\$15.71		
10	Total Deductions					
11	Net Pay					

*The federal income tax has been calculated for you based on filing status and 2015 Tax Tables, IRS pub. 15.