

Learning for Earning

Your Route to Success

Sixth Edition



John A. Wanat
E. Weston Pfeiffer
Richard Van Gulik



PowerPoint Presentations for

Learning for Earning

by Michael P. Wanat
Sean W. Pfeiffer
Marian S. Van Gulik



The Goodheart-Willcox Co., Inc.
Tinley Park, Illinois

CHAPTER

23

**Paychecks and
Taxes**



Chapter Objectives

After studying this chapter, you will be able to

- explain the difference between gross pay and net pay.
- discuss the use of Form W-4 and Form W-2 Forms.
- list considerations when filing tax returns.



Key Terms

- pay period
- gross pay
- net pay
- Form W-4
- dependent
- Form W-2
- Internal Revenue Service (IRS)
- income tax
- Federal Insurance Contributions Act (FICA)

Payday



- A payday is the day you are paid for work you have already performed.



Payday

- ***Pay Period*** – A length of time for which an employee's wages are calculated.
- Most businesses have weekly, biweekly, semimonthly, or monthly pay periods.
- Most companies delay payday for a week or more to do proper record keeping.

Paychecks and Paycheck Deductions

- Your *paycheck stub* will state your gross pay, net pay, and deductions.
- **Gross Pay** – The total amount of money earned during a pay period.
- **Net Pay** – The amount of money left after all deductions have been taken from the gross pay.



Paychecks and Paycheck Deductions

- Common deductions are
 - federal and state income taxes
 - health insurance contributions
 - charitable contributions
 - social security and medicare taxes
 - union dues and uniforms
 - pensions and savings plans

A Paycheck Stub

Earnings Statement

Employee:	Juan Gomez	Gross Income:	375.00
SSN:	123-34-7890	Deductions	
		Fed. Inc. Tax	56.25
		St. Inc. Tax	6.25
Reg. Hrs.	25	FICA	26.34
OT		Medicare	4.57
		UI/DI	1.35
		YTD Earnings	7856.27
		Total Deductions	94.76
Pay Period:	10/24/2005 to 10/31/2005	Net Income:	280.24

The W-4 Form

- **Form W-4**– *Employee's Withholding Allowance Certificate*, a form filled out by an employee when beginning a new job.
- It determines how much pay to withhold for taxes.
- **Dependent**– A person, such as a child or nonworking adult, who relies on a taxpayer for financial support.

The Form W-4

- The form contains
 - instructions (top)
 - a part (middle) to keep for your records
 - a part (bottom) to give to your employer

Form W-4 (2008)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and after your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete only lines 1, 2, 3, 4, and 7 and sign the form (see page 1). Your exemption for 2008 expires February 16, 2009. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds \$600 and includes more than \$300 of interest income (or exempt interest and dividends) and (b) another person can claim you as a dependent on their tax return.

Beate instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earner/multiple job situations. Complete all worksheets that apply. However, you may claim fewer (or zero) allowances.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How to Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1043-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two-earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see the instructions for Form 8233 before completing this Form W-4.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the dollar amount you are withholding withholds compares to your projected total tax for 2008. See Pub. 919, especially if your earnings exceed \$130,000 (single) or \$160,000 (married).

Personal Allowances Worksheet (Keep for your records)

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 \$1,500 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. (Entering "0" 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. (Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.) F _____

G. Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.
 • If your total income will be less than \$58,000 (\$86,000 if married), enter "2" for each eligible child.
 • If your total income will be between \$58,000 and \$84,000 (\$86,000 and \$119,000 if married), enter "1" for each eligible child plus "1" additional if you have 4 or more eligible children. G _____

H. Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) H _____

For accuracy, complete all worksheets that apply:
 • 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 have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$40,000 (\$25,000 if married), see the **Two-Earner/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
 • If neither of the above situations applies, skip here and enter the number from line H on line 5 of Form W-4 below.

..... Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** **Employee's Withholding Allowance Certificate** OMB No. 1545-0074

Department of the Treasury **2008**
Internal Revenue Service

1 First or joint your first name and middle initial: **Joseph E.** Last name: **Williamson** 2 Your social security number: **123 145 6789**

Home address number and street or rural route: **438 South Deerfield Drive**
City or town, state, and ZIP code: **Peasant View, IL 62935**

3 Single Married Married, but withheld at higher Single rate. (Note: If married, but legally separated or spouse is a nonresident alien, check the "Single" box.)

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.

5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2) **5** **0**
6 **S**

7 I claim exemption from withholding for 2008, and I certify that I meet both of the following conditions for exemption:
 • 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. **T**

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: **Joseph E. Williamson** Date: **Jan. 29, 2008**

8 Employer's name and address (Employer. Complete lines 8 and 10 only if sending to the IRS.) 9 Office (optional) 10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220G Form **W-4** (2008)

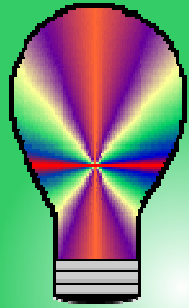
The Form W-2

- Workers receive a Form W-2 every January from every employer that paid them wages in the prior year.
- ***Form W-2*** – Wage and tax statement; a form showing how much a worker was paid and how much income was withheld for taxes in a given year.

The Form W-2

- You attach this to your annual tax statements.

22222		a Employee's social security number XXX-XX-6789		OMB No. 1545-0008		
b Employer identification number (EIN) 98-7654321			1 Wages, tips, other compensation 16321.14	2 Federal income tax withheld 1958.52		
c Employer's name, address, and ZIP code Fill-It-Up Service Station 273 South Main Street Pleasant View, IL 62935			3 Social security wages 16321.14	4 Social security tax withheld 1011.90		
			5 Medicare wages and tips 16321.14	6 Medicare tax withheld 236.65		
			7 Social security tips	8 Allocated tips		
d Control number			9 Advance EIC payment	10 Dependent care benefits		
e Employee's first name and initial Joseph E. Williamson		Last name Williamson	Suff.	11 Nonqualified plans	12a	
438 South Deerfield Drive Pleasant View, IL 62935				13 Statutory employer <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b	
				14 Other	12c	
					12d	
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
IL	987654321	16321.14	489.63			
Form W-2 Wage and Tax Statement		2007		Department of the Treasury—Internal Revenue Service		
Copy 1—For State, City, or Local Tax Department						



Think About It

- ❖ *Employers must provide a Form W-2 to employees by January 31.*
- ❖ *Anyone who doesn't receive the forms by February 15 is required to contact the IRS for further directions.*



Taxes

- Paying taxes is one of your responsibilities as a wage earner.
- Tax money pays for government services such as public education, the armed forces, and social security.
- ***Internal Revenue Service (IRS)*** – The agency that enforces federal tax laws and collects taxes.

Income Tax



- ***Income Tax*** – A tax on all forms of earnings.
- The federal government, most states, and many cities place a tax on income.



Did You Know?

- ❖ *The nation's first income tax was enacted by Congress to finance the Civil War.*

Source: www.ustreas.gov/education/fact-sheets/taxes/ustax.html





Social Security Tax

- ***Federal Insurance Contributions Act (FICA)*** – An act that allows the federal government to reserve a percentage of a paycheck for social security tax.
- Taxes for social security are figured as a percentage of earnings.



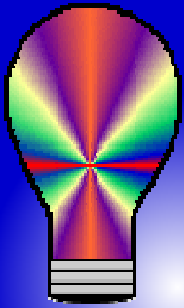
Social Security Tax

- The paycheck deduction for this tax appears under the heading of *FICA*.
- Whatever the employee pays, the employer pays a matching amount.
- *Medicare* is another kind of social security benefit. It is a form of hospital and medical insurance.

Filing an Income Tax Return



- Your federal tax return must be filed by April 15 each year.
- Failing to receive the proper forms in the mail is no excuse for not filing.



Think About It

- ❖ *What should you do if you don't receive a form in the mail for filing your income tax return?*
 - ❖ *It is the taxpayer's responsibility to obtain the proper forms in another way.*
 - ❖ *Where can you obtain these forms?*
 - ❖ *Tax forms are generally available at local libraries, banks, post offices, and local IRS offices. The forms are always available at www.irs.gov.*

Filing an Income Tax Return

- Use the simplest tax form for your needs.
 - *Form 1040EZ* is the easiest federal tax form.
 - *Form 1040A* is often called the “short form.” It allows you to claim the most common adjustments to income.
 - *Form 1040*, often referred to as the “long form,” requires more information and time to prepare.

Filing an Income Tax Return

- Keep all your financial records together.
- Read all instructions carefully before beginning your tax return.
- Prepare a copy of the form in pencil first so any errors can be erased easily.
- Check the math carefully or have someone check it for you.
- Make a copy of the completed form and keep it with other important papers.

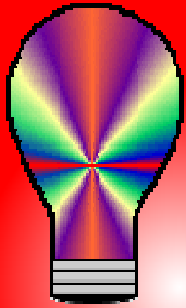
Filing an Income Tax Return

- Get help when needed by using one or more of the following:
 - IRS Web site (irs.gov).
 - tax-preparation software program.
 - one of the many self-help guides printed annually and available in bookstores.
 - a reputable accountant or tax-preparation service.

Filing an Income Tax Return

- Don't forget to sign your return.
- By doing so, you declare that all the information you provided is true and accurate.





Think About It

- ❖ *You must read this line before adding your signature:*

“Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year.”

State Income Tax

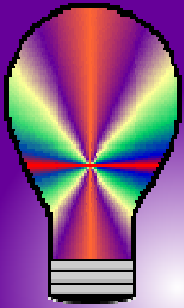
- If your state collects income tax, that return is due at the same time as the federal income tax return.



Tax Penalties

- Redo statements as needed so they are accurate.
- File tax forms on time.
- The IRS imposes stiff penalties for filing late, lying, and cheating.





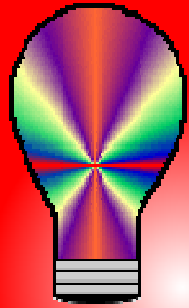
Think About It

- ❖ *Identify the difference between gross pay and net pay.*
- ❖ *Explain the purpose of each:*
 - ❖ *Form W-2*
 - ❖ *Form W-4*
- ❖ *List helpful suggestions for filing tax returns.*



Chapter 23: In the Know

- A paycheck stub lists gross pay, deductions, and net pay.
- A Form W-4 is filled out by new employees to determine how much pay to withhold for taxes.
- A Form W-2 tells employees how much income they received from each employer and how much was withheld for taxes.
- Taxpayers must file accurate information in the correct forms by April 15 of each year.
- There are penalties for missing the deadline, not filing, or filing a false return.



Chapter 23: Think More About It

- ❖ *Why do you need a Form W-2 to complete a 1040EZ?*
- ❖ *How does the information you provide on a Form W-4 affect your taxes?*
- ❖ *What should you do if the information on your Form W-2 doesn't match your paycheck stubs?*