

GOALS

- List the required and optional deductions from gross pay.
- Explain the contents of commonly used federal tax forms.

KEY TERMS

- gross pay, p. 61
- net pay, p. 61
- exemption, p. 61
- dependent, p. 61
- social security tax, p. 62
- Medicare tax, p. 63
- workers' compensation, p. 63
- Form W-2, p. 65
- Form 1040EZ, p. 65

What Are Paycheck Deductions?

As an employee, you earn wages or a salary, but you don't get to spend all of it. Your pay is reduced by required and optional deductions. Certain deductions, such as taxes, lower your *disposable income* (how much you have to spend on your needs and wants). When you pay fewer taxes, your disposable income rises.

REQUIRED DEDUCTIONS

Employees are required to have money withheld from their paychecks for income tax, social security tax, and Medicare tax. Other taxes and deductions may also be withheld. Many states have a state income tax. Some counties and cities also have an income tax.

Taxes and deductions for other items are subtracted from the worker's gross pay to calculate net pay. **Gross pay** is your total salary or wages earned during the pay period. When deductions are subtracted, the result is **net pay**, or the amount of your paycheck. Net pay is also referred to as *take-home pay*. The paycheck stub in Figure 2-3.1 shows the gross earnings, deductions, and net pay of Gloria Perez.

Income Tax Withholding

Federal and state income taxes are withheld according to the amount of income and the number of exemptions claimed on *Form W-4*, as shown in Figure 2-3.2. An **exemption** is a person you claim on your tax return as a dependent. The Internal Revenue Service (IRS) provides details of how a person qualifies as a dependent. A **dependent** is a person who depends on you for more than half of his or her support. Minor children are claimed as dependents on their parents' tax return. The more exemptions you claim, the less tax is withheld. Everyone is allowed to claim one exemption for themselves (unless claimed as an exemption by someone else). People who are married or have children can claim more exemptions. Federal income tax withholding rates can be viewed at the Internal Revenue Service website (www.irs.gov).



Why don't you get to spend all of the wages you earn?

gross pay total salary or wages earned during the pay period

net pay the amount of your paycheck after deductions

exemption a person claimed as a dependent on a tax return

dependent a person who depends on you for more than half of his or her support

Figure 2-3.1 Paycheck Stub

EMPLOYEE NAME	EMPLOYEE ID	PAY PERIOD	CHECK DATE	CHECK NO.
Gloria M. Perez	482975	2/1/20-- thru 2/14/20--	2/21/20--	A001161
EARNINGS	HOURS	RATE	THIS PERIOD	YEAR-TO-DATE
Regular	80	\$13.00	\$1,040.00	\$3,120.00
Overtime				
TAXES				
		Federal Income Tax	\$82.19	\$246.57
		Social Security Tax	64.48	193.44
		Medicare Tax	15.08	45.24
		State Income Tax	34.27	102.81
		City Income Tax	3.14	9.42
		SUBTOTAL	\$199.16	\$597.48
DEDUCTIONS				
		Health Insurance	\$150.00	\$450.00
		Life Insurance	12.00	36.00
		401(k) Plan	52.00	156.00
		Dental Insurance	10.00	30.00
		SUBTOTAL	\$224.00	\$672.00
NET PAY			\$616.84	\$1,850.52

social security tax a withholding tax to provide old-age, survivors, and disability insurance

Social Security Tax

Social security tax, which is withheld for the federal government, provides a system of old-age, survivors, and disability insurance. The rate of the tax and the amount of income that is taxable change each year. As of 2010, the rate is 6.2 percent on earnings up to \$106,800. The maximum earnings is adjusted each year for the cost of living. Money withheld for this tax is paid into an account under your name and social security number. The employer must contribute the same amount to your account. People who are self-employed must pay 12.4 percent on earnings up to \$106,800.

Figure 2-3.2 Form W-4

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

<p>Form W-4 Department of the Treasury Internal Revenue Service</p>	<p>Employee's Withholding Allowance Certificate</p> <p>► 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.</p>	<p>OMB No. 1545-0074 20</p>
<p>1 Type or print your first name and middle initial. Gloria M.</p>	<p>Last name Perez</p>	<p>2 Your social security number 000 22 2105</p>
<p>Home address (number and street or rural route) 123 Maple Street</p> <p>City or town, state, and ZIP code Monticello, KY 42633-0123</p>		<p>3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <small>Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.</small></p> <p>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"/></p>
<p>5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2) 5</p>		<p>6 \$ 1</p>
<p>7 I claim exemption from withholding for 20—, 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 7</p>		
<p>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.</p>		
<p>Employee's signature (Form is not valid unless you sign it.) Gloria M. Perez</p>		<p>Date 5/20/20--</p>
<p>8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)</p>		<p>9 Office code (optional)</p> <p>10 Employer identification number (EIN)</p>

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form W-4 (20--)

Figure 2-3.3 Form I-9

OMB No. 1615-0047; Expires 08/31/12

Department of Homeland Security
U.S. Citizenship and Immigration Services

Form I-9, Employment Eligibility Verification

Read instructions carefully before completing this form. The instructions must be available during completion of this form.

ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work-authorized individuals. Employers CANNOT specify which document(s) they will accept from an employee. The refusal to hire an individual because the documents have a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Verification *(To be completed and signed by employee at the time employment begins.)*

Print Name: Last Perez	First Gloria	Middle Initial M	Maiden Name Valdez
Address (Street Name and Number) 123 Maple Street		Apt. #	Date of Birth (month/day/year) 3/20/1983
City Monticello	State KY	Zip Code 42633	Social Security # 000-22-2105

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.

I attest, under penalty of perjury, that I am (check one of the following):

- A citizen of the United States
- A noncitizen national of the United States (see instructions)
- A lawful permanent resident (Alien #) _____
- An alien authorized to work (Alien # or Admission #) _____ until (expiration date, if applicable - month/day/year)

Employee's Signature Gloria M. Perez Date (month/day/year) **May 20, 20—**

Employers are required to verify that workers are eligible to work in the United States. When a worker begins a job, the worker is required to complete Section 1 of Form I-9, Employment Eligibility Verification. Section 1 of the form is shown in Figure 2-3.3. The employee must enter a name, an address, and a social security number. The social security number recorded on this form is used to report social security taxes for the employee. The form also shows whether the employee is a citizen of the United States, a lawful permanent resident, or an alien who is authorized to work. The employer must verify the information by looking at certain documents, such as a U.S. passport, driver's license, and social security card.

Medicare Tax

Medicare tax is withheld for the federal government to pay for medical care for retired persons age 65 and older who receive social security benefits. As of 2010, workers pay 1.45 percent on all earnings for this tax. The employer must contribute the same amount to your account. People who are self-employed pay 2.9 percent on their earnings.

Medicare tax a tax that pays for medical care for retired persons

Social security and Medicare taxes combined are also known as *FICA tax*, because they were created by the Federal Insurance Contribution Act of 1938.

Workers' Compensation Insurance

Workers' compensation is an insurance plan that pays medical and disability benefits to employees who are injured or contract diseases on the job. Benefits may be paid to the employee's family if the employee is killed on the job. The amount of benefits an employee or his

workers' compensation an insurance plan that pays medical and disability benefits to workers injured on the job



Focus On... WORKPLACE SAFETY

All workers are entitled, by law, to a safe place to work. This includes safe working methods and safety training. Workers' compensation premiums charged to a company are based, in part, on its safety record. Having a safe workplace and reducing the number of accidents or injuries benefits both workers and the company.

Safety begins with good work attitudes. Safety is part of everyone's job. All workers must understand safety needs and make safety a priority. Most work-related accidents, injuries, and illnesses are related to the following factors:

- carelessness of workers
- failure to use safety equipment
- lack of awareness of dangers
- not knowing how to avoid and reduce risks
- lack of a practiced and workable emergency plan

An *emergency plan* is a vital part of safety. An effective emergency plan provides for the safety of workers, employees, visitors, and others. Following an emergency plan helps prevent injuries in times of danger. A good emergency plan has the following parts:

- detailed steps to follow in the event of an emergency
- a list of who is responsible for each activity
- a list of who has backup roles
- a second plan in case one course of action fails
- a data backup system
- a process to communicate status
- practice drills so that everyone will know what to do in a real emergency

Emergency plans should be in writing and shared with everyone. If special training is required, it should be completed and practiced regularly.

Think Critically

1. What are the parts of a good emergency plan? Have you ever been a part of an emergency plan, such as practicing a fire drill?
2. Many families have emergency plans for their households as well. If you were designing an emergency safety plan for your family, what would you include?

family receives is based on the employee's earnings and work history. The laws that cover workers' compensation vary by state. In some states, the entire cost of the insurance is paid by the employer. In other states, the worker must also pay some fees related to workers' compensation. In these states, the fees are deducted from the workers' paychecks.

OPTIONAL DEDUCTIONS

Employees may have optional deductions made from their pay. Full-time workers usually have benefits provided by the employer. Employees may share in the cost of some benefits, such as health insurance. Workers may have money deducted from their pay for the following items:

- health insurance
- life insurance
- disability insurance
- dental insurance
- vision insurance
- Flex 125 plan
- long-term care insurance
- savings plan
- retirement plan
- HSA
- stock purchase plan
- charitable donations

CHECKPOINT ▶▶▶

How is net pay calculated?

What Tax Forms Must Be Filed?

If you are a U.S. citizen or resident, whether you must file a federal income tax return depends upon your gross income, your filing status, your age, and whether you are a dependent. After taxes are filed the first time, the IRS usually sends paper forms to use in filing each year. Forms can also be accessed online at the IRS website. Users can download, save, and print tax forms needed for filing federal tax returns. Filing your tax return begins with receiving Form W-2.

FORM W-2

Form W-2 is used to report the taxable income a worker received during the calendar year. Employers are required to send workers a W-2 for the calendar year (January 1 through December 31) by the following January 31. A sample Form W-2 is shown in Figure 2-3.4. The information on the form is sent to the federal, state, and local governments as well as to the worker. Multiple copies are provided for the worker to attach to tax forms and to keep on file.

Note that the amount shown in box 1 (Wages, tips, other compensation) and in box 16 (State wages, tips, etc.) is \$25,688.00. This figure is the amount of gross pay (\$27,040.00 as reported in boxes 3, 5, and 18) less the money paid into a 401(k) plan. Money paid into a 401(k) plan is not subject to federal income taxes until it is withdrawn, usually during retirement. Some states, such as Kentucky in this example, also defer taxes on money paid into a 401(k) plan.

Form W-2 a form used to report taxable income a worker received during the calendar year


FORM 1040EZ

Several different forms can be used to file a federal tax return. The form that should be used depends on the type of income and deductions claimed. **Form 1040EZ**, shown in Figure 2-3.5 on page 67, is a short tax return form designed for use by single and joint filers with no dependents or itemized deductions. It can be completed using information found on the filer's Form W-2 and tax tables provided by the IRS. Refer to Figure 2-3.5 as you read the following points about Form 1040EZ. Note that this form is for 2009. The form for the current year may differ somewhat but will contain similar information.

- The filer's name, address, and social security number are entered in the boxes in the Label section near the top of the form. For a joint return, the spouse's name and social security number would also be included.
- In the Income section (lines 1 through 6), line 1 provides space to enter wages, salaries, and tips. Taxable interest, such as interest earned on a savings account, of \$1,500 or less can be entered on line 2.

Form 1040EZ the short tax return form designed for single and joint filers with no dependents or itemized deductions

Figure 2-3.4 Form W-2

a Employee's social security number 000 22 2105		Safe, accurate, FAST! Use		 Visit the IRS website at www.irs.gov/efile		
b Employer identification number (EIN) 00-000000		1 Wages, tips, other compensation \$25,688.00	2 Federal income tax withheld \$2,136.94			
c Employer's name, address, and ZIP code ABC Company 781 Weston Street Monticello, KY 42633-0781		3 Social security wages \$27,040.00	4 Social security tax withheld \$1,676.48			
		5 Medicare wages and tips \$27,040.00	6 Medicare tax withheld \$392.08			
		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 Last name Suff. Gloria M. Perez 123 Maple Street Monticello, KY 42633-0123		11 Nonqualified plans		12a See instructions for box 12 D \$1,352.00		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b			
		14 Other		12c		
				12d		
15 State KY	Employer's state ID number 00000	16 State wages, tips, etc. \$25,688.00	17 State income tax \$891.02	18 Local wages, tips, etc. \$27,040.00	19 Local income tax \$81.64	
				20 Locality name Mont.		

Form **W-2** Wage and Tax Statement

20—

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

- Line 3 is for unemployment payments received in excess of \$2,400.
- Line 4 is for adjusted gross income. This amount is the total of lines 1, 2, and 3.
- Line 5 shows the amount that can be deducted from adjusted gross income if you are not claimed on another tax return. As indicated on the tax form, you can enter \$9,350 if you are single or \$18,700 if married filing jointly.
- Line 6 should show the amount of adjusted gross income (line 4) minus the standard deduction (line 5) if the amount on line 4 is larger than the amount on line 5. This amount is the taxable income. Line 6 should have a 0 (zero) if the amount on line 5 is larger than the amount on line 4. This means you have no taxable income.
- Line 7 is the amount of federal income tax withheld. This number comes from a Form W-2 or a Form 1099.
- Line 8 is a special credit for 2009 (this may not appear on future returns). It was a tax refund in 2009 as a part of the Economic Recovery Act.
- Line 9a is for an earned income credit (EIC). This is a credit for certain low-income people who work. If the credit exceeds the amount of taxes owed, the tax filer will get a refund. A separate worksheet can be completed by those who think they may qualify for an EIC. Line 9b is for nontaxable combat pay.

Figure 2-3.5 Form 1040EZ

Department of the Treasury—Internal Revenue Service

Form **1040EZ** **Income Tax Return for Single and Joint Filers With No Dependents** (99) **2009** OMB No. 1545-0074

Label (See page 9.)
Use the IRS label.
Otherwise, please print or type.
Presidential Election Campaign (see page 9)

L A B E L H E R E	Your first name and initial Gloria M.	Last name Perez		Your social security number 000-22-2105
	If a joint return, spouse's first name and initial	Last name		Spouse's social security number
	Home address (number and street). If you have a P.O. box, see page 9. 123 Maple Street		Apt. no.	▲ You must enter your SSN(s) above. ▲
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 9. Monticello, KY 42633-0123			

Check here if you, or your spouse if a joint return, want \$3 to go to this fund . . . You Spouse

Income Attach Form(s) W-2 here. Enclose, but do not attach, any payment.	1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	25,688	00
	2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2		
	3	Unemployment compensation in excess of \$2,400 per recipient and Alaska Permanent Fund dividends (see page 11).	3		
	4	Add lines 1, 2, and 3. This is your adjusted gross income .	4	25,688	00
	5	If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$9,350 if single ; \$18,700 if married filing jointly . See back for explanation.	5	9,350	00
	6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income .	6	16,338	00
	7	Federal income tax withheld from Form(s) W-2 and 1099.	7	2,136	94
	8	Making work pay credit (see worksheet on back).	8		
	9a	Earned income credit (EIC) (see page 13).	9a		
	b	Nontaxable combat pay election. 9b			
	10	Add lines 7, 8, and 9a. These are your total payments and credits .	10	2,136	94
	11	Tax. Use the amount on line 6 above to find your tax in the tax table on pages 27 through 35 of the instructions. Then, enter the tax from the table on this line.	11	2,031	00
	Refund	12a	If line 10 is larger than line 11, subtract line 11 from line 10. This is your refund . If Form 8888 is attached, check here <input type="checkbox"/>	12a	105
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d	Account number				
Amount you owe	13	If line 11 is larger than line 10, subtract line 10 from line 11. This is the amount you owe . For details on how to pay, see page 19.	13		

Do you want to allow another person to discuss this return with the IRS (see page 20)? **Yes.** Complete the following. **No**

Third party designee	Designee's name	Phone no.	Personal identification number (PIN)
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Sign here
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. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature <i>Gloria M. Perez</i>	Date 2/5/20	Your occupation Product Assembler	Daytime phone number (606)555-0134
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

Preparer's signature: _____ Date: _____ Check if self-employed Preparer's SSN or PTIN: _____

Firm's name (or yours if self-employed), address, and ZIP code: _____ EIN: _____ Phone no.: _____

Paid preparer's use only

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 36. Cat. No. 11329W **Form 1040EZ** (2009)

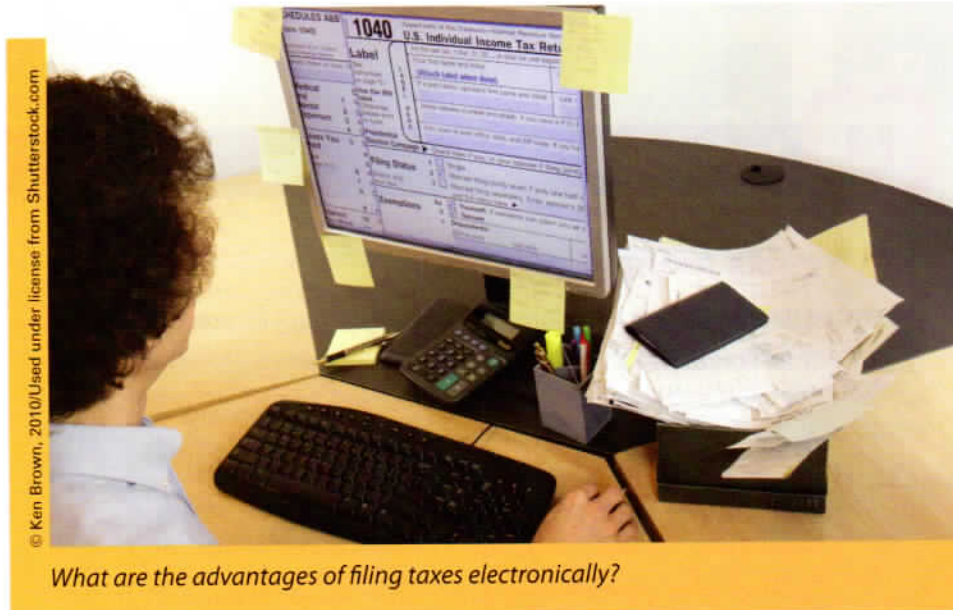
- Line 10 is a total of lines 7, 8, and 9a.
- Line 11 is for the tax owed on the taxable income amount (from line 6). The tax is found by looking at tax tables provided by the IRS. If filing using a paper form, you can find the tax tables in the paper booklet. Tax tables can also be found on the IRS website.
- Line 12a is for a refund, which results if the amount you owe in tax is less than your tax withholdings and other credits. This amount is found by subtracting tax (line 11) from total payments (line 10). You can have this amount deposited directly to your checking or savings account by filling in the routing and account numbers. Or you can have a check sent to you (which takes much longer).
- Line 13 is the amount of tax you owe, which results if the amount you owe in tax is more than your tax withholdings and other credits. This amount is found by subtracting total payments (line 10) from the tax amount (line 11).
- The “Third party designee” section is where the filer can allow another person to discuss the tax return with the IRS.
- The “Sign here” section is where the filer signs and dates the form.

OTHER TAX FORMS

Form 1040A is a two-page form that allows more options for income and deductions to be entered. Some sections require the filer to attach additional forms, often called schedules. Taxpayers might use Form 1040A instead of Form 1040EZ if they have more than \$1,500 in interest income. Form 1099-INT shows the interest income earned during the year. Form 1099-INT is shown in Figure 2-3.6 below. This form is sent to individuals by the bank or other institution that pays the interest.

Figure 2-3.6 Form 1099-INT

9292		<input type="checkbox"/> VOID		<input type="checkbox"/> CORRECTED			
PAYER'S name, street address, city, state, ZIP code, and telephone no. First Bank 201 Main Street Monticello, KY 42633-0201		Payer's RTN (optional)		OMB No. 1545-0112			
		1 Interest income \$ 2,500.00		20 — Interest Income Form 1099-INT			
		2 Early withdrawal penalty \$					
PAYER'S federal identification number 00-0827701	RECIPIENT'S identification number 000-22-0011	3 Interest on U.S. Savings Bonds and Treas. obligations \$		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 20— General Instructions for Certain Information Returns.			
RECIPIENT'S name Mr. William Patel		4 Federal income tax withheld \$				5 Investment expenses \$	
Street address (including apt. no.) 206 Brookhaven Drive		6 Foreign tax paid \$				7 Foreign country or U.S. possession	
City, state, and ZIP code Somerset, KY 42502-0206		8 Tax-exempt interest \$				9 Specified private activity bond interest \$	
Account number (see instructions) 4000326	2nd TIN not. <input type="checkbox"/>	10 Tax-exempt bond CUSIP no. (see instructions)					
Form 1099-INT		Cat. No. 14410K				Department of the Treasury - Internal Revenue Service	



What are the advantages of filing taxes electronically?

Form 1040, also known as the long form, is used by many taxpayers. If you wish to file separately from your spouse or itemize deductions, you must use Form 1040. If you have business income or rents and royalty income, you must also use the long form. The long form is used for complicated tax returns that have special types of income or deductions, from capital gains to foreign investment losses.

E-FILING

E-filing is a fast, safe way to file a federal tax return electronically. Several options are available for using e-file. The filer can hire an authorized IRS e-file provider. This is a tax preparer who is approved by the IRS and can e-file the tax return for you. Most do-it-yourself tax preparation software programs available today support e-filing as well.

Filers who have \$57,000 or less of adjusted gross income can use the IRS's Free File program to prepare and file a tax return online for free. A link on the IRS website takes users to a list of companies that provide free filing services. Each company may also have a list of requirements, so a company must be chosen carefully. Once a company is selected, the user answers questions and provides the information needed to complete the return. The filing company sends the return to the IRS electronically.

Using e-file provides fast results. The forms are transmitted instantly to the IRS. Refunds are often received much more quickly than when a paper return is filed. Having the refund deposited directly into a bank account makes receiving refunds fast and safe.

CHECKPOINT >>>

How is gross income different from adjusted gross income and taxable income?