

Chapter 2-Income, Benefits and Taxes

Section 2-3-Taxes and Other Deductions

Paycheck Deductions

- Divided into two categories:
 - **Optional**-an employee can choose to have these deductions taken from their paycheck
 - Examples:-life insurance, disability insurance, dental insurance, vision insurance, long-term care insurance, retirement plan, savings plan, stock purchase plan, charitable donations, health insurance, and flex plans
 - **Required-Deductions**-these must be taken from a paycheck (taxes)
 - Examples: income tax, social security tax, Medicare tax, state income tax

Paycheck Deductions

- **Gross Pay** - total salary or wages earned during a pay period
 - Wages before any deductions are taken from the earnings
 - Hourly earner: Hours x hourly rate
 - Salary: salary divided by 12 or 26 (depending upon pay cycle)
- **Net pay** - the amount of your paycheck (the money you take home)
 - Required (taxes) and optional deductions are subtracted from the gross pay to calculate the net pay

Paycheck Deductions

- **Income Tax Withholding** – federal and state taxes that are withheld from your check according to your exemptions
 - **Exemption**-a person you claim on your tax return as a **dependent** (someone you support financially)
 - Everyone can claim one exemption for themselves
 - Single people can claim themselves
 - Married people can claim spouse+themselves
 - People with children claim themselves+children+spouse (if applicable)
 - Purpose: It determines how much taxes will be deducted from your paycheck

W-4 Form

- W-4 Form - form that is completed to declare your number of exemptions (done at hiring)
- Allows you to:
 - Declare number of exemptions
 - Allows the appropriate amount of taxes to be deducted from your paycheck
 - It allows for additional withholdings to be deducted from your paycheck
 - Federal income tax withholding rates can be found at www.irs.gov
 - More exemptions you claim—the less taxes will be taken from your paycheck
 - Fewer exemptions you claim—the more taxes will be taken from your paycheck

Paycheck Deductions

- **Social Security** – a federal tax provides a system of old-age, survivors and disability insurance
 - Provides money for retirement for elderly
 - Provides money for people who are disabled and can't work
 - Provides money for survivors (minor children/spouse) whose parent/spouse has died
 - Earnings are taxed at 6.2%
 - Money withheld for social security is put into an account under your name and social security number
 - Employer must contribute the same amount as the employee to the account
 - Details about social security <http://www.ssa.gov/pubs/EN-05-10003.pdf>

Paycheck Deductions

- **Medicare Tax** - a federal tax that pays for medical care for retired people (age 65 and older who receive social security)
 - Current tax rate 1.45% on all earnings
 - Employer must contribute the same amount
- Social Security and Medicare taxes are combined and known as FICA Taxes

Worker's Compensation Insurance

- An insurance plan that pays medical and disability benefits to employees who are injured or contract diseases on the job
 - Typically employer's pay the premium for this insurance, but in some states employees are required to pay for a portion of this coverage
 - Benefits are calculated on an employee's earnings and work history

Tax Forms

- Citizens and residents of the U.S. file Federal Income Tax returns based on their gross income by April 15th of the following year
- Forms are available on the [IRS website](#)
- Types of forms
 - 1040-long form used by self-employed or people making more than \$100,000 that special types of income or deductions from capital gains
 - 1040A-2-page form used by people making less than \$100,000 with dependents and itemized deductions
 - 1040EZ-short tax form designed for single and joint filers with no dependents (children) or itemized deductions
 - Guidelines for income tax form use can be found at the [IRS Website](#)

W-2 Form

- Form used to report taxable income a worker received during the calendar year
- Employers are required to send workers a W-2 form for the calendar year (January 1 to December 31) by the following January 31
- Information is sent to the federal, state and local governments
- Multiple forms are sent to a worker to attach to tax forms and to keep on file

Steps for Filing Your Taxes

- Get current W-2 Form
- Get current tax forms for tax year
- Gather 1099 Forms (independent contractors)
- Gather interest statements from financial institutions
- Complete appropriate form, attach W-2, mail or file electronically
- File by April 15

E-Filing

- Electronically filing your federal tax return
 - Safe and fast way to file a tax return
 - Can be filed by an authorized IRS e-file provider
 - Can be filed through a do-it-yourself tax preparation software (TurboTax, H&R Block)
 - IRS's Free File program can be used to prepare and file a return if a filer has less than \$57,000 adjusted gross income (after deductions)