

# Chapter 2-Income, Benefits and Taxes

Section 2-1-Earned Income and Benefits

# Income

- Earned income-any money that is earned from working (hourly, weekly, monthly, yearly, self-employed)
- Earned income is subject to taxes
  - Federal Income Tax
  - Social Security Tax
  - Medicare Tax
- Tax-a required payment for the support of a government
  - Based on earnings, property values or the price of an item

# Wages

- Minimum wage: the lowest pay rate allowed by law for each regular hour of work
  - State minimum wage rates and employment laws can be found on the [U.S. Department of Labor website](#)
- Standard American work week, 40 hours
- Overtime Pay: wages earned when an employee works overtime hours
  - Must be at least 1.5 times the regular rate
  - Example: John earns \$8 per hour for regular pay any overtime hours would be paid at \$12 per hour ( $8 * 1.5 = 12$ )

# Salaries

- A set amount of money monthly or yearly
- Salaried employees do not usually keep timecards or count hours
- Typically have more flexibility in the times they work than hourly workers
- Usually self-directed
- Managers and supervisors are typically paid a salary
- Typically work more than 40 hours a week
- Not paid overtime

# Tips and Commissions

- Tip: a gift of money, often a percentage of the total bill, to a person for performing a service.
  - Subject to federal income taxes
  - Law requires some employers to withhold taxes based on tips, even though cash is received directly from customers
- Commission: A set fee or a percentage of a sale paid to an employee instead of or in addition to salary or wages
  - Only earned when a sale is made

# Employee Benefits

- Benefits: forms of pay other than salary or wages
  - Examples: vacations, health insurance, holidays)
- Cafeteria plan: a benefit plan that allows workers to choose from a number of options
  - Workers can save money by selecting only the options they need
- Disposable income: the money that a person has available to spend or save after taxes have been paid.

# Employee Benefits (continued)

- Reasons benefits are important to employees:
  - Save money by getting cheaper premiums for insurance
  - Workers are not taxed on most benefits
  - Workers are offered benefits that they may not have available to individuals (stock options, retirement plans)
  - Some benefits may not be affordable at individual prices
  - Some benefits help employees meet financial goals (retirement, savings plans)

# Employee Benefits (continued)

- Pay without work-times that an employee who is not working will be paid
  - Examples: paid vacations, holidays, sick leave, personal days
  - Common paid holidays: Thanksgiving, Christmas Day, and Labor Day
- Sick Leave-paid time away from work due to illness
  - Some companies allows sick leave to be used to take care of a sick child or other family member



# Employee Benefits (continued)

- Personal Leave: paid time away from work for personal reasons.
  - Worker usually doesn't have to give a reason
- Educational Benefits: payment for, shared cost of, or reimbursement for money spent on education
  - Training usually benefits the company helping the employee improve their performance from the skills learned

# Employee Benefits (continued)

- Perks-provides emotional satisfaction or social status rather than money
  - Examples: prime parking space, office with a view, expense account, company car
- Insurance-provides protection against potential loss
  - Premium-the price paid for coverage
  - Types
    - Health Insurance-covers costs associated with health care
    - Group Life Insurance-pays a sum of money in event of insured's death
    - Disability insurance-replaces income lost when an illness or injury prevents the insured from working
    - Worker's compensation-required by law for employers to provide for employees-it pays medical and disability (lost wages) benefits to works who are injured or contract disease on the job

# Employee Benefits (continued)

- Retirement Plans

- ▣ An account into which employees contribute a portion of their earnings for their retirement

- 401(k) Plan

- Employer may or may not match a portion
    - This type of plan is tax-deferred-meaning employees can avoid paying income tax on the money in the account until it is withdrawn

- Pension Plan

- Entirely paid by the employer
    - Workers must work for a certain number of years to qualify

# Employee Benefits (continued)

- Profit-Sharing Plans: allows employees to share in the profits of the business
  - Plan may pay a bonus based on a specified percentage of an employee's salary
- Stock Option Plans
  - Plans that allow employees to buy stock in the company at a reduced price