Wages and Earnings

Economics (Povletich) What’s Next Project

Name: __________________________________________________

Points Earned: ____________________ (out of 40 points possible)
Module 1: Payroll Taxes and Federal Income Tax Withholding

Go to the above website to complete each of the tax tutorials/modules. If the URL doesn't work, go to www.irs.gov and type in Student Tutorials in the search box; you should be able to get there eventually going that way as well. As you work through the tutorial, answer the following questions...

What is the FICA tax (Federal Insurance Contributions Act) also known as?

Who does the Medicare tax provide benefits for?

Personal income taxes are one of the largest sources of revenue for the federal government. What does the government use this money for?

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What is the difference between gross pay and net pay?

Completed the following chart.

<table>
<thead>
<tr>
<th>Social Security Tax Rate</th>
<th>Medicare Tax Rate</th>
<th>Total Payroll Taxes</th>
</tr>
</thead>
</table>

What is the earning limit for Social Security? What does this mean?

What is the purpose of the Form W-4?

Besides your payroll taxes (Social Security and Medicare), what are the two other typical items that are deducted from your gross pay?

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Answer the following multiple-choice and true/false questions about payroll taxes and federal income tax withholding by writing the letter of the correct answer.

_____ 1) The Social Security tax rate is
   A) 1.45%.
   B) 6.20%.
   C) 7.65%.

_____ 2) Employees send their payroll taxes directly to the federal government.
   A) True
   B) False

_____ 3) Employers use which form to compute the amount of federal income tax to withhold?
   A) Form W-4
   B) Form W-2
   C) Form 1040EZ

_____ 4) Gross pay is the amount of pay the employee takes home.
   A) True
   B) False

_____ 5) Who completes Form W-4?
   A) Employer
   B) Employee
   C) IRS

Review Form W-4 for Ahmed Khan by clicking the View Form W-4 button. Then, answer the questions that follow by writing your answers in the space provided.

6) Who completed Form W-4? Enter the full name. ______________________

7) How many allowances did the taxpayer claim? _____

8) Is the taxpayer single or married? __________

9) Does the taxpayer want additional amounts to be withheld? ______

10) Is the taxpayer exempt from withholding? __________

   What does it mean to be “exempt from withholding”? Who does it apply to?
Module 2: Wage and Tip Income


Go to the above website to complete each of the tax tutorials/modules. If the URL doesn't work, go to www.irs.gov and type in Student Tutorials in the search box; you should be able to get there eventually going that way as well.

Search online to find a definition of each of the following words as it relates to employee compensation...

  Wage

  Salary

  Bonus

  Commission

What form is used to report wages, salary, and tip income?

Who completes this form?

Who does this form get sent to?
  •

What do employees use this form for?
Answer the following multiple-choice questions about wage and tip income by writing the letter of the correct answers.

_____ 1) The Wage and Tax Statement is also known as
   A) Form W-2.
   B) Form 1040EZ.
   C) Form W-4.
   D) None of the above

_____ 2) Which of the following is true?
   A) Only tips paid in cash are taxable.
   B) Only tip income reported on Form W-2 is taxable.
   C) Tip income is not taxable.
   D) All tip income is taxable.

_____ 3) Which of the following is not reported on Form W-2?
   A) Wages, tips, and other compensation
   B) Federal income tax withheld
   C) Medicare tax withheld
   D) The number of withholding allowances claimed by the employee

Review Form W-2 for Brandon Cooper by clicking the button View Form W-2. Then, answer the following questions by writing your answers in the space provided.

4) Who prepared the Form W-2? ________________________________

5) Form W-2 is used to prepare the employee’s tax return. (True or False) __________________

6) The employee and the federal government both receive Form W-2. (True or False) __________________

7) How much did Brandon Cooper earn? __________________

8) Did Brandon Cooper have Social Security tip income? (Yes or No) __________

9) How much was the total withholding on Brandon Cooper’s earnings? (You will have to do some basic math)
   ________________________________
Complete the following Form W-4 as if you were starting a new job tomorrow. Make sure all of the key elements are completed and you sign and date the completed form.
2016 Tax Brackets (use this chart to calculate your tax liability on the next page)

<table>
<thead>
<tr>
<th>Rate</th>
<th>Single Filers</th>
<th>Married Joint Filers</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 to $9,275</td>
<td>$0 to $18,550</td>
</tr>
<tr>
<td>15%</td>
<td>$9,275 to $37,650</td>
<td>$18,550 to $75,300</td>
</tr>
<tr>
<td>25%</td>
<td>$37,650 to $91,150</td>
<td>$75,300 to $151,900</td>
</tr>
<tr>
<td>28%</td>
<td>$91,150 to $190,150</td>
<td>$151,900 to $231,450</td>
</tr>
<tr>
<td>33%</td>
<td>$190,150 to $413,350</td>
<td>$231,450 to $413,350</td>
</tr>
<tr>
<td>35%</td>
<td>$413,350 to $415,050</td>
<td>$413,350 to $466,950</td>
</tr>
<tr>
<td>39.6%</td>
<td>$415,050+</td>
<td>$466,950+</td>
</tr>
</tbody>
</table>
My Tax Liability (at age 30)

My Annual Income $________________ Spouse’s Annual Income $___________
(based on the career salary you researched) (25% more if you are a female)
(25% less if you are a male)

Combined Annual Income $___________________ Tax Bracket ________%
(add your annual income to your spouses to get the combined) (See the tax table on the previous page)

TAX LIABILITY CALCULATIONS (hypothetical)

Federal Income Tax $________________
(Combined annual income x tax %)

Social Security $______________
6.20% (annual income x .062)

Medicare $______________
1.45% (annual income x .0145)

State Tax $______________
12.3% (annual income x .123)

TOTAL $______________

To determine how this affects you on a month-to-month basis, take all of the annual numbers and divide by 12.

Monthly Income $______________

Monthly Tax $______________

Remaining Income $______________