

 **BUILDING BLOCKS STUDENT WORKSHEET**

# Investigating payroll taxes and federal income tax withholding

When you get your first paycheck, your take-home pay might not be what you expected. That's because of the taxes that are withheld from your paycheck. Understanding payroll taxes and federal income tax withholding can help you manage your money.

## Instructions

- 1 Read the "Understanding paycheck deductions" handout and answer the reading questions below.
- 2 Review the scenarios starting on the next page and answer the questions.

## Reading questions

1. Based on the example in the handout, how much income tax do employers withhold from employee pay?
  - 6.20 percent of gross income
  - 1.45 percent of gross income
  - 7.65 percent of gross income
  - Employers use the information on Form W-4 to compute income tax withholding.
2. Payroll tax consists of which taxes? (Check all that apply.)
  - Income tax
  - Social Security tax
  - Sales tax
  - Medicare tax



3. The amount of federal income tax you pay is based on:
- How much money you make
  - An amount set by the government (it's the same for everyone)
  - What your house is worth
  - How old you are
4. Based on the example in the handout, what's the total tax rate for the payroll taxes?
- 6.20 percent       10 percent       7.65 percent       1.45 percent

## Scenario 1. Reading a W-4

Review the completed Form W-4.

<b>Form W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you're 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.		OMB No. 1545-0074 <b>20XX</b>	
<b>1</b> Your first name and middle initial Sadie		Last name Omozusi		<b>2</b> Your social security number	
Home address (number and street or rural route) 123 Main Street		<b>3</b> <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate."			
City or town, state, and ZIP code Anytown, Any State XXXXX		<b>4</b> If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>			
<b>5</b> Total number of allowances you're claiming (from the applicable worksheet on the following pages) . . . . .				<b>5</b> 0	
<b>6</b> Additional amount, if any, you want withheld from each paycheck . . . . .				<b>6</b> \$	
<b>7</b> I claim exemption from withholding for 2019, and I certify that I meet <b>both</b> of the following conditions for exemption.					
<ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no</b> tax liability, <b>and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no</b> tax liability.</li> </ul>					
If you meet both conditions, write "Exempt" here . . . . . ▶				<b>7</b>	
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.					
<b>Employee's signature</b> (This form is not valid unless you sign it.) ▶ <i>Sadie Omozusi</i>					
<b>8</b> Employer's name and address ( <b>Employer:</b> Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.)		<b>9</b> First date of employment		<b>10</b> Employer identification number (EIN)	
<b>Date</b> ▶					
<b>For Privacy Act and Paperwork Reduction Act Notice, see page 4.</b>		Cat. No. 10220Q		Form <b>W-4</b> (20XX)	

5. Who completed the Form W-4? \_\_\_\_\_
6. Is the taxpayer married or single? \_\_\_\_\_
7. How many allowances does the taxpayer claim? \_\_\_\_\_

## Scenario 2. Completing a W-4

Meet Paulo Mercedes. He lives at 1111 Apple Tree Lane, Happy Town, KS. He's not married, and he has no children. No one else depends on him for income or support. Paulo recently graduated from college with an engineering degree. On January 1, he started his new job with a company that builds bridges. He's being paid a salary of \$55,000 a year, and he'll receive paychecks twice a month. This is his only job.

8. Complete the fields on the blank Form W-4 for Paulo based on the information in the scenario.

<b>Form W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you're 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.		OMB No. 1545-0074 <b>2019</b>
<b>1</b> Your first name and middle initial		Last name		<b>2</b> Your social security number
Home address (number and street or rural route)		<b>3</b> <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate."		
City or town, state, and ZIP code		<b>4</b> If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>		
<b>5</b> Total number of allowances you're claiming (from the applicable worksheet on the following pages) . . . . .				<b>5</b>
<b>6</b> Additional amount, if any, you want withheld from each paycheck . . . . .				<b>6</b> \$
<b>7</b> I claim exemption from withholding for 2019, and I certify that I meet <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no</b> tax liability, <b>and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no</b> tax liability.</li> </ul> If you meet both conditions, write "Exempt" here . . . . . ▶				<b>7</b>
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.				
<b>Employee's signature</b> (This form is not valid unless you sign it.) ▶				
<b>8</b> Employer's name and address ( <b>Employer:</b> Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.)			<b>9</b> First date of employment	<b>10</b> Employer identification number (EIN)
<b>Date</b> ▶				
<b>For Privacy Act and Paperwork Reduction Act Notice, see page 4.</b>		Cat. No. 10220Q		Form <b>W-4</b> (2019)

9. If Paulo claimed 0 as his withholding allowance, how would that affect his federal tax withholding and his take-home pay?

10. Why might a single person with no children choose 0 instead of 1 as the withholding allowance?

## Scenario 3. Reading a pay stub

Review a sample pay stub.

Pay stub				
<b>SMITH AND COMPANY., INC.</b> 123 West Street Smalltown, Any State XXXXX				
EMPLOYEE	SOCIAL SECURITY NO.	PAY RATE	PAY PERIOD	
Johnson, Bob	XXX-XX-6789	18.00 regular 27.00 overtime	1/7/XX to 1/13/XX	
EARNINGS	HOURS	AMOUNT	DEDUCTIONS	AMOUNT
Regular	40.00	720.00	Federal income tax	60.45
Overtime	2.00	54.00	FICA Social Security	47.99
			FICA Medicare	11.22
			State income tax	16.23
			Retirement	77.40
<b>GROSS INCOME</b>		774.00		
<b>TOTAL DEDUCTED</b>		213.29		
<b>NET INCOME</b>		560.71		

11. What's the total amount of payroll taxes (Social Security and Medicare) being withheld?
12. What's the total amount of federal tax being withheld?