

Lesson Description

Students compute the gross pay for a fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay to net pay. They learn what FICA and federal income taxes are. They learn how to complete a W-4 form and what a W-2 form is.

Concepts

Gross pay
Income
Income tax
Net pay
Taxes
Wages
W-2 form
W-4 form

Objectives

Students will:

- Define income, taxes and wages.
 - Explain what FICA is.
 - Explain the difference between gross pay and net pay.
 - Explain what a W-4 form is used for.
 - Explain what a W-2 form is.
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Content Standards

National Standards in K-12 Personal Finance

Income and Careers: Use a career plan to develop personal income potential.

- **Standard 3:** Describe factors affecting take-home pay.
 - Eighth-grade expectation 1: Explain items commonly withheld from gross pay.
 - Eighth-grade expectation 3: Explain the difference between Social Security and Medicare programs.
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Time Required

60-75 minutes

Materials

- A copy of Handout 2.1 for each student and a visual of Handout 2.1
- Visuals 2.1 and 2.2
- A copy of Visual 2.1 for each student
- A copy of Handout 2.2 for each student
- Handout 2.2—Answer Key

Procedures

1. Ask the students the following questions.
 - Why do people work? (*to earn income*)
 - How many of you already have paying jobs outside of work that you do at home? (*Answers will vary.*)
 - If you already have a job, what were some challenges you faced when you started your job? (*Answers will vary but may include getting to work on time, having to work overtime or late on a school night, etc.*) What were some surprises? (*Answers will vary but may include the fact that, after taxes or other deductions, their paychecks were much smaller than they anticipated.*)
2. Point out that **income** is the payment people receive for providing resources in the market. When people work, they provide human resources (*labor*) and in exchange they receive income in the form of **wages**. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked. People also earn salaries for providing labor. Rather than an hourly pay scale, salaries are generally an annual amount paid monthly or bi-monthly for a specified number of hours, usually a 40-hour week. (*Note: People also receive income in the form of interest, profit and rent.*) Discuss the following:
 - What hourly wage might you and other teenagers in this area earn? (*Answers will vary.*)
 - How many hours would you expect to work at a part-time job during the school year? (*Answers will vary.*)
 - How many hours would you expect to work at a part-time job during the summer? (*Answers will vary.*)

3. Distribute a copy of *Handout 2.1: John A. Dough's Pay Stub* to each student and display a visual of the handout. Ask a student to read the information about John A. Dough in the paragraph above the pay stub. Ask a student to determine how much income John A. Dough earned during his first pay period. ($\$7 \times 24 \text{ hours} = \168) Record the amount on the visual of Handout 2.1 under "This Period" across from "Regular Pay" and have students record the amount on their copy. Explain that because this is his first paycheck, the amount that John received for this pay period is the same as the amount year-to-date. Enter \$168 on the visual under "YTD" across from "Regular Pay" and have students enter the amount on their copy. Point out that John had no overtime or holiday pay this period; so, total pay for this period and year-to-date are also \$168. Enter this amount in the "Total Pay" row under "This Period" and "Year-to-Date." Have the students do the same.
4. Refer the students to the "Net Pay" amount at the bottom of the visual. Point out that net pay is the amount that John actually received. Ask the students why John earned \$168 and only received \$124.91. (*Answers will vary; some students may know that people have taxes and other deductions withheld from their pay.*)
5. Refer students to the "Deductions" section of the pay stub. Explain that people pay taxes. **Taxes** are government fees on business and individual income, activities, products or property. People are required to pay taxes. The tax revenue collected is used to provide government goods and services for citizens and to allow government to operate. People also voluntarily have money deducted from their paychecks for expenses such as medical insurance or savings in retirement accounts. **Gross pay** is the amount people earn per pay period before any deductions or taxes are paid. **Net pay** is the amount people receive after taxes and other deductions are taken out.
6. Explain that one tax everyone pays is federal income tax. **Income tax** is a tax on the amount of income people earn. People pay a percentage of their income in tax. People who earn more pay a higher percentage of their income in tax. Discuss the following:
 - How much federal income tax was withheld from John's check? ($\$25.20$)
 - What percentage of his income did John pay in federal income tax?
($\$25.20 \div \$168.00 = .15 = 15\%$)
7. Explain that John works in a state that has a state income tax. John had \$5.04 withheld for state income taxes. Because John isn't a full-time employee, he isn't part of ABC Mart's benefit package; so, no money was deducted for medical insurance or retirement savings plans such as a 401(k).
8. Ask the students how John's employer knew what percentage of John's income to deduct for federal income taxes and what amount to deduct for state income taxes. (*Answers will vary, but some students may know that employees must complete various forms that give the employer the information needed to determine this.*)

9. Explain that once people are hired for a job, there are various forms they must complete. One of these is a W-4 form. This is a federal form. There are state forms that must be completed as well. Those vary from state to state. Discuss the following.
- A W-4 is a form required by the Internal Revenue Service (IRS).
 - The W-4 allows employers to determine what amount of income tax they should deduct from each employee’s paycheck based on that person’s situation, such as whether he/she is married or single, etc.
 - Even if you are a student, it isn’t likely that you are exempt from tax withholdings.
 - Each April, you must file a federal income tax return with the IRS. If over the course of the year you paid more income tax than necessary, you will receive a tax refund from the federal government.
 - Employees are expected to complete the W-4 accurately and honestly when starting a new job or if their status changes in some way.
 - If you make mistakes such as entering the wrong Social Security number or using a nickname, you could delay or prevent receipt of any tax refund you are owed.
10. Display *Visual 2.1: Form W-4* and distribute a copy of the visual to each student. Explain that the form is completed for John A. Dough. Have a student read the paragraph above the form about John Dough. Then ask a student to read the paragraph on the form titled “Exemption from withholding” including the “Note.” Discuss the following.
- Why can’t John claim exempt status? (*Because his parents still claim him as a dependent.*)
 - What number should John enter on line B? (*“1” because he is single with only one job*)
 - Should John enter a “1” on line C? (*No.*) Why? (*He is not married.*)
 - What should John enter on line D? (*Nothing.*) Why? (*He has no dependents [children].*)
 - Why should John leave line E blank? (*He is not the head of a household.*)
 - What should John enter on line F? (*Nothing.*) Why? (*He has no child- or dependent-care expenses.*)
 - What should John enter on line G? (*Nothing.*) Why? (*He has no children.*)
 - What total should John enter on line H? (*“1”*)
11. Have students refer to the deductions section of the pay stub on Handout 2.1 again. Point out that money was also deducted for **FICA**, which stands for the Federal Insurance Contributions Act. Explain that FICA is another tax or required contribution that most workers and employers pay. (*Note: Some workers such as state government workers and teachers may not be required to pay FICA because of the defined benefit plan provided for retirement by their employers.*)

Discuss the following:

- FICA is a U.S. payroll tax used to fund Social Security and Medicare.
 - Social Security is a federal program that provides benefits for retirees, the disabled and the minor children of deceased workers.
 - Medicare is a federal program that provides hospital insurance benefits.
 - Employees pay part of FICA, and employers pay the other part of FICA.
 - For 2008, the employee's share of FICA was 7.65 percent of gross income (6.2 percent for Social Security and 1.45 percent for Medicare) and the employer's portion of FICA was also 7.65 percent. So, the total FICA tax was 15.3 percent for 2008.)
 - Self-employed people are responsible for the entire FICA percentage because they are both employer and employee.
 - How much was withheld for Social Security from John Dough's check?
($.062 \times \$168 = \10.42)
 - How much was withheld for Medicare from John Dough's check?
($.0145 \times \$168 = \2.44)
12. Point out that John's employer, ABC Mart, also paid \$10.42 in Social Security and \$2.44 in Medicare for John.
13. Explain that another important form related to working is a Form W-2. A Form W-2 is a summary of a person's earning and tax withholding for an entire year. Workers receive W-2 Wage and Tax Statements from their employers around the end of January following the year being reported. The forms can arrive in the mail, can be provided in person or, with the worker's consent, can be received electronically. Display *Visual 2.2: Form W-2 Wage and Tax Statement*.
14. Explain that this is what the W-2 for John Dough looked like at the end of the year. It is important for people to hold on to their W-2 forms when they receive them. People are required to submit their W-2 form(s) to the IRS with their tax return. Tell students to refer to John Dough's W-2 to answer the following questions:
- How much did John earn in 2009? ($\$3,598$)
 - At a wage of \$7 per hour, how many hours did John work to earn \$3,598?
(514 hours)
 - How much was withheld for federal income tax in 2009? ($\$539.70$)
 - How much was withheld for Social Security tax? ($\$223.08$)
 - How much was withheld for Medicare? ($\$52.17$)
15. Point out that the W-2 has two boxes labeled "Social Security wages" and "Medicare wages and tips." John is required to pay these taxes on the full amount he earned—\$3,598. However, there is a Social Security income cap that changes from year-to-year. Once people have earned the cap amount, they do not pay Social

Security tax on additional earnings. For example, in 2009 the cap was \$106,800. A person who earned more than \$106,800 did not pay Social Security taxes on additional earnings.

16. Remind the students that at the end of the year, taxpayers are required to complete a form reporting income earned and taxes paid, which must be submitted by April 15 of the next year. The 1040EZ is the simplest form to submit. If during 2009 John paid more income tax than he was required to, he will receive a refund from the federal government. Discuss the following:
 - Taxes are collected on a "pay as you go" principle. That means that as people earn income, they pay taxes rather than waiting until the end of the year to pay all taxes.
 - Many people, therefore, try to adjust their withholding so that they pay the correct amount of taxes for each paycheck. That way, at the end of the year they don't have to pay additional taxes.
 - Some people prefer to have a refund each year; so, they purposely pay more than they need to pay per pay period. This is often referred to as "forced savings." The government has the money during the year and refunds it to the taxpayer. The taxpayer then has a lump sum to purchase a large item or place in savings.
 - Note that the government does not pay you interest on your overpayment. Therefore, it might be a better idea to have the correct amount withheld rather than overpaying and to put your savings in an interest-bearing account during the year.

17. Ask the students if they were surprised to learn that workers receive less income than they actually earn. (*Answers will vary.*) Point out that they are not alone; nearly all workers feel the same way when they see their first paycheck and see that the amount they thought they would receive has been reduced due to various deductions. Discuss the following:
 - Everyone in the United States is required to pay taxes on the money they earn.
 - Employers are required by law to send the money withheld from employees' pay to various federal and state agencies. The tax revenue collected from workers is added together to pay for the goods and services that federal, state and local governments provide for citizens and to pay the costs of operating the government.
 - What are some goods and services that the federal government provides for citizens? (*roads, bridges, national parks and national defense*)
 - What are some goods and services that state governments provide for their citizens? (*state roads, state parks, state troopers and public education*)
 - What are some goods and services that local governments provide for their citizens? (*street lights, fire and police protection, and public education*)

Closure

18. Review key content from the lesson with the following questions.
 - What are wages? (*a form of income people receive for work they do*)
 - What is income? (*payment people receive for providing resources in the market*)
 - What are taxes? (*Taxes are government fees on business and individual income, activities, products or property. People are required to pay taxes.*)
 - What is gross pay? (*the amount people earn in a pay period before any deductions or taxes are taken out*)
 - What is net pay? (*take-home pay; the amount received after taxes and deductions have been taken out*)
 - What is FICA? (*FICA is a tax or required contribution resulting from the Federal Insurance Contributions Act.*)
 - What does FICA fund? (*Social Security and Medicare*)
 - Who pays FICA? (*Both employees and employers pay FICA.*)
 - What is a W-4 form and for what is it used? (*A W-4 form is a form that must be completed by employees before they start a job. It is used by employers to determine the amount of income tax to withhold.*)
 - What is a W-2 form? (*A W-2 form is a form employers must provide to employees shortly after year-end to report annual income and withholding for the employee's tax return.*)

Assessment

19. Distribute a copy of *Handout 2.2: Assessment* to each student. Instruct students to read the directions and complete the handout.
20. Display *Handout 2.2: Assessment—Answer Key* and allow students to check their answers.

Visual 2.1: Form W-4

John Dough is a 16-year-old who just started his first job at ABC Mart in Our Town, USA. John is not married and does not have any children. John's parents still claim him as a dependent on their tax return.

Form W-4 (2009)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2009 expires February 16, 2010. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on their tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earner/multiple job situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or

dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see the Instructions for Form 8233 before completing this Form W-4.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2009. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for **yourself** if no one else can claim you as a dependent. **A** _____

B Enter "1" if:
 { • You are single and have only one job; or
 • You are married, have only one job, and your spouse does not work; or
 • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. } . . . **B** 1

C Enter "1" for your **spouse**. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) **C** _____

D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return **D** _____

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . . . **E** _____

F Enter "1" if you have at least \$1,800 of **child or dependent care expenses** for which you plan to claim a credit . . . **F** _____
 (Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

G Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.
 • If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then less "1" if you have three or more eligible children.
 • If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have six or more eligible children. **G** 1

H Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ► **H** 1

For accuracy, **complete all worksheets that apply.**
 { • If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
 • If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed \$40,000 (\$25,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
 • If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

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

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate		OMB No. 1545-0074 2009
1 Type or print your first name and middle initial. John A.		Last name Dough		2 Your social security number 123 45 6789
Home address (number and street or rural route) 123 Main Street		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code Our Town USA 12345		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"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5 _____		
6 Additional amount, if any, you want withheld from each paycheck		6 \$ _____		
7 I claim exemption from withholding for 2009, 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 <u>7</u>				
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.				
Employee's signature (Form is not valid unless you sign it.) ► John A. Dough		Date ► Jan. 11, 2009		
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.) ABC Mart, 10 Washington St., Our Town		9 Office code (optional)		10 Employer identification number (EIN)


For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form **W-4** (2009)

Visual 2.2: W-2 Wage and Tax Statement

John Dough will receive a Form W-2, Wage and Tax Statement from his employer, ABC Mart, by Jan. 31 of the following year, as required by the IRS. You can see John's completed W-2 form below.

XXXX		a Employee's social security number 123-45-6789		Safe, accurate, FAST! Use		 Visit the IRS website at www.irs.gov/efile .		OMB No. 1545-0008							
b Employer identification number (EIN) XXXX				1 Wages, tips, other compensation \$3,598		2 Federal income tax withheld \$539.70									
c Employer's name, address, and ZIP code ABC Mart 10 Washington St. Our Town, USA 12345				3 Social security wages \$3,598		4 Social security tax withheld \$223.08									
				5 Medicare wages and tips \$3,598		6 Medicare tax withheld \$52.17									
				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 John A.		Last name Dough		Suff.		11 Nonqualified plans		12a See instructions for box 12							
123 Main Street Our Town, USA 12345				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b									
				14 Other		12c									
						12d									
f Employee's address and ZIP code				15 State Employer's state ID number XX XXXX		16 State wages, tips, etc. \$3,598		17 State income tax \$107.94		18 Local wages, tips, etc. XX		19 Local income tax XX		20 Locality name XX	
Form W-2 Wage and Tax Statement		2009		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.															

Handout 2.1: John A. Dough's Pay Stub

John Dough is a 16-year-old with his first job. Here is his pay stub for his first two weeks of work.

ABC Mart		John A. Dough		Allowances	
SSN	123-45-6789	Federal	1	State	1
Employee ID	98765				
Pay Period	1/1/09 to 1/14/09	Hourly Rate	\$7.00		
Pay Date	2/3/09	Hours Worked this Pay Period			
		Regular	24		
		Overtime	0		
		Holiday	0		
Earnings					
		This Period	YTD		
Regular Pay					
Overtime Pay		\$0.00	\$0.00		
Holiday Pay		\$0.00	\$0.00		
Total Pay					
Deductions					
		This Period	YTD		
Federal Income Tax		\$25.20	\$25.20		
Social Security Tax (FICA)		\$10.42	\$10.42		
Medicare Tax (FICA)		\$2.44	\$2.44		
State Income Tax		\$5.04	\$5.04		
Medical Insurance		\$0.00	\$0.00		
Retirement [401(k)]		\$0.00	\$0.00		
Total Deductions		\$43.09	\$43.09		
Net Pay					
		This Period	YTD		
Gross Pay		\$168.00	\$168.00		
Total Deductions		\$43.09	\$43.09		
Net Pay		\$124.91	\$124.91		

Handout 2.2: Assessment

Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. Based on this information, have the students complete the W-4 form below for Angela. She has accepted a job as a civil engineer with the Grayline Electric Co. She has rented an apartment at 222 Warthog Road, Batesville, Mo., 12345. Her Social Security number is 234-56-7890.

Form W-4 (2010)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2010. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for **yourself** if no one else can claim you as a dependent **A** _____

B Enter "1" if:
 • You are single and have only one job; or
 • You are married, have only one job, and your spouse does not work; or
 • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. **B** _____

C Enter "1" for your **spouse**. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) **C** _____

D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return **D** _____

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) **E** _____

F Enter "1" if you have at least \$1,800 of **child or dependent care expenses** for which you plan to claim a credit **F** _____

G Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.
 • If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then **less** "1" if you have three or more eligible children.
 • If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have six or more eligible children. **G** _____

H Add lines A through G and enter total here. (**Note.** This may be different from the number of exemptions you claim on your tax return.) ► **H** _____

For accuracy, **complete all worksheets that apply.**
 • If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
 • If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
 • If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

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

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ► 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.		OMB No. 1545-0074 2010
1 Type or print your first name and middle initial.		Last name		2 Your social security number
Home address (number and street or rural route)			3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code			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"/>	
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5 _____
6 Additional amount, if any, you want withheld from each paycheck				6 \$ _____
7 I claim exemption from withholding for 2010, 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 _____				
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.				
Employee's signature (Form is not valid unless you sign it.) ►				Date ►
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)	10 Employer identification number (EIN)	

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

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Form **W-4** (2010)

Handout 2.2: Assessment (continued)

Based on Angela's pay stub below, answer the questions on the next page.

		Allowances	
Grayline Electric	Angela Smith	Federal	1
SSN	234-56-7890	State	1
Employee ID	56789		
Pay Period	2/1/10 to 2/28/10		
Pay Date	3/3/10		
Earnings			
	This Period	YTD	
Regular Pay	\$4,125.00	\$8,250.00	
Vacation	\$0.00	\$0.00	
Total Income/Pay	\$4,125.00	\$8,250.00	
Before Tax Deductions			
	This Period	YTD	
Medical Insurance	\$90.00	\$180.00	
Retirement [401(k)]	\$247.50	\$495.00	
Total Before Tax Deductions	\$337.50	\$675.00	
Taxes			
	This Period	YTD	
Federal Income Tax	\$598.87	\$1,197.74	
Social Security Tax (FICA)	\$255.75	\$511.50	
Medicare Tax (FICA)	\$59.81	\$119.62	
Total	\$914.43	\$1,828.86	
	This Period	YTD	
Gross Pay	\$4,125.00	\$8,250.00	
Total Deductions	\$1,251.93	\$2,503.86	
Net Pay	\$2,873.07	\$5,746.14	

Handout 2.2: Assessment—Answer Key

Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. Based on this information, have the students complete the W-4 form below for Angela. She has accepted a job as a civil engineer with the Grayline Electric Co. She has rented an apartment at 222 Warthog Road, Batesville, Mo., 12345. Her Social Security number is 234-56-7890.

Form W-4 (2010)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete only lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2010. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for yourself if no one else can claim you as a dependent	A <u>1</u>
B Enter "1" if: <ul style="list-style-type: none"> • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. 	B <u>1</u>
C Enter "1" for your spouse. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C _____
D Enter number of dependents (other than your spouse or yourself) you will claim on your tax return	D _____
E Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above)	E _____
F Enter "1" if you have at least \$1,800 of child or dependent care expenses for which you plan to claim a credit	F _____
(Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	
G Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. <ul style="list-style-type: none"> • If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then less "1" if you have three or more eligible children. • If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" additional if you have six or more eligible children. 	G _____
H Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ▶ H <u>2</u>	
For accuracy, complete all worksheets that apply. <ul style="list-style-type: none"> • If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2. • If you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld. • If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below. 	

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

Form W-4 Department of the Treasury Internal Revenue Service	Employee's Withholding Allowance Certificate ▶ 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.	OMB No. 1545-0074 2010
1 Type or print your first name and middle initial. Angela	Last name Smith	2 Your social security number 234 56 7890
Home address (number and street or rural route) 222 Warthog Road		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.
City or town, state, and ZIP code Batesville, Mo. 12345		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"/>
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)	5 <u>2</u>	
6 Additional amount, if any, you want withheld from each paycheck	6 \$ <u>0</u>	
7 I claim exemption from withholding for 2010, 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 _____		
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.		
Employee's signature (Form is not valid unless you sign it.) ▶ Angela Smith		Date (today's date)
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

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Form **W-4** (2010)

Handout 2.2: Assessment—Answer Key (continued)

Based on Angela's pay stub below, answer the questions on the next page.

		Allowances	
Grayline Electric	Angela Smith	Federal	1
SSN	234-56-7890	State	1
Employee ID	56789		
Pay Period	2/1/10 to 2/28/10		
Pay Date	3/3/10		
Earnings			
	This Period	YTD	
Regular Pay	\$4,125.00	\$8,250.00	
Vacation	\$0.00	\$0.00	
Total Income/Pay	\$4,125.00	\$8,250.00	
Before Tax Deductions			
	This Period	YTD	
Medical Insurance	\$90.00	\$180.00	
Retirement [401(k)]	\$247.50	\$495.00	
Total Before Tax Deductions	\$337.50	\$675.00	
Taxes			
	This Period	YTD	
Federal Income Tax	\$598.87	\$1,197.74	
Social Security Tax (FICA)	\$255.75	\$511.50	
Medicare Tax (FICA)	\$59.81	\$119.62	
Total	\$914.43	\$1,828.86	
	This Period	YTD	
Gross Pay	\$4,125.00	\$8,250.00	
Total Deductions	\$1,251.93	\$2,503.86	
Net Pay	\$2,873.07	\$5,746.14	

Handout 2.2: Assessment—Answer Key (continued)

1. What was Angela's gross pay for this pay period? $\$4,125.00$
2. What is Angela's net pay for this pay period? Define "net pay."
 $\$2,873.07$
Net pay is the "net" or remainder after all deductions and taxes are subtracted from gross pay.
3. What are taxes? *Taxes are government fees on business and individual income, activities, products or property.*
4. For what do governments use tax revenues? *Governments use tax dollars to operate and to provide goods and services for the public.*
5. How much did Angela pay in FICA for the year? $\$631.12$ ($\$511.50 + \119.62)
6. What is FICA, and how is the money that is collected used? *FICA stands for Federal Insurance Contributions Act. The money collected is used for Social Security payments to workers who are retired, to the disabled and to the minor children of deceased workers. Medicare provides medical insurance for those who are retired and 65 or older or disabled.*
7. How much did Angela pay in federal income tax this pay period? $\$598.87$