

Name Key Date _____ PD _____

What is Taxed & Why? Income Tax Facts WS 2

Under the "pay-as-you-earn" tax system, employers withhold taxes from employees' paychecks throughout the year and send the money to the IRS, as well as to any state or city tax agencies. Here are some examples of paycheck stubs that show how different taxes are withheld. The employees work in different states. Note that pay stubs also can show employee' contributions for insurance and savings programs.

EXAMPLE 1					
EARNINGS	HOURS	AMOUNT	DEDUCTION	CURRENT	YEAR TO DATE
Regular	70.00	846.16	FICA Tax	69.06	494.17
Overtime	14.75	267.57	Medicare Tax	16.15	115.58
Total	84.75	1,113.73	Federal Tax	116.17	880.89
			NY State Tax	52.40	347.68
			NY City Tax	27.05	183.34
			Disability	1.20	9.60
			LTD	1.00	
Year to Date Gross		\$7,970.53	Total	\$283.03	
			Net Pay	\$830.70	

EXAMPLE 2						
EARNINGS	HOURS	AMOUNT	YTD	DEDUCTION	AMOUNT	YTD
Regular	40.00	554.00	7,645.20	Federal W/H	72.95	1,054.81
Overtime	6.00	124.65	415.50	FICA	42.08	545.80
Holiday	.00	.00	271.60	MEDICARE	9.84	127.65
Sick Pay	.00	.00	110.80	E.I.C.	.00	3.05
Bonus	.00	.00	249.32	WI State W/H	42.34	505.83
Vacation Pay	.00	.00	110.80	Health Insurance	60.00	480.00
				Credit Union	100.00	1,500.00
GROSS EARNINGS		\$678.65	\$8,803.22	TOTAL DEDUCT	327.21	4,217.14
NET EARNINGS		\$351.44		ALLOCATED TIPS	.00	128.53

EXAMPLE 3

EARNINGS	HRS/UNIT	CURRENT AMOUNT	YEAR TO DATE	DEDUCTION	CURRENT AMOUNT	YEAR TO DATE
SALARY	75.00	1,007.31	23,961.12	FICA	62.45	1,576.94
OVERTIME 1		0.00	0.00	FEDERAL W/H	154.16	3,823.59
OVERTIME 2		0.00	0.00	INDIANA	34.25	864.89
MISC. #3		0.00	1475.00	MONROE CO.	10.07	242.35
				MEDICARE	14.61	368.83
26,190.00 PAY RATE	1,007.31 CURRENT EARNINGS	275.54 CURRENT DEDUCTIONS	731.77 NET PAY	25,436.12 YTD EARNINGS	6,876.60 YTD DEDUCTIONS	18,559.52 YTD DEDUCTIONS

Answer the following questions.

- A. Income B. Pay-as-you-earn system C. Tax deduction

- A Many people believe that because of big differences in ____, those who earn more should pay a greater share of taxes than those who earn less.
- B Under this system, an employer makes payments to the IRS for the employee.
- C An expense that can be deducted before a person calculates taxable income.

Match the description below to the correct key term. Write the letters of the correct key terms on the lines provided.

- A. Pay-as-you-earn system B. Tax deduction C. Charitable contribution

- B Interest paid on home mortgage.
- A Money withheld from weekly paycheck.
- C Money given to the city's animal shelter.

Choose which individual or family in each pair would most likely pay lower taxes. Assume that both have the same income and that all other factors are equal. Circle the correct corresponding letter.

- Who would likely pay lower taxes?
 - A couple with one child
 - b. A couple with three children
- Who would likely pay lower taxes?
 - A renter
 - b. A homeowner
- Who would likely pay lower taxes?
 - a. An elderly blind man
 - A young woman
- Who would likely pay lower taxes?
 - a. One who donates money to the church
 - One who gives money to a friend
- Who would likely pay lower taxes?
 - A single person with no children
 - b. A working mother with a child in daycare