

2-1

Federal Income Tax (FIT)

The Internal Revenue Service requires your employer to withhold a specified amount from your paycheck for **federal income tax** purposes. The government uses this money to support its various services and agencies. Tax tables provide the exact amount that should be deducted from your paycheck based on your income, your marital status, and your **withholding allowances**, which are exemptions you claim based on the number of people you support.

Example

Find the federal income tax withheld.

Mariano Denunzio is single and claims 1 exemption for himself. If his gross pay for the week is \$512.50, what amount will be withheld from Denunzio's paycheck for federal income tax?

1. Find his income range on the Single Persons tax table (see page 170). Denunzio earns between \$510 and \$520.
2. Find the column for 1 allowance.
3. Amount of federal income tax withheld is \$54.

Practice

Using the Single Persons—Weekly table (see page 170), find the amount withheld for federal income tax.

1. Weekly income: \$478.77; 4 allowances.
2. Weekly income: \$394.74; 1 allowance.

Using the Married Persons—Weekly table (see page 172), find the amount withheld for federal income tax.

3. Weekly income: \$615.88; 3 allowances.
4. Weekly income: \$521.37; 2 allowances.

Use the Weekly Payroll Period tax tables on pages 170–173 to solve the problems.

5. Sal Carpenter is married, earns \$428.95 per week, and claims 2 allowances—1 for himself and 1 for his wife. Find the amount withheld for federal income tax.
6. Jacinda Maris is a single mother who claims 3 allowances—1 for herself and 1 for each of her two children. She earns \$491.00 per week. Find the amount withheld from her paycheck for federal income tax.
7. Sandra Brown is married. Last year she claimed 2 allowances, but since her husband now claims her on his paycheck, she claims none. If her gross weekly income is \$338.79, how much more is withheld from her weekly paycheck by claiming no allowances?
8. **Standardized Test Practice** Lucinda Marks is single and earns \$177.50 per week. She can claim 1 allowance, but likes to get a large tax refund at the end of the year, so she opts instead to claim no allowances. What is the amount withheld from her paycheck for federal income tax?
A. \$12 B. \$13 C. \$7 D. \$6

2-2

Computing State Income Tax

In addition to federal taxes, most states require a specified amount to be withheld from your paycheck for state income tax purposes. This amount might be a certain percentage of your taxable wages, which depends on the number of **personal exemptions** (or withholding allowances) you claim to support your family.

Taxable Wages = Annual Gross Pay – Personal Exemptions

Annual Tax Withheld = Taxable Wages × Tax Rate

Example

Find the state income tax withheld.

Martin Tabor's gross pay for the year is \$28,500. The state income tax rate is 3.5 percent. If Tabor takes a single exemption for himself, how much is withheld from his yearly earnings for state income tax? **Use the Personal Exemptions table on page 175.**

- | | |
|---|-----------------------------------|
| 1. Find his taxable wages. | 2. Find the tax withheld. |
| Annual Gross Pay – Personal Exemptions | Taxable Wages × Tax Rate |
| \$28,500 – \$2,000 = \$26,500 | \$27,000 × .035 = \$927.50 |

Practice

Find the annual state income tax withheld.

- | | |
|--|---|
| 1. Gross pay: \$38,550; married,
2 dependents; state income tax rate:
3 percent. | 3. Gross pay: \$24,872; single,
zero dependents; state income tax rate:
3.75 percent. |
| 2. Gross pay: \$47,425; married,
zero dependents; state income tax rate:
4.25 percent. | 4. Gross pay: \$29,149; single,
one dependent; state income tax rate:
2.95 percent. |

Use the Personal Exemptions table on page 175 to answer the following questions:

- Clayton McGrath earns \$23,000 per year. He is married with 2 dependents, and his state income tax rate is 2.75 percent. What are his personal exemptions? How much is withheld per year for state income tax?
- Maggie Cook earns \$26,500 annually. She is single with 3 dependents, and her state tax rate is 3.5 percent. What are her personal exemptions? How much is withheld per year for state income tax?
- Standardized Test Practice** Lawanda Shelbold is a registered nurse with an annual salary of \$32,000. She is married, has 1 child, and claims 3 withholding allowances. If the state tax rate is 3.5 percent, how much is withheld annually from her gross pay for federal and state income tax?
A. \$980 B. \$2,834 C. \$2,366 D. \$1,456

2-3

Computing Graduated State Income Tax

Rather than a flat percentage rate, some states have what is known as a **graduated income tax**. This means that your state income tax is computed at a varying rate each time you reach a new income level. The higher your income, the greater your tax.

Example

Find the amount of state income tax deducted from each paycheck.

Carla Erpelding’s annual salary is \$28,500. She is paid biweekly. Her personal exemptions total \$1,500. The state income tax is calculated on the following graduated basis: 2.5 percent of the first \$25,000 and 3.5 percent over \$25,000.

1. Find the taxable wages.
 $(\$28,500 - \$1,500) = \$27,000$
2. Find the annual tax withheld.
 First \$25,000 = $(\$25,000 \times .025) = \625
 Over \$25,000 = $(\$27,000 - \$25,000) \times .035 = \$2,000 \times .035 = \70
 Annual Tax = $\$625 + \$70 = \$695$

3. Find the tax per period.
Annual Tax ÷ Number of Pay Periods per Year = Tax Withheld per Pay Period
 $\$695.00 \div 26 = \26.73 tax per pay period

Practice

Using the following graduated income tax rates, find the tax withheld per pay period.

State Tax Rate	Annual Income Earned
2.75%	First \$10,000
3.25%	Next \$15,000
5.00%	Over \$25,000

1. Annual salary: \$38,550; personal exemptions: \$4,400; paid biweekly.
2. Annual salary: \$47,425; personal exemptions: \$3,000; paid weekly.
3. Annual salary: \$29,149; personal exemptions: \$2,200; paid monthly.
4. Annual salary: \$24,872; personal exemptions: \$1,500; paid semimonthly.
5. **Standardized Test Practice** Mitchell Gomez is an auto mechanic. His annual gross salary is \$35,500. He is married with 1 dependent, allowing him \$3,700 in yearly personal exemptions. If his state income tax is based on the following graduated rate, how much is withheld from his semimonthly paycheck?

State Tax Rate	Annual Income Earned
3.25%	First \$15,000
3.60%	Next \$15,000
4.90%	Over \$30,000

- A. \$46.49 B. \$54.04 C. \$92.98 D. \$1,115.70

2-4

Computing Social Security and Medicare Taxes

The Federal Insurance Contributions Act (FICA) requires that your employer deduct a total of 7.65 percent from your paycheck for **Social Security** and **Medicare** tax purposes. A Social Security rate of 6.2 percent is deducted on the first \$90,000 you earn. A Medicare rate of 1.45 percent is deducted from all your earnings. In addition, your employer is required to pay an amount equal to your contribution.

Tax Withheld = Gross Pay \times Tax Rate

Example

Find the amount deducted for Social Security and Medicare taxes.

Adrian Dunbar's weekly pay is \$1,750. What amount is deducted from his pay this week for Social Security taxes? For Medicare taxes?

- Find the amount deducted for Social Security.
 $\$1,750 \times 6.2\% = \mathbf{\$108.50 \text{ deducted for Social Security}}$
- Find the amount deducted for Medicare.
 $\$1,750 \times 1.45\% = \mathbf{\$25.38 \text{ deducted for Medicare}}$

Practice

For problems 1–3, find the *combined* Social Security and Medicare taxes withheld for the pay period.

- Weekly salary: \$650; earnings to date: \$30,000.
- Biweekly salary: 1,850; earnings to date: \$37,000.
- Monthly salary: \$8,500; earnings to date: \$86,500.
- A nurse's aide has earned \$21,670. She earned \$1,970 this month. How much is deducted this month for Social Security? For Medicare?
- A real estate agent has earned \$92,000. He earned \$2,500 this month. How much is deducted this month for Social Security? For Medicare?
- A teacher has earned \$20,385. She earned \$1,020 this biweekly pay period. How much is deducted this pay period for Social Security? For Medicare?
- A beautician has earned \$26,549. She is married and claims 1 federal allowance. How much is deducted from her weekly \$549 paycheck for federal income tax, for Social Security, and for Medicare?
- Standardized Test Practice** Michaela Jordan is a tax lawyer who earns \$132,000 per year and is paid at the end of every month. What is the *combined* amount withheld from her September paycheck for Social Security and Medicare?
A. \$765.00 B. \$283.50 C. \$620.00 D. \$145.00

2-5

Computing Group Insurance Deductions

Your employer will often offer you the option to join the company's **group insurance** plan. It might pay part of the cost of your medical insurance for you, or you might be entirely responsible for the premiums. In either case, your share of the cost is deducted from your paycheck.

$$\text{Deduction per Pay Period} = \frac{\text{Total Annual Amount Paid by Employee}}{\text{Number of Pay Periods per Year}}$$

Example**Find the deduction per pay period.**

Mario Lopez participates in his company's group medical insurance plan. The annual cost of Lopez's plan is \$2,500 per year. If the company pays 65 percent of the annual cost, how much is deducted from his biweekly paycheck to cover his portion?

- Find the percent paid by Lopez.
 $100\% - 65\% = 35\%$
- Find the annual amount paid by Lopez.
 $\$2,500 \times 35\% = \$2,500 \times 0.35 = \$875$
- Find the deduction per pay period.
 $\$875.00 \div 26 = \mathbf{\$33.65 \text{ deduction per pay period}}$

Practice**Find the deduction per pay period.**

- Annual cost of insurance: \$4,200; employer pays 70 percent; pay period: semimonthly.
- Annual cost of insurance: \$3,975; employer pays 60 percent; pay period: weekly.
- Annual cost of insurance: \$2,850; employer pays 55 percent; 12 pay periods.
- Carl Tinsley earns \$1,970 per month. His family insurance plan costs \$4,450 per year. His employer pays 66 percent of the cost. If this is his only deduction, how much is his monthly paycheck after the medical insurance deduction?
- Jack Montgomery participates in his company's medical insurance plan. The plan has an annual cost of \$3,975. The company pays 70 percent. If Montgomery is paid biweekly, what is his insurance cost per paycheck?
- Anna Page, a teacher, earns \$1,320 semimonthly. If the school's insurance plan costs a total of \$2,868 and it pays 75 percent of the cost, how much is deducted from each of Page's paychecks?
- Standardized Test Practice** Melvin Myers, a traveling salesman, has company medical insurance as well as travel insurance. The company he works for pays 60 percent of the medical insurance and 90 percent of the travel insurance. If the medical insurance has an annual cost of \$3,500 and the travel insurance costs \$1,200 per year, what total amount is deducted from his weekly paycheck for insurance?
A. \$29.23 B. \$61.15 C. \$36.15 D. \$9.04

2-6

Computing Your Net Pay

Taxes and insurance aren't the only things deducted from your gross pay. Union dues, state tax, and local tax might also be deducted. An earnings statement lists your gross pay, all your deductions, and your **net pay** for each pay period. (**Note: Use the Social Security tax rate of 6.2 percent on the first \$84,900 earned, the Medicare tax rate of 1.45 percent on all earnings, and the tax tables on pages 170–173 for federal income tax.**)

Net Pay = Gross Pay – Total Deductions

Example

Find the net pay.

Isaac Reiser's gross weekly salary is \$515. He is single and claims one allowance. The state tax is 2.8 percent of gross pay with no personal exemption allowances. Reiser also participates in his employer's medical insurance plan, which costs him \$16.83 per week. What is his net pay for the weekly pay period?

- Find his total deductions.
- Find his net pay.

a. Federal income tax: \$55.00

b. Social Security: $\$515 \times 0.062 = \31.93

c. Medicare: $\$515 \times 0.0145 = \7.47

d. State tax: $\$515 \times 0.028 = \14.42

e. Medical insurance: \$16.83

Total Deductions = $\$55.00 + \$31.93 + \$7.47 + \$14.42 + \$16.83 = \125.65

Gross Pay – Total Deductions

$\$515.00 - \$125.65 = \mathbf{\$389.35 \text{ net pay}}$

Practice

Find the net pay.

- Serena Masters is single and claims 1 allowance. Her gross weekly pay is \$440.00. Each week she pays federal, Social Security, and Medicare taxes, \$14.40 for medical insurance, and \$10.00 for union dues.
- Dustin Ambrose is married and claims 3 allowances. His gross weekly pay is \$628.00. Each week he pays federal, Social Security, and Medicare taxes, \$52.00 for medical insurance, and \$23.50 toward his retirement fund.
- Andre Quinn earns \$600 per week. He is married and claims 2 allowances. Weekly deductions include federal, Social Security, and Medicare taxes, a state tax of 2.5 percent on gross earnings, a local tax of 1 percent on gross earnings, and medical insurance. The company pays 65 percent of the \$3,975 annual medical cost.
- Standardized Test Practice** Barbara Brach earns \$492.00 per week. She is single and claims 1 allowance. Her state tax rate is 2.8 percent and her local tax rate is 1.25 percent, both on gross earnings. Her medical insurance plan costs \$2,550.00 per year, of which the company pays 70 percent. Medicare and Social Security are also deducted from her paycheck. What is her net pay?
A. \$331.10 B. \$368.74 C. \$388.36 D. \$367.73

2 Chapter Review

Watching Your Paycheck Dwindle.

You have just accepted your first full-time job as an assistant manager trainee. You will be earning a salary of \$425 per week. That sounds like a lot of money, but you know there will be deductions from you paycheck, such as federal income tax, Social Security tax, and medical insurance. Let's find out how much you'll actually make.

1. You are single and claim 1 allowance. How much is deducted from your weekly paycheck for federal income tax?
2. Your state tax rate is 3.2 percent on all gross earnings. How much is deducted from your weekly paycheck for state income tax?
3. Your local tax rate is 1.1 percent on all gross earnings. How much is deducted from your weekly paycheck for local income tax?
4. Social Security tax is deducted at the standard rate of 6.2 percent on the first \$90,000. How much will you pay into Social Security each week?
5. Medicare is deducted at the standard rate of 1.45 percent on all earnings. How much will you pay into Medicare each week?
6. You know it's a good idea to have medical insurance. Since your employer is offering to pay 65 percent of the annual cost, you decide to participate in the company's plan. If the plan has an annual cost of \$3,000, how much is deducted from your weekly paycheck for your share of the medical plan?
7. Given all of the above deductions, what will your net pay be each week?

You work hard for many years and eventually work your way up to manager with an annual salary of \$92,000.

8. What is the yearly amount you will pay in Social Security taxes?
9. If your state tax is calculated on a graduated basis of 3.2 percent on the first \$40,000 earned and 3.5 percent over \$40,000, how much state income tax will you pay annually?