

6-3 INCOME STATEMENTS

To do now:

1. Write down the objective
2. Take out earbuds

OBJECTIVES

You will need:

- Papers on the student table
- Textbook
- Calculator
- Pen or Pencil
- Notebook Paper

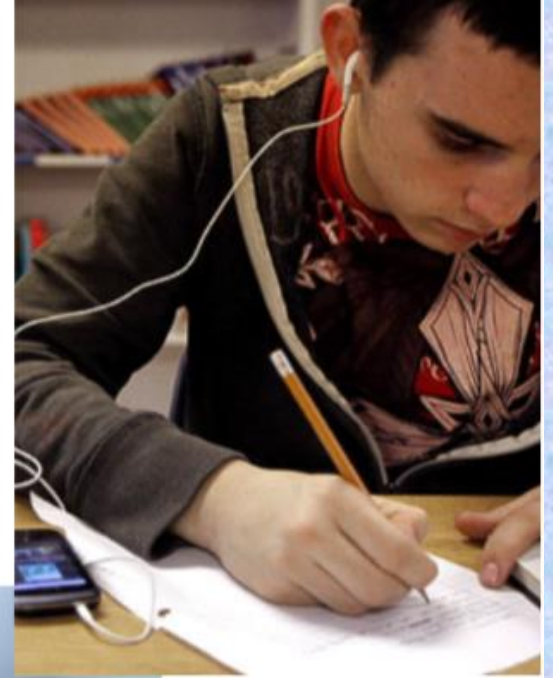
Red Items are needed during the lecture

Interpret and use the information on a pay stub, W-2 form, and 1099 form.

Understand tax consequences of self-employment



**No Ear
Buds!!!!**



**Cell Phones:
Down & Dark**



If you earn \$10 an hour at your job and you worked 30 hours last week – will your paycheck be for \$300?

Why not?

Deductions!

Example 1A – Net Pay

Barbara started a new job and wants to verify that her net pay (the amount she will receive) has been computed correctly.

Her gross pay per pay period is \$469.75.

She has the following deductions:

- Social Security tax 6.2%,
- Medicare tax 1.45%,
- federal withholding tax \$110.51,
- state withholding tax \$66.62,
- retirement insurance contribution \$9.00,
- disability insurance fee \$2.56,
- medical insurance fee \$12.00,
- and dental insurance fee \$6.00.

What should her net pay be for this pay period?

Example 1A – Net Pay

Barbara started a new job and wants to verify that her net pay has been computed correctly. Her gross pay per pay period is \$469.75. She has the following deductions: Social Security tax 6.2%, Medicare tax 1.45%, federal withholding tax \$110.51, state withholding tax \$66.62, retirement insurance contribution \$9.00, disability insurance fee \$2.56, medical insurance fee \$12.00, and dental insurance fee \$6.00. What should her net pay be for this pay period?

Step 1: Determine each “%” deduction

Deduction = Gross Pay x %(converted)

$$\begin{aligned} \text{SS tax} &= 469.75 \times .062 \\ &= \underline{\$29.12} \end{aligned}$$

$$\begin{aligned} \text{Medicare tax} &= 469.75 \times .0145 \\ &= \underline{\$6.81} \end{aligned}$$

Example 1A – Net Pay

Barbara started a new job and wants to verify that her net pay has been computed correctly. Her gross pay per pay period is \$469.75. She has the following deductions: Social Security tax 6.2%, Medicare tax 1.45%, federal withholding tax \$110.51, state withholding tax \$66.62, retirement insurance contribution \$9.00, disability insurance fee \$2.56, medical insurance fee \$12.00, and dental insurance fee \$6.00. What should her net pay be for this pay period?

Step 2: Add the deductions

$$\underline{29.12 + 6.81} + 110.51 + 66.62 + 9.00 + 2.56 + 12.00 + 6.00 \\ = 242.62$$

Example 1A – Net Pay

Barbara started a new job and wants to verify that her net pay has been computed correctly. Her gross pay per pay period is \$469.75. She has the following deductions: Social Security tax 6.2%, Medicare tax 1.45%, federal withholding tax \$110.51, state withholding tax \$66.62, retirement insurance contribution \$9.00, disability insurance fee \$2.56, medical insurance fee \$12.00, and dental insurance fee \$6.00. What should her net pay be for this pay period?

Step 3: Determine net pay

$$\begin{aligned}\text{Net Pay} &= \text{Gross Pay} - \text{Total Deductions} \\ &= 469.75 - 242.62 \\ &= \mathbf{\$227.13}\end{aligned}$$

Example 1B – % Deductions

What percentage of Barbara's gross pay for this pay period accounts for all of her deductions? Round to the nearest tenth of a percent.

$$\begin{aligned}\% \text{ of Gross Pay Going to Deductions} &= \frac{\text{Deductions}}{\text{Gross Pay}} \times 100 \\ &= \frac{242.62}{469.75} \times 100 \\ &= \mathbf{51.6\%}\end{aligned}$$



Would you get to keep more of your earnings if you owned your own business?

NO! You now have to pay your portion and the employer's share of you FICA taxes!!

Self Employed Additional Taxes

- An employer has to match the FICA taxes.
- A self employed person must pay BOTH the employee and employer's share of FICA.
- They must also send the FICA taxes to the government every 3 months using Form 941.

Example 1C – Self Employed

What additional taxes would Barbara's have to pay if she had been self employed?

Self-Employed Additional Taxes

= Employer SS + Employer Medicare

= 29.12 + 6.81

= **\$35.93**



How much do the deductions cost you in an entire year?

Example 2 – Annual Deductions

Examine Lorna's **biweekly** pay stub. Assuming that Lorna's salary and deductions remain the same throughout the calendar year, how much will be taken out of her total annual gross salary for state taxes?

Annual Deduction =
Paycheck deduction
x # of check per year

= 280.89 x 26

= **\$7,303.14**

<i>EARNINGS</i>		
PERIOD	AMOUNT	YTD AMOUNT
3/15 - 3/28	\$4,596.39	\$32,174.73
<i>DEDUCTIONS</i>		
TAX TYPE	AMOUNT	YTD AMOUNT
Social Security	\$280.79	\$1,999.63
Medicare	\$65.67	\$467.67
Federal Tax	\$1,001.47	\$7,067.89
State Tax	\$280.89	\$1,977.50
<i>ADJUSTMENTS</i>		
ITEM	AMOUNT	YTD AMOUNT
Union Dues	\$61.00	\$427.00
Family Health Ins.	\$67.55	\$472.85
Retirement	\$50.00	\$350.00

a Employee's social security number
000-00-0000

OMB No. 1545-0008

Safe, accurate,
FAST! Use



Visit the IRS website
at www.irs.gov/efile.


b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$76,350.00		2 Federal income tax withheld \$15,851.00		
c Employer's name, address, and ZIP code Crawfish Castle 500 Pecan Parkway Colfax, Louisiana 71417		3 Social security wages \$76,350.00		4 Social security tax withheld \$4,733.70		
		5 Medicare wages and tips		6 Medicare tax withheld		
		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 Joanne S.		Last name Toscano		Suff.		
3 Delta Queen Drive Colfax, Louisiana 71417		11 Nonqualified plans		12a See instructions for box 12		
		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 00-0000000	16 State wages, tips, etc. \$76,350.00	17 State income tax \$5,344.50	18 Local wages, tips, etc. \$76,350.00	19 Local income tax \$1,092.00	20 Locality name

If you have a job, your employer must send you a **W-2** form in January every year.

What does it tell you?

Example 3A – W-2


On January 30th, Joanne Toscano received this W-2 form from her employer. How much did Joanne pay in **income** taxes during the year? (Note: FICA taxes are NOT income taxes.)

a Employee's social security number		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile.	
000-00-0000		OMB No. 1545-0008	
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$76,350.00	2 Federal income tax withheld \$15,851.00
c Employer's name, address, and ZIP code Crawfish Castle 500 Pecan Parkway Colfax, Louisiana 71417		3 Social security wages \$76,350.00	4 Social security tax withheld \$4,733.70
		5 Medicare wages and tips	6 Medicare tax withheld
		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 Joanne S.		Last name Toscano	
3 Delta Queen Drive Colfax, Louisiana 71417		11 Nonqualified plans	
f Employee's address and ZIP code		12a See instructions for box 12	
		12b	
15 State Employer's state ID number 00-0000000		16 State wages, tips, etc. \$76,350.00	
		17 State income tax \$5,344.50	
		18 Local wages, tips, etc. \$76,350.00	
		19 Local income tax \$1,092.00	
		20 Locality name	

$$15,851.00 + 5,344.50 + 1,092.00 = \mathbf{\$22,287.50}$$


Example 3A – You Try It!

On January 30th, Amy received this W-2 form from her employer. How much did she pay in FICA taxes during the year?

a Employee's social security number 000-00-0000		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile.		
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$78,900.00	2 Federal income tax withheld \$15,780.00			
c Employer's name, address, and ZIP code Pound Ridge Financial Planners 2000 Hazelwood Lane Riverdale, New York 10463		3 Social security wages \$92,100.00	4 Social security tax withheld \$5,710.20			
		5 Medicare wages and tips \$92,100.00	6 Medicare tax withheld \$1,335.45			
		7 Social security tips	8 Allocated tips			
d Control number 246-8977		9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Amy		Last name Springfield		Suff.		
8 Coughlin Drive Ridgewood, NY 11385		11 Nonqualified plans		12a See instructions for box 12 E \$12,200.00		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
		14 Other caf125 \$1,000.00		12c		
				12d		
f Employee's address and ZIP code						
15 State	Employer's state ID number 00-0000000	16 State wages, tips, etc. \$78,900.00	17 State income tax \$5,523.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Example 3A – You Try It!


On January 30th, Amy received this W-2 form from her employer. How much did she pay in FICA taxes during the year?

a Employee's social security number 000-00-0000		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile .		
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$78,900.00		2 Federal income tax withheld \$15,780.00		
c Employer's name, address, and ZIP code Pound Ridge Financial Planners 2000 Hazelwood Lane Riverdale, New York 10463		3 Social security wages \$92,100.00		4 Social security tax withheld \$5,710.20		
		5 Medicare wages and tips \$92,100.00		6 Medicare tax withheld \$1,335.45		
		7 Social security tips		8 Allocated tips		
d Control number 246-8977		9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Amy		Last name Springfield		Suff.		
8 Coughlin Drive Ridgewood, NY 11385		11 Nonqualified plans		12a See instructions for box 12 E \$12,200.00		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
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15 State	Employer's state ID number 00-0000000	16 State wages, tips, etc. \$78,900.00	17 State income tax \$5,523.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

$$5,710.20 + 1,335.45 = \mathbf{\$7,045.65}$$

Example 4A


Amy Springfield works for Pound Ridge Financial Planners. What accounts for the difference between her wages listed in Box 1 and her Social Security and Medicare wages listed in Boxes 3 and 5?

a Employee's social security number 000-00-0000		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile .		
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$78,900.00	2 Federal income tax withheld \$15,780.00			
c Employer's name, address, and ZIP code Pound Ridge Financial Planners 2000 Hazelwood Lane Riverdale, New York 10463		3 Social security wages \$92,100.00	4 Social security tax withheld \$5,710.20			
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8 Coughlin Drive Ridgewood, NY 11385		11 Nonqualified plans		12a See instructions for box 12 E \$12,200.00		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
		14 Other caf125 \$1,000.00		12c		
				12d		
f Employee's address and ZIP code						
15 State	Employer's state ID number 00-0000000	16 State wages, tips, etc. \$78,900.00	17 State income tax \$5,523.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Answer: Boxes 12 and 14 list Tax deferred deductions. That is income that is exempt from income tax but NOT FICA taxes.

Example 4B – Take Home %

What percent of Amy's gross income did she take home according to her W-2?


a Employee's social security number 000-00-0000		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile.	
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$78,900.00	2 Federal income tax withheld \$15,780.00		
c Employer's name, address, and ZIP code Pound Ridge Financial Planners 2000 Hazelwood Lane Riverdale, New York 10463		3 Social security wages \$92,100.00	4 Social security tax withheld \$5,710.20		
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e Employee's first name and initial Amy	Last name Springfield	11 Nonqualified plans		12a See instructions for box 12 E \$12,200.00	
8 Coughlin Drive Ridgewood, NY 11385		13 Statutory employee <input type="checkbox"/>	Retirement plan <input checked="" type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b
		14 Other caf125 \$1,000.00		12c	
				12d	
f Employee's address and ZIP code					
15 State 00-0000000	Employer's state ID number	16 State wages, tips, etc. \$78,900.00	17 State income tax \$5,523.00	18 Local wages, tips, etc.	19 Local income tax
				20 Locality name	

Step 1: Determine Gross Wage
(It is listed in box 5)

\$92,100.00

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What percent of Amy's gross income did she take home according to her W-2?

a Employee's social security number 000-00-0000		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile.		
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$78,900.00	2 Federal income tax withheld \$15,780.00			
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		14 Other caf125 \$1,000.00	12c			
f Employee's address and ZIP code		12d				
15 State	Employer's state ID number 00-0000000	16 State wages, tips, etc. \$78,900.00	17 State income tax \$5,523.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Step 2: Add the deductions

$$15,780 + 5,710.20 + 1,335.45 + 12,200 + 1,000 + 5,523 = \$41,548.65$$

Example 4B – Take Home %

What percent of Amy's gross income did she take home according to her W-2?

Step 3: Find the take home percent

$$\text{Take Home \%} = \frac{\text{Gross} - \text{Deductions}}{\text{Gross}} \times 100$$

$$= \frac{92,100 - 41,548.65}{92,100} \times 100$$

$$= \mathbf{55\%}$$

1099 Form

Required reading Page 353

It will be on the test!

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. North-Eastern Publishing Co. 2112 South Street Cincinnati, Ohio 45231		1 Rents \$	OMB No. 1545-0115	Miscellaneous Income
		2 Royalties \$ 5,678.90	Form 1099-MISC	
		3 Other income \$	4 Federal income tax withheld \$	Copy B For Recipient
PAYER'S federal identification number 00-0000000	RECIPIENT'S identification number 000-00-0000	5 Fishing boat proceeds \$	6 Medical and health care payments \$	
RECIPIENT'S name Aydi Eamon		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.) PO Box 1234		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	
City, state, and ZIP code Delphia, KY 41735		11	12	
Account number (see instructions) 0008733		13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$	
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no.	18 State income \$

Form **1099-MISC**

What do I do now?

The 6-3 Assignment

When is it due?

Next Class