

Chapter 6
Income Taxes

Section 6-3

INCOME STATEMENTS

Objectives:
Interpret and use

Understand

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

Deduction =

Step 2:

Step 3: Determine

Net Pay =

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.

% of Gross Pay Going to Deductions =

Self-Employed Additional Taxes

- An employer has to match
- A self-employed person must pay
- They must also send the FICA taxes to the government

Example 1C – Self Employed

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

Self-Employed Additional Taxes =

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 =

EARNINGS		
PERIOD	AMOUNT	YTD AMOUNT
3/15 - 3/28	\$4,596.39	\$32,174.73
DEDUCTIONS		
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
ADJUSTMENTS		
ITEM	AMOUNT	YTD AMOUNT
Union Dues	\$61.00	\$427.00
Family Health Ins.	\$67.55	\$472.85
Retirement	\$50.00	\$350.00

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?

a Employer'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)		1 Wages, tips, other compensation		2 Federal income tax withheld	
00-0000000		\$76,350.00		\$15,851.00	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
Crawfish Castle 500 Pecan Parkway Colfax, Louisiana 71417		\$76,350.00		\$4,733.70	
		5 Medicare wages and tips		6 Medicare tax withheld	
d Control number		9 Advance EIC payment		10 Dependent care benefits	
e Employer's first name and initial		11 Nonqualified plans		12a See instructions for box 12	
Joanne S. Toscano					
f Employer's address and ZIP code		13 Statutory employee		12b	
3 Delta Queen Drive Colfax, Louisiana 71417		<input type="checkbox"/>			
		14 Other		12c	
		caf125 \$1,000.00		12d	
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax	
00-0000000		\$76,350.00		\$5,344.50	
				18 Local wages, tips, etc.	
				\$76,350.00	
				19 Local income tax	
				\$1,092.00	
				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 Employer'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)		1 Wages, tips, other compensation		2 Federal income tax withheld	
00-0000000		\$78,900.00		\$15,780.00	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
Pound Ridge Financial Planners 2000 Hazelwood Lane Riverdale, New York 10463		\$92,100.00		\$5,710.20	
		5 Medicare wages and tips		6 Medicare tax withheld	
		\$92,100.00		\$1,335.45	
d Control number		9 Advance EIC payment		10 Dependent care benefits	
246-8977					
e Employer's first name and initial		11 Nonqualified plans		12a See instructions for box 12	
Amy Springfield				E \$12,200.00	
f Employer's address and ZIP code		13 Statutory employee		12b	
8 Coughlin Drive Ridgewood, NY 11385		<input checked="" type="checkbox"/>			
		14 Other		12c	
		caf125 \$1,000.00		12d	
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax	
00-0000000		\$78,900.00		\$5,523.00	
				18 Local wages, tips, etc.	
				19 Local income tax	
				20 Locality name	

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?

Example 4B – Take Home %

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

Step 1:

Step 2:

Step 3:

Take Home % =

Assignment 6-3

Read Pages 349 to 353

Do Page 354: #2-4, 6-8, 10-13