

Payroll and Taxes

Key Terms

Federal income tax: The federal government levies a tax on personal income. The federal income tax provides for national programs such as national defense; veterans and foreign affairs; social programs; physical, human, and community development; law enforcement; and interest on the national debt.

Federal Insurance Contribution Act (FICA) Tax: Provides benefits for retired workers and their dependents as well as for disabled workers and their dependents. Also known as the Social Security tax.

Form W-4, Employee's Withholding Allowance Certificate: This is completed by the employee and used by the employer to determine the amount of income tax to withhold.

Medicare tax: This is used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Payroll taxes: These include Social Security and Medicare taxes. Social Security tax provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the "Federal Insurance Contributions Act" tax.

Federal income taxes: Federal income taxes are used to pay for (a) national defense; (b) veterans and foreign affairs; (c) social programs; (d) physical, human, and community development; (d) law enforcement; and (e) interest on the national debt.

Questions to consider:

1. Can you explain why a worker earns \$100 but receives a paycheck for less than \$100?
2. What happens to the amount earned but not received by the employee?
3. How are payroll taxes used?

Payroll Taxes and Federal Income Tax Withholding

Payroll and income taxes are withheld from employees' pay by their employers. Employers send withheld taxes to the federal government. Payroll taxes include Social Security (FICA) tax and Medicare tax.

- The 2023 Social Security tax rate is 6.2 percent.
- The 2023 Medicare tax rate is 1.45 percent.
- Employees complete Form W-4, Employee's Withholding Allowance Certificate.
- Employers use Form W-4 to compute the amount of income tax to withhold. This will change throughout your life depending on big life changes – having children or getting married are two examples of ways the amount your employer withholds will change.

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

Form W-4		Employee's Withholding Allowance Certificate		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ 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.		2014
1 Your first name and middle initial		Last name		2 Your social security number
ALICIA		MYERS		222-00-5476
Home address (number and street or rural route)		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate.		
462 MAIN STREET		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"/>		
ANYTOWN, US XXXXX				
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5 1
6 Additional amount, if any, you want withheld from each paycheck				6 \$
7 I claim exemption from withholding for 2014, and I certify that I meet both of the following conditions for exemption.				
<ul style="list-style-type: none"> • 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 (This 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. Cat. No. 10220Q Form **W-4** (2014)

Answers: Questions to consider

1. Can you explain why a worker earns \$100 but receives a paycheck for less than \$100?

The \$100 is gross pay, and the amount of the paycheck is net pay.

2. What happens to the amount earned but not received by the employee?

The employer sends these taxes (withheld payroll and income taxes) to the federal government.

3. How are payroll taxes used?

Social Security taxes are used to provide for retired workers, disabled workers, and both of their dependents. Workers, retired workers, and spouses of both are eligible to receive Medicare benefits upon reaching age 65.