

## Lesson 2: "W" Is for Wages, W-4, and W-2

---

**Standards and Benchmarks** (see page A-30)

---

### Lesson Description

Students compute the gross pay for fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay with net pay. They learn what FICA and federal income taxes are. They learn how to complete Form W-4 and about Form W-2. In the assessment, students re-read the information provided on a W-4 and provide a more easily understood explanation to a friend in an e-mail.

---

### Grade Level

6-12

---

### Concepts

FICA tax  
Form W-2  
Form W-4  
Gross pay  
Income  
Income tax  
Net pay  
Taxes  
Wages

---

### Objectives

- Students will
- define income, taxes, and wages,
  - explain what the FICA tax is,
  - explain the difference between gross pay and net pay,
- 

### It's Your Paycheck!

- explain what Form W-4 is used for,
  - explain what Form W-2 is, and
  - rewrite the technical language found on a W-4 form.
- 

## Time Required

60-75 minutes

---

## Materials

- Visual 2.1
  - Handouts 2.1 and 2.2, one copy of each for each student and one copy of each for the teacher to use as visuals
  - Handout 2.3, one copy for each student
  - Handout 2.3—Answer Key for the teacher to use as a visual
  - Optional: Personal Finance 101–Chat–W-4;  
[http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/)
- 

## Procedures

1. Ask the students the following questions:
    - Why do people work? (*To earn income*)
    - How many of you already have paying jobs outside of work you do at home? (*Answers will vary.*)
    - If you already have a job, what were some challenges you faced when you started your job? (*Answers will vary but may include getting to work on time, having to work overtime, or working late on a school night.*)
    - What were some surprises you had about working? (*Answers will vary but may include that, after taxes or other deductions, their paychecks were much smaller than anticipated.*)
  2. Explain that **income** is the payment people receive for providing resources in the market. When people work, they provide human resources (labor) and in exchange they receive income in the form of **wages**. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked. People may also earn salaries for providing labor. Rather than an hourly pay scale, salaries are generally an annual amount paid monthly or bimonthly for a specified number of hours, usually a 40-hour work week. (Note: People also receive income in the form of interest, profit, and rent.) Discuss the following:
-

- What hourly wage might you and other teenagers in this area earn? (*Answers will vary.*)
  - How many hours would you expect to work at a part-time job during the school year? (*Answers will vary.*)
  - How many hours would you expect to work at a part-time job during the summer? (*Answers will vary.*)
3. Display *Handout 2.1: John A. Dough's Pay Stub* and distribute a copy to each student. Ask a student to read the information about John A. Dough in the paragraph above the pay stub. Discuss the following:
- How much income did John A. Dough earn during his first pay period? ( $\$10 \times 24 \text{ hours} = \$240$ ) Record the amount on Handout 2.1 under "This Period" across from "Regular Pay" and have the students do the same on their copies.
  - Explain that because this is his first paycheck, the amount that John received for this pay period is the same as the year-to-date (YTD) amount.
  - Under "YTD," enter \$240 across from "Regular Pay" and have the students do the same.
  - Point out that John had no overtime or holiday pay this period; so, total pay for this period and year-to-date are also \$240. Enter \$240 in the "Total Pay" row under "This Period" and "YTD." Have the students do the same.
4. Refer the students to the "**Net Pay**" line at the bottom of Handout 2. Point out that net pay is the amount that John actually received. Discuss the following:
- Why did John earn \$240 and receive only \$191.86? (*Answers will vary; some students may know or realize from the stub that people have taxes and other deductions withheld from their pay.*)
5. Refer students to the "Deductions" section of the pay stub. Explain that people pay **taxes**. Taxes are government fees on business and individual income, activities, products, or property that people are required to pay. The tax revenue collected is used to provide government goods and services for citizens and to allow the government to operate. People also voluntarily have money deducted from their paychecks for expenses such as medical insurance or savings in retirement accounts. **Gross pay** is the amount people earn per pay period before any deductions or taxes are paid. **Net pay** is the amount people receive after taxes and other deductions are taken out of gross pay.
6. Explain that one tax many people pay is federal **income tax**. Income tax is a tax on the amount of income people earn. People pay a percentage of their income in taxes. People who earn more pay a higher percentage of their income in taxes. Discuss the following:
- How much federal income tax was withheld from John's check? ( $\$24.74$ )

---

### It's Your Paycheck!

- What percentage of his income was withheld for federal income tax? ( $\$24.74/\$240.00 = 0.10 = 10\%$ )
  - John works in a state that has a state income tax. How much was withheld for state income taxes? ( $\$5.04$ )
  - Why wasn't money deducted from John's check for medical insurance or retirement savings plans such as a 401(k)? (*Answers will vary. Students may not know.*) Explain that John isn't a full-time employee and doesn't receive a benefits package, so money wasn't deducted for insurance or retirement savings.
  - How did John's employer know what percentage of John's income to deduct for federal income taxes and state income taxes? (*Answers will vary, but some students may know that employees must complete various forms that give the employer the information needed to determine this.*)
7. Explain that once people are hired for a job, there are various forms they must complete. One of these is **Form W-4**. This is a federal form. There are state forms that must be completed as well, which vary from state to state. Explain the following:
- Form W-4 is a form required by the Internal Revenue Service (IRS).
  - The W-4 allows employers to determine what amount of income tax they should deduct from each employee's paycheck based on that person's situation, such as whether he or she is married or single.
  - Even if you are a student, it isn't likely that you are exempt from tax withholdings.
  - Each April, anyone who earned income must file a federal income tax return with the IRS. If over the course of the year more of your income than necessary was withheld, you will receive a refund from the federal government.
  - Employees are expected to complete the W-4 accurately and honestly when starting a new job or if their status changes in some way.
  - If you make mistakes such as entering the wrong Social Security number or using a nickname, you could delay or prevent receipt of any tax refund you are owed.
8. Display *Handout 2.2: Form W-4* and distribute a copy to each student. Explain that the form is completed for John A. Dough. Have a student read the paragraph above the form about John Dough. Then, ask a student to read the paragraphs on the form titled "Exemption from withholding" and "Note." Point out that an exemption reduces the amount of income that is subject to tax. Taxpayers can claim a personal exemption and exemptions for people who are dependent on the taxpayer. For example, each dependent a parent claims reduces the amount of income on which the parent pays taxes.
9. Either (i) visit [http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/) and work through the chat or (ii) discuss the following:

- Why can't John claim exempt status? (*His parents still claim him as a dependent.*)
  - What number did John enter on line B? ("*1*" because he is single with only one job)
  - What did John enter on line C? (*Nothing.*) Why? (*He is not married.*)
  - What did John enter on line D? (*Nothing.*) Why? (*He has no dependents [children].*)
  - Why did John leave line E blank? (*He is not the head of a household.*)
  - What did John enter on line F? (*Nothing.*) Why? (*He has no child or dependent-care expenses.*)
  - What did John enter on line G? (*Nothing.*) Why? (*He has no children.*)
  - What total did John enter on line H? ("*1*")
10. Point out that exempt does not mean that the person does not have to pay other kinds of taxes such as Social Security taxes. Discuss the following:
- FICA stands for Federal Insurance Contributions Act. The **FICA tax** is a U.S. payroll tax used to fund Social Security and Medicare.
  - Social Security is a federal program that provides benefits for retirees, the disabled, and the minor children of deceased workers.
  - Medicare is a federal program that provides health insurance for people 65 years of age or older and people under 65 with certain disabilities.
  - Employees and employers each pay a share of the FICA tax: For 2013, the employee's share was 7.65 percent (6.2 percent for Social Security and 1.45 percent for Medicare) and the employer's share was also 7.65 percent of the employee's gross income. So, the total FICA tax in 2013 was 15.3 percent of an employee's gross income.
11. Redisplay Handout 2.1. Discuss the following:
- How much was withheld for Social Security from John Dough's check?  
( $0.062 \times \$240 = \$14.88$ )
  - How much was withheld for Medicare from John Dough's check?  
( $0.0145 \times \$240 = \$3.48$ )
  - John's employer, ABC Mart, also paid \$14.88 in Social Security and \$3.48 in Medicare for John, but these payments are not indicated on the pay stub.
  - Self-employed people are responsible for paying the entire FICA percentage because they are both employer and employee.
12. Display *Visual 2.1: Form W-2 Wage and Tax Statement*. Explain that this is another important form related to working. This form is a summary of a person's earning and tax withholding for an entire year. Workers receive a personalized Form W-2 from their

---

### It's Your Paycheck!

employers around the end of January for the previous year’s work. The forms can arrive in the mail, be provided in person or, with the worker’s consent, received electronically.

13. Explain that this is what the W-2 for John Dough looked like at the end of the year. Note the text in the bottom left-hand corner that says, “To Be Filed With Employee’s FEDERAL Tax Return.” Point out that it is important for people to hold on to their W-2 form(s) when they receive them. People are required to submit their W-2 form(s) to the IRS with their tax return. Tell students to refer to John Dough’s W-2 to answer the following questions:
  - How much did John earn in 2013? (*\$5,140*)
  - At a wage of \$10 per hour, how many hours did John work to earn \$5,140? (*514 hours*)
  - How much was withheld for federal income tax in 2013? (*\$514.00*)
  - How much was withheld for the Social Security tax? (*\$318.68*)
  - How much was withheld for the Medicare tax? (*\$74.53*)
  
14. Point out that on the W-2 box 3 is “Social Security wages” and box 5 is “Medicare wages and tips.” John is required to pay these taxes on the full amount he earned—\$5,140. However, there is a Social Security income cap that changes from year-to-year. Once people have earned the cap amount, they do not pay Social Security tax on additional earnings. For example, in 2013 the cap was \$113,700. A person who earned more than \$113,700 did not pay Social Security taxes on additional earnings.
  
15. Remind the students that taxpayers are required to complete a form reporting income earned and taxes paid in the previous year, which must be submitted by April 15 of the current year to the IRS. The 1040EZ is the simplest form to submit. If during 2013 John paid more income tax than he was required to, he will receive a refund from the federal government. Discuss the following:
  - Taxes are collected on a “pay as you go” principle, which means that as people earn income, they pay taxes rather than waiting until the end of the year to pay all taxes.
  - Many people, therefore, try to adjust the amount of money they have withheld so that they pay the correct amount of taxes for each paycheck. That way, they don’t have to pay additional taxes when they submit their income tax form.
  - Some people, however, prefer to receive a refund each year; so, they purposely pay more than they need to pay per pay period. This is often referred to as “forced savings.” The government collects the money during the year and refunds it to the taxpayer after they submit an income tax form. The taxpayer then has a lump sum to purchase a large item or place in savings.
  - Note that the government does not pay you interest on your overpayment. Therefore, it might be a better idea to have the correct amount withheld rather

than overpaying and to instead put your savings in an interest-bearing account during the year.

- Were you surprised to learn that workers receive less income than they actually earn? (*Answers will vary; most students will likely have known taxes were deducted but perhaps not the actual amounts.*)

16. Point out that nearly all workers feel surprised when they see their first paycheck and find that the amount they thought they would receive is reduced because of various deductions. Explain the following:

- Everyone in the United States is required to pay taxes on the money he or she earns.
- Employers are required by law to send the money withheld from employees' pay to various federal and state agencies. The tax revenue collected from workers is added together to pay for the goods and services that federal, state, and local governments provide for citizens and to pay the costs of operating the government.

17. Discuss the following:

- What are some goods and services the federal government provides for citizens? (*Answers will vary but may include roads, bridges, national parks, and national defense.*)
- What are some goods and services that state governments provide for their citizens? (*Answers will vary but may include state roads, state parks, state troopers, and public education.*)
- What are some goods and services that local governments provide for their citizens? (*Answers will vary but may include street lights, fire and police protection, and public education.*)

---

## Closure

18. Review the key points of the lesson by discussing the following:

- What are wages? (*Wages are a form of income people receive for work they do.*)
- What is income? (*Income is payment people receive for providing resources in the market.*)
- What are taxes? (*Taxes are government fees on business and individual income, activities, products, or property that people are required to pay.*)
- What is gross pay? (*Gross pay is the amount people earn in a pay period before any deductions or taxes are taken out.*)
- What is net pay? (*Net pay is take-home pay; it is the amount received after taxes and deductions have been taken out of gross pay.*)

---

## It's Your Paycheck!

- What is the FICA tax? (*The FICA tax is a tax resulting from the Federal Insurance Contributions Act.*)
- What does the FICA tax fund? (*Social Security and Medicare*)
- Who pays the FICA tax? (*Both employees and employers pay the FICA tax.*)
- What is Form W-4 and for what is it used? (*Form W-4 is a form that must be completed by an employee before starting a job. It is used by the employer to determine the amount of federal and state income tax to withhold for the employee.*)
- What is Form W-2? (*Form W-2 is a form employers must provide to each employee shortly after year-end to report annual income and withholding for the employee’s tax return.*)

---


## **Assessment**

19. Distribute a copy of *Handout 2.3: Assessment* to each student. Instruct students to read the directions and complete the handout.
20. Display *Handout 2.3: Assessment—Answer Key* and allow students to check their answers.



### Visual 2.1: Form W-2 Wage and Tax Statement

John Dough received a Form W-2 Wage and Tax Statement from his employer, ABC Mart, before January 31 of the current year for his work the previous year, as required by the IRS. His completed Form W-2 is below.

XXXX		<b>a</b> Employee's social security number 123-45-6789		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> .	
<b>b</b> Employer identification number (EIN) XXXX		<b>1</b> Wages, tips, other compensation \$5,140		<b>2</b> Federal income tax withheld \$514.00					
<b>c</b> Employer's name, address, and ZIP code ABC Mart 10 Washington St. Our Town, USA 12345		<b>3</b> Social security wages \$5,140		<b>4</b> Social security tax withheld \$318.68					
		<b>5</b> Medicare wages and tips \$5,140		<b>6</b> Medicare tax withheld \$74.53					
		<b>7</b> Social security tips		<b>8</b> Allocated tips					
<b>d</b> Control number		<b>9</b> Advance EIC payment		<b>10</b> Dependent care benefits					
<b>e</b> Employee's first name and initial John A. Dough 123 Main Street Our Town, USA 12345		<b>11</b> Nonqualified plans		<b>12a</b> See instructions for box 12					
		<b>13</b> Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		<b>12b</b>					
		<b>14</b> Other		<b>12c</b>					
<b>f</b> Employee's address and ZIP code				<b>12d</b>					
<b>15</b> State XX	Employer's state ID number XXXX	<b>16</b> State wages, tips, etc. \$5,140	<b>17</b> State income tax \$107.94	<b>18</b> Local wages, tips, etc. XX	<b>19</b> Local income tax XX	<b>20</b> Locality name XX			

**Form W-2 Wage and Tax Statement 2013** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
 This information is being furnished to the Internal Revenue Service.

### It's Your Paycheck!

© 2014, Federal Reserve Banks of St. Louis. Permission is granted to reprint or photocopy this lesson in its entirety for educational purposes, provided the user credits the Federal Reserve Bank of St. Louis, [www.stlouisfed.org/education\\_resources](http://www.stlouisfed.org/education_resources).

### Handout 2.1: John A. Dough's Pay Stub

John Dough is 16 years old and recently started his first job at ABC Mart. The pay stub for his first two weeks of work is below.

<b>ABC Mart</b>		<b>John A. Dough</b>		<b>Allowances</b>	
<b>SSN</b>		123-45-6789		<b>Federal</b>	1
<b>Employee ID</b>		98765		<b>State</b>	1
<b>Pay Period</b>		1/1/13 to 1/14/13		<b>Hourly Rate</b>	\$10.00
<b>Pay Date</b>		2/3/13		<b>Hours Worked This Pay Period</b>	
				<b>Regular</b>	24
				<b>Overtime</b>	0
				<b>Holiday</b>	0
<b>Earnings</b>					
		<b>This Period</b>		<b>YTD</b>	
<b>Regular Pay</b>					
<b>Overtime Pay</b>			\$0.00		\$0.00
<b>Holiday Pay</b>			\$0.00		\$0.00
<b>Total Pay</b>					
<b>Deductions</b>					
		<b>This Period</b>		<b>YTD</b>	
<b>Federal Income Tax</b>			\$24.74		\$24.74
<b>Social Security Tax (FICA)</b>			\$14.88		\$14.88
<b>Medicare Tax (FICA)</b>			\$3.48		\$3.48
<b>State Income Tax</b>			\$5.04		\$5.04
<b>Medical Insurance</b>			\$0.00		\$0.00
<b>Retirement [401(k)]</b>			\$0.00		\$0.00
<b>Total Deductions</b>			\$48.14		\$48.14
<b>Net Pay</b>					
		<b>This Period</b>		<b>YTD</b>	
<b>Gross Pay</b>			\$240.00		\$240.00
<b>Total Deductions</b>			\$48.14		\$48.14
<b>Net Pay</b>			\$191.86		\$191.86

**It's Your Paycheck!**

## Handout 2.2: Form W-4

When John Dough started his first job at ABC Mart in Our Town, USA, he filled out Form W-4 below. He is 16 years old, is not married, and does not have any children. John's parents still claim him as a dependent on their tax return.

### Form W-4 (2013)

**Purpose.** Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

**Exemption from withholding.** If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2014 expires February 17, 2015. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds \$1,000 and includes more than \$350 of unearned income (for example, interest and dividends).

**Exceptions.** An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than \$1,000,000.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

**Head of household.** Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

**Nonwage income.** If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

**Two earners or multiple jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

**Nonresident alien.** If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2014. See Pub. 505, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

**Future developments.** Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at [www.irs.gov/w4](http://www.irs.gov/w4).

### Personal Allowances Worksheet (Keep for your records.)

<b>A</b>	Enter "1" for <b>yourself</b> if no one else can claim you as a dependent . . . . .	<b>A</b>	_____
<b>B</b>	Enter "1" if: <ul style="list-style-type: none"> <li>• You are single and have only one job; or</li> <li>• You are married, have only one job, and your spouse does not work; or</li> <li>• Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.</li> </ul>	<b>B</b>	1
<b>C</b>	Enter "1" for your <b>spouse</b> . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . .	<b>C</b>	_____
<b>D</b>	Enter number of <b>dependents</b> (other than your spouse or yourself) you will claim on your tax return . . . . .	<b>D</b>	_____
<b>E</b>	Enter "1" if you will file as <b>head of household</b> on your tax return (see conditions under <b>Head of household</b> above) . . . . .	<b>E</b>	_____
<b>F</b>	Enter "1" if you have at least \$2,000 of <b>child or dependent care expenses</b> for which you plan to claim a credit . . . . .	<b>F</b>	_____
<b>G</b>	<b>Child Tax Credit</b> (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. <ul style="list-style-type: none"> <li>• If your total income will be less than \$65,000 (\$95,000 if married), enter "2" for each eligible child; then <b>less</b> "1" if you have three to six eligible children or <b>less</b> "2" if you have seven or more eligible children.</li> <li>• If your total income will be between \$65,000 and \$84,000 (\$95,000 and \$119,000 if married), enter "1" for each eligible child . . . . .</li> </ul>	<b>G</b>	_____
<b>H</b>	Add lines A through G and enter total here. ( <b>Note.</b> This may be different from the number of exemptions you claim on your tax return.) ▶	<b>H</b>	1
	For accuracy, complete all worksheets that apply. <ul style="list-style-type: none"> <li>• If you plan to <b>itemize</b> or <b>claim adjustments to income</b> and want to reduce your withholding, see the <b>Deductions and Adjustments Worksheet</b> on page 2.</li> <li>• If you are <b>single and have more than one job</b> or are <b>married and you and your spouse both work</b> and the combined earnings from all jobs exceed \$50,000 (\$20,000 if married), see the <b>Two-Earners/Multiple Jobs Worksheet</b> on page 2 to avoid having too little tax withheld.</li> <li>• If <b>neither</b> of the above situations applies, <b>stop here</b> and enter the number from line H on line 5 of Form W-4 below.</li> </ul>		

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

<b>W-4</b>		<b>Employee's Withholding Allowance Certificate</b>		OMB No. 1545-0074
Form Department of the Treasury Internal Revenue Service		▶ <b>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.</b>		<b>2013</b>
1 Your first name and middle initial <b>John A.</b>		Last name <b>Dough</b>		2 Your social security number <b>123-45-6789</b>
Home address (number and street or rural route) <b>123 Main Street</b>		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <b>Note.</b> If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code <b>Our Town USA 12345</b>		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"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)	6 Additional amount, if any, you want withheld from each paycheck		7 I claim exemption from withholding for 2014, and I certify that I meet <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no</b> tax liability, <b>and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no</b> tax liability.</li> </ul> If you meet both conditions, write "Exempt" here . . . . . ▶	8 \$ _____
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.) ▶ <b>John A. Dough</b>			Date ▶ <b>Jan. 11, 2013</b>	
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.) <b>ABC Mart, 10 Washington St., Our Town</b>		9 Office code (optional)	10 Employer identification number (EIN)	
For Privacy Act and Paperwork Reduction Act Notice, see page 2.		Cat. No. 10220Q		Form <b>W-4</b> (2014)

## It's Your Paycheck!

© 2014, Federal Reserve Banks of St. Louis. Permission is granted to reprint or photocopy this lesson in its entirety for educational purposes, provided the user credits the Federal Reserve Bank of St. Louis, [www.stlouisfed.org/education\\_resources](http://www.stlouisfed.org/education_resources).

## Handout 2.3: Assessment (Page 1 of 4)

Directions: An actual Form W-4 is provided below. Read the information, review the form, and answer the questions that follow.

### Form W-4 (2013)

**Purpose.** Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

**Exemption from withholding.** If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2014 expires February 17, 2015. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds \$1,000 and includes more than \$350 of unearned income (for example, interest and dividends).

**Exceptions.** An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than \$1,000,000.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

**Head of household.** Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

**Nonwage income.** If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

**Two earners or multiple jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

**Nonresident alien.** If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2014. See Pub. 505, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

**Future developments.** Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at [www.irs.gov/w4](http://www.irs.gov/w4).

### Personal Allowances Worksheet (Keep for your records.)

<b>A</b>	Enter "1" for <b>yourself</b> if no one else can claim you as a dependent . . . . .	<b>A</b> _____
<b>B</b>	Enter "1" if: <ul style="list-style-type: none"> <li>• You are single and have only one job; or</li> <li>• You are married, have only one job, and your spouse does not work; or</li> <li>• Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.</li> </ul>	<b>B</b> _____
<b>C</b>	Enter "1" for your <b>spouse</b> . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . .	<b>C</b> _____
<b>D</b>	Enter number of <b>dependents</b> (other than your spouse or yourself) you will claim on your tax return . . . . .	<b>D</b> _____
<b>E</b>	Enter "1" if you will file as <b>head of household</b> on your tax return (see conditions under <b>Head of household</b> above) . . . . .	<b>E</b> _____
<b>F</b>	Enter "1" if you have at least \$2,000 of <b>child or dependent care expenses</b> for which you plan to claim a credit . . . . .	<b>F</b> _____
<b>G</b>	<b>Child Tax Credit</b> (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. <ul style="list-style-type: none"> <li>• If your total income will be less than \$65,000 (\$95,000 if married), enter "2" for each eligible child; then less "1" if you have three to six eligible children or less "2" if you have seven or more eligible children.</li> <li>• If your total income will be between \$65,000 and \$84,000 (\$95,000 and \$119,000 if married), enter "1" for each eligible child . . . . .</li> </ul>	<b>G</b> _____
<b>H</b>	Add lines A through G and enter total here. ( <b>Note.</b> This may be different from the number of exemptions you claim on your tax return.) ►	<b>H</b> _____

For accuracy, complete all worksheets that apply.

- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed \$50,000 (\$20,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

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

Form <b>W-4</b> Department of the Treasury Internal Revenue Service	<h3>Employee's Withholding Allowance Certificate</h3> <p>► <b>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.</b></p>	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold; text-align: center;">2013</div>
1 Your first name and middle initial	Last name	2 Your social security number
Home address (number and street or rural route)		
City or town, state, and ZIP code		
3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <b>Note.</b> If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
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"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)	5	
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 <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no</b> tax liability, <b>and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no</b> tax liability.</li> </ul> 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)

## It's Your Paycheck!

### Handout 2.3: Assessment (Page 2 of 4)

1. What do the words "exempt" and "exemption" mean on the form?
  
2. Parents claim their children as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?
  
3. Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. She is having trouble filling out her W-4 form. Write Angela an e-mail telling her why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

---

### It's Your Paycheck!

**Handout 2.3: Assessment (Page 3 of 4)**

Directions: Review Angela's second pay stub below and answer the questions on the next page.

<b>Grayline Electric</b>		<b>Angela Smith</b>		<b>Allowances</b>	
<b>SSN</b>	234-56-7890	<b>Federal</b>	1	<b>State</b>	1
<b>Employee ID</b>	56789				
<b>Pay Period</b>	2/1/13 to 2/28/13				
<b>Pay Date</b>	3/3/13				
<b>Earnings</b>					
		<b>This Period</b>		<b>YTD</b>	
<b>Regular Pay</b>		\$4,125.00		\$8,250.00	
<b>Vacation</b>		\$0.00		\$0.00	
<b>Total Income/Pay</b>		\$4,125.00		\$8,250.00	
<b>Before Tax Deductions</b>					
		<b>This Period</b>		<b>YTD</b>	
<b>Medical Insurance</b>		\$90.00		\$180.00	
<b>Retirement [401(k)]</b>		\$247.50		\$495.00	
<b>Total Before Tax Deductions</b>		\$337.50		\$675.00	
<b>Taxes</b>					
		<b>This Period</b>		<b>YTD</b>	
<b>Federal Income Tax</b>		\$598.87		\$1,197.74	
<b>Social Security Tax (FICA)</b>		\$255.75		\$511.50	
<b>Medicare Tax (FICA)</b>		\$59.81		\$119.62	
<b>Total</b>		\$914.43		\$1,828.86	
		<b>This Period</b>		<b>YTD</b>	
<b>Gross Pay</b>		\$4,125.00		\$8,250.00	
<b>Total Deductions</b>		\$1,125.93		\$2,503.86	
<b>Net Pay</b>		\$2,873.07		\$5,746.14	

**Handout 2.3: Assessment (Page 3 of 4)**

1. What is Angela's gross pay for this pay period? \_\_\_\_\_
  
2. What is Angela's net pay for this pay period? \_\_\_\_\_
  
3. Define net pay:
  
  
  
  
  
  
  
  
  
  
4. Define taxes:
  
  
  
  
  
  
  
  
  
  
5. For what do governments use tax revenues?
  
  
  
  
  
  
  
  
  
  
6. How much has Angela paid in FICA taxes so far this year? \_\_\_\_\_
  
  
  
  
  
  
  
  
  
  
7. What does FICA stand for, and how are FICA taxes collected used?
  
  
  
  
  
  
  
  
  
  
8. How much did Angela pay in federal income tax this pay period? \_\_\_\_\_

---

**It's Your Paycheck!**

### Handout 2.3: Assessment—Answer Key (page 1 of 2)

1. What do the words “exempt” and “exemption” mean on the form?

*If a person is exempt, they do not have to pay federal income tax. A person must meet specific criteria in order to be exempt. Exempt does not mean that the person does not have to pay other kinds of taxes such as Social Security taxes.*

*An exemption reduces the amount of income that is subject to tax. Taxpayers can claim personal exemption and exemptions for people who are dependent on the taxpayer.*

2. Parents claim their children as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?

*Each dependent a parent claims reduces the amount of income on which taxes must be paid.*

3. Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. She is having trouble filling out her W-4 form. Write Angela an e-mail telling her why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

*Answers will vary. Students might say something like the following:*

*Hi Angela,*

*You must complete the W-4 form so that your employer knows how much money to take out of your gross pay for federal income taxes and the FICA tax. You are not exempt from paying taxes, so you must fill out the Personal Allowance Worksheet. You are not a head of household, so that paragraph does not apply to you. You are not eligible for tax credits; you do not have a large amount of nonwage income such as interest on savings or dividends on stock you own; you only have one job; you are not married; and you are not an alien. So, none of the other paragraphs apply to you.*

*You can enter a “1” on line A because no one else is claiming you as a dependent.*

*You can enter a “1” on line B because you are single and have only one job.*

*You should not enter a “0” on line C because you are not married.*

*You should not enter a “0” on line D because you have no children or other dependents.*

*You should not enter anything on lines E, F, or G because you are not the head of a household, you do not have child or dependent-care expenses, and you are not eligible for a child tax credit.*

*Add the numbers you entered on lines A through G and write the total on line H. In your case, the total is 2.*



### Handout 2.3: Assessment—Answer Key (page 2 of 2)

1. What is Angela's gross pay for this pay period?

*\$4,125.00*

2. What is Angela's net pay for this pay period?

*\$2,873.07*

3. Define net pay:

*Net pay is the remainder after all deductions and taxes are subtracted from gross pay.*

4. Define taxes:

*Taxes are government fees on business and individual income, activities, products, or property.*

5. For what do governments use tax revenues?

*Governments use tax dollars to operate and to provide goods and services for the public.*

6. How much has Angela paid in FICA taxes so far this year?

*\$631.12 (\$511.50 + \$119.62)*

7. What does FICA stand for, and how are FICA taxes collected used?

*FICA stands for Federal Insurance Contributions Act. FICA taxes are used for (i) Social Security payments to workers who are retired, the disabled, and minor children of deceased workers and for (ii) Medicare, which is health insurance for people 65 years of age or older and people under 65 with certain disabilities.*

8. How much did Angela pay in federal income taxes this pay period?

*\$598.87*

---

### It's Your Paycheck!

## Standards and Benchmarks

### National Standards for Financial Literacy

**Standard 1, Earning Income:** Income for most people is determined by the market value of their labor, paid as wages and salaries. People can increase their income and job opportunities by choosing to acquire more education, work experience, and job skills. The decision to undertake an activity that increases income or job opportunities is affected by the expected benefits and costs of such an activity. Income also is obtained from other sources such as interest, rents, capital gains, dividends, and profits.

- **Grade 8, Benchmark 11:** Social Security is a government program that taxes the income of current workers to provide retirement, disability, and survivor benefits for workers or their dependents.
- **Grade 12, Benchmark 7:** Taxes are paid to federal, state, and local governments to fund government goods and services and transfer payments from government to individuals. The major types of taxes are income taxes, payroll (Social Security) taxes, property taxes, and sales taxes.
- **Grade 12, Benchmark 8:** Peoples’ sources of income, amount of income, as well as the amount and type of spending affect the types and amounts of taxes paid.

### Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, & Technical Subjects

#### History/Social Studies

- **Craft and Structure**

CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

CCSS.ELA-Literacy.RH.9-10.4: Determine the meaning of words and phrases as they are used in the text, including figurative and connotative meanings; analyze the cumulative impact of specific word choices on meaning and tone (e.g., how the language evokes a sense of time and place; how it sets a formal or informal tone).

#### Science and Technical Subjects

- **Key Ideas and Details**

CCSS.ELA-Literacy.RST.6-8.2: Determine the central ideas or conclusions of a text; provide an accurate summary of the text distinct from prior knowledge or opinions.

CCSS.ELA-Literacy.RST.6-8.3: Follow precisely a multistep procedure when carrying out experiments, taking measurements, or performing technical tasks.

CCSS.ELA-Literacy.RST.9-10.2: Determine the central ideas or conclusions of a text; trace the text’s explanation or depiction of a complex process, phenomenon, or concept; provide an accurate summary of the text.

CCSS.ELA-Literacy.RST.9-10.3: Follow precisely a complex multistep procedure when carrying out experiments, taking measurements, or performing technical tasks, attending to special cases or exceptions defined in the text.

CCSS.ELA-Literacy.RL.11-12.2: Determine two or more themes or central ideas of a text and analyze their development over the course of the text, including how they interact and build on one another to produce a complex account; provide an objective summary of the text.

CCSS.ELA-Literacy.RL.11-12.3: Analyze the impact of the author’s choices regarding how to develop and relate elements of a story or drama (e.g., where a story is set, how the action is ordered, how the characters are introduced and developed).

---

**It’s Your Paycheck!**

