It's Your Paycheck!

Lesson 2:

"W" is for Wages, W-4, and W-2

Standards and Benchmarks (see page 2.18)

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 email.

Grade Level

6-12

Concepts

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

Compelling Question

Why does my gross pay differ from my net pay?

Objectives

Students will be able to

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

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Time Required

60-75 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 2: 'W' is for Wages, W-4, and W-2"
- Handouts 2.1, 2.2, and 2.3, one copy of each for each student
- Handout 2.3 Answer Key, one copy for the teacher to use as a visual
- Optional: Personal Finance 101 Conversations video series—W-4; https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-22-w-4-form

Procedure

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 people work for many different reasons. Work can provide a social avenue; there's usually time for a laugh or short conversation with friends. Work can provide experience and a sense of accomplishment. Display Slide 1 and explain that work also provides **income**, which 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 others in this area earn? (*Answers will vary.*)
   - How many hours would you expect to work at a part-time job during the year? (*Answers will vary.)*
   - How many hours would you expect to work at a part-time job during the summer? (*Answers will vary.*)

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3. Display Slide 2 and distribute a copy of *Handout 2.1: John A. Dough's Pay Stub* to each student. Ask a student to read the information about John A. Dough in the paragraph by the pay stub. Discuss the following:
   - How much income did John A. Dough earn during his first pay period? (*$360—the amount listed as gross pay*)
   - 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.
   - Point out that John had no overtime or holiday pay this period, so total pay for this period and year-to-date are also $360.

4. Refer the students to the "**Net Pay**" line at the bottom of Handout 2.1. Point out that net pay is the amount that John actually received. Discuss the following:
   - Why did John earn $360 and receive only $310.06? (*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 mandatory payments individuals, households, and businesses make to local, state, or national governments. 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 for 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 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. Display Slide 3 and discuss the following:
   - How much federal income tax was withheld from John's check? (*$21.40*)
   - What percentage of his income was withheld for federal income tax? (*$21.40/$360.00 = 5.9%*)
   - John works in a state that has a state income tax. How much was withheld for state income taxes? (*$1.00*)
   - 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. Point out that when people have the opportunity to contribute to a retirement savings plan by withholding money from their net income, they should.
   - 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.*)

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7. Explain that once people are hired for a job, there are various forms they must complete. (NOTE: Use the following video to discuss completing an I-9 form: https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-21-i-9-form.) There is **Form W-4**, which 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. Distribute a copy of *Handout 2.2: Form W-4* 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 paragraph on the form titled "Exemption from withholding." Discuss the following:
   - Point out that taxpayers who meet the two criteria can claim exemption from withholding so that an employer will not withhold any money for income tax.
   - The two criteria are (i) you paid no taxes the previous year, meaning you got a refund of all your federal income tax withheld last year because you had no tax liability; and (ii) your earned income is below the established threshold.
   - In Step 3, note that having people dependent on the taxpayer's income, like children or elderly family members, reduces the amount of income subject to tax. For example, each dependent a taxpayer claims reduces the amount of income on which he or she pays taxes.
   - When you file your taxes, the government allows you a certain dollar amount to maintain your life, called a *standard deduction*. Some people have more qualifying deductions than the standard deduction. These people may elect to itemize those deductions to see if it lowers their tax bill. Some examples of itemized deductions include the amount of student loan interest a person paid, mortgage interest, and charitable contributions. The W-4 includes a deductions worksheet.

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9. Either (i) visit the Personal Finance 101 Conversations video found at https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-22-w-4-form or (ii) discuss the following:
   - Why can't John claim exempt status? (*This is John's first job. To know if he meets both criteria for exemption—zero tax liability and an earned income below the threshold—he would have had to file a tax return the previous year.*)
   - What did John mark in Step 1, part (c)? (*Single or Married filing separately*)
   - Did John complete Step 2? (*No*) Why? (*He didn't meet either of the criteria.*)
   - Did John complete Step 3? (*No*) Why? (*He has no children or dependents.*)
   - Did John complete Step 4? (*No*) Why? (*He has one job, no deductions, and doesn't plan on withholding additional tax per pay period.*)
   - What did John enter in Step 5? (*He signed and dated the W-4 under penalties of perjury.*)

10. Point out that exempt does not mean that a person does not have to pay other kinds of taxes such as Social Security taxes. Display Slide 4 and 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 2020 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 2020 was 15.3 percent of an employee's gross income.

11. Display Slide 5 and discuss the following:
   - How much was withheld for Social Security from John Dough's check? (*$22.32*)
   - How much was withheld for Medicare from John Dough's check? (*$5.22*)
   - John's employer, ABC Mart, also paid $22.32 in Social Security and $5.22 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 Slide 6 and explain that this is another important form related to working. This form is a summary of a person's earnings and tax withholding for an entire year. Workers receive a personalized **Form W-2** from their employers around the end of January for the previous year's work.

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The forms can arrive in the mail, be provided in person, or, with a 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 for the year? (*$8,640*)
    - At a wage of $15 per hour, how many hours did John work to earn $8,640? (*576 hours*)
    - How much was withheld for federal income tax for the year? (*$513.60*)
    - How much was withheld for the Social Security tax? (*$535.68*)
    - How much was withheld for the Medicare tax? (*$125.28*)

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—$8,640. 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, if in a given year the cap was $137,700, a person who earned more than $137,700 did not pay Social Security taxes on additional earnings.

15. Display Slide 7 and 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. 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, use their W-4 to 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; that is, they have more withheld each pay period than they need to. People often refer to this 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 overpay and to instead put your savings in an interest-bearing account during the year.

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- 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. Display Slides 8-10 and 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 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 local governments provide for their citizens? (*Answers will vary but may include streetlights, fire and police protection, and public education.*)

Closure

18. Display Slides 11-20 and 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 mandatory government payments on business and individual income, activities, products, and property.*)
    - How does gross pay differ from net pay? (*Gross pay is the amount people earn in a pay period before any deductions or taxes are taken out. Net pay is take-home pay; it is the amount received after taxes and deductions have been taken out of gross pay.*)
    - 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.*)

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- 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 an employer must provide to each employee shortly after year-end to report annual income and withholding for an 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.

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Handout 2.1: John A. Dough's Pay Stub

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

ABC Mart	John A. Dough
SSN	123-45-6789
Employee ID	98765
Pay Period	1/1/XX to 1/14/XX
Pay Date	2/3/20XX
Allowances	
Federal	1
State	1
Hourly Rate	$15.00
Hours Worked this Pay Period	
Regular	24
Overtime	0
Holiday	0

Earnings		
	This Period	YTD
Regular Pay		
Overtime Pay	$0.00	$0.00
Holiday Pay	$0.00	$0.00
Total Pay		

Deductions		
	This Period	YTD
Federal Income Tax	$21.40	$21.40
Social Security Tax (FICA)	$22.32	$22.32
Medicare Tax (FICA)	$5.22	$5.22
State Income Tax	$1.00	$1.00
Medical Insurance	$0.00	$0.00
Retirement [401(k)]	$0.00	$0.00
Total Deductions	$49.94	$49.94

Net Pay		
	This Period	YTD
Gross Pay	$360.00	$360.00
Total Deductions	$49.94	$49.94
Net Pay	$310.06	$310.06

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Handout 2.2: Form W-4

When John Dough started his first job at ABC Mart in Our Town, USA, he filled out this Form W-4. 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** (Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate

► **Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.**
► **Give Form W-4 to your employer.**
► **Your withholding is subject to review by the IRS.**

OMB No. 1545-0074

2021

Step 1: Enter Personal Information

(a) First name and middle initial	Last name	(b) Social security number
John A.	Dough	123-45-6789

Address: 123 Main Street

City or town, state, and ZIP code: Our Town USA 12345

► **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to *www.ssa.gov*.

(c) [X] **Single** or **Married filing separately**
[ ] **Married filing jointly** or **Qualifying widow(er)**
[ ] **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at *www.irs.gov/W4App*, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at *www.irs.gov/W4App* for most accurate withholding for this step (and Steps 3–4); **or**

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . . ► [ ]

TIP: To be accurate, submit a 2021 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

If your total income will be $200,000 or less ($400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by $2,000 ► $ _____

Multiply the number of other dependents by $500 . . . . ► $ _____

Add the amounts above and enter the total here . . . . . **3** $

Step 4 (optional): Other Adjustments

(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . . **4(a)** $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . . **4(b)** $

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . **4(c)** $

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

John A. Dough
Employee's signature (This form is not valid unless you sign it.)

January 11, 20XX
Date

Employers Only

Employer's name and address	First date of employment	Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2021)

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Handout 2.3: Assessment (page 1 of 5)

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

Form **W-4** (Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate

► **Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.**
► **Give Form W-4 to your employer.**
► **Your withholding is subject to review by the IRS.**

OMB No. 1545-0074

2021

Step 1: Enter Personal Information

(a) First name and middle initial	Last name	**(b) Social security number**
Address		► **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to *www.ssa.gov*.
City or town, state, and ZIP code		

(c) ☐ **Single** or **Married filing separately**
☐ **Married filing jointly** or **Qualifying widow(er)**
☐ **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at *www.irs.gov/W4App*, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at *www.irs.gov/W4App* for most accurate withholding for this step (and Steps 3–4); **or**

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . . ► ☐

TIP: To be accurate, submit a 2021 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

If your total income will be $200,000 or less ($400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by $2,000 ► $ _____

Multiply the number of other dependents by $500 . . . . ► $ _____

Add the amounts above and enter the total here . . . . . **3** $

Step 4 (optional): Other Adjustments

(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . . **4(a)** $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . . **4(b)** $

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . **4(c)** $

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

► _____ ► _____

Employee's signature (This form is not valid unless you sign it.) **Date**

Employers Only

Employer's name and address	First date of employment	Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2021)

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Handout 2.3: Assessment (page 2 of 5)

General Instructions

Future Developments

For the latest information about developments related to Form W-4, such as legislation enacted after it was published, go to *www.irs.gov/FormW4*.

Purpose of Form

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. If too little is withheld, you will generally owe tax when you file your tax return and may owe a penalty. If too much is withheld, you will generally be due a refund. Complete a new Form W-4 when changes to your personal or financial situation would change the entries on the form. For more information on withholding and when you must furnish a new Form W-4, see Pub. 505, Tax Withholding and Estimated Tax.

Exemption from withholding. You may claim exemption from withholding for 2021 if you meet both of the following conditions: you had no federal income tax liability in 2020 **and** you expect to have no federal income tax liability in 2021. You had no federal income tax liability in 2020 if (1) your total tax on line 24 on your 2020 Form 1040 or 1040-SR is zero (or less than the sum of lines 27, 28, 29, and 30), or (2) you were not required to file a return because your income was below the filing threshold for your correct filing status. If you claim exemption, you will have no income tax withheld from your paycheck and may owe taxes and penalties when you file your 2021 tax return. To claim exemption from withholding, certify that you meet both of the conditions above by writing "Exempt" on Form W-4 in the space below Step 4(c). Then, complete Steps 1(a), 1(b), and 5. Do not complete any other steps. You will need to submit a new Form W-4 by February 15, 2022.

Your privacy. If you prefer to limit information provided in Steps 2 through 4, use the online estimator, which will also increase accuracy.

As an alternative to the estimator: if you have concerns with Step 2(c), you may choose Step 2(b); if you have concerns with Step 4(a), you may enter an additional amount you want withheld per pay period in Step 4(c). If this is the only job in your household, you may instead check the box in Step 2(c), which will increase your withholding and significantly reduce your paycheck (often by thousands of dollars over the year).

When to use the estimator. Consider using the estimator at *www.irs.gov/W4App* if you:

1. Expect to work only part of the year;

2. Have dividend or capital gain income, or are subject to additional taxes, such as Additional Medicare Tax;

3. Have self-employment income (see below); or

4. Prefer the most accurate withholding for multiple job situations.

Self-employment. Generally, you will owe both income and self-employment taxes on any self-employment income you receive separate from the wages you receive as an employee. If you want to pay these taxes through withholding from your wages, use the estimator at *www.irs.gov/W4App* to figure the amount to have withheld.

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

Specific Instructions

Step 1(c). Check your anticipated filing status. This will determine the standard deduction and tax rates used to compute your withholding.

Step 2. Use this step if you (1) have more than one job at the same time, or (2) are married filing jointly and you and your spouse both work.

Option **(a)** most accurately calculates the additional tax you need to have withheld, while option **(b)** does so with a little less accuracy.

If you (and your spouse) have a total of only two jobs, you may instead check the box in option **(c)**. The box must also be checked on the Form W-4 for the other job. If the box is checked, the standard deduction and tax brackets will be cut in half for each job to calculate withholding. This option is roughly accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld, and this extra amount will be larger the greater the difference in pay is between the two jobs.

CAUTION ***Multiple jobs.*** *Complete Steps 3 through 4(b) on only one Form W-4. Withholding will be most accurate if you do this on the Form W-4 for the highest paying job.*

Step 3. This step provides instructions for determining the amount of the child tax credit and the credit for other dependents that you may be able to claim when you file your tax return. To qualify for the child tax credit, the child must be under age 17 as of December 31, must be your dependent who generally lives with you for more than half the year, and must have the required social security number. You may be able to claim a credit for other dependents for whom a child tax credit can't be claimed, such as an older child or a qualifying relative. For additional eligibility requirements for these credits, see Pub. 972, Child Tax Credit and Credit for Other Dependents. You can also include **other tax credits** in this step, such as education tax credits and the foreign tax credit. To do so, add an estimate of the amount for the year to your credits for dependents and enter the total amount in Step 3. Including these credits will increase your paycheck and reduce the amount of any refund you may receive when you file your tax return.

Step 4 (optional).

Step 4(a). Enter in this step the total of your other estimated income for the year, if any. You shouldn't include income from any jobs or self-employment. If you complete Step 4(a), you likely won't have to make estimated tax payments for that income. If you prefer to pay estimated tax rather than having tax on other income withheld from your paycheck, see Form 1040-ES, Estimated Tax for Individuals.

Step 4(b). Enter in this step the amount from the Deductions Worksheet, line 5, if you expect to claim deductions other than the basic standard deduction on your 2021 tax return and want to reduce your withholding to account for these deductions. This includes both itemized deductions and other deductions such as for student loan interest and IRAs.

Step 4(c). Enter in this step any additional tax you want withheld from your pay **each pay period**, including any amounts from the Multiple Jobs Worksheet, line 4. Entering an amount here will reduce your paycheck and will either increase your refund or reduce any amount of tax that you owe.

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Handout 2.3: Assessment (page 3 of 5)

1. What does "exemption from withholding" mean?

2. Some people claim others 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 a text to Angela explaining why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

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Handout 2.3: Assessment (page 4 of 5)

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

Grayline Electric	Angela Smith
SSN	234-56-7890
Employee ID	56789
Pay Period	2/1/20XX to 2/28/20XX
Pay Date	3/3/20XX
Allowances	
Federal	1
State	1

Earnings		
	This Period	**YTD**
Regular Pay	$4,125.00	$8,250.00
Vacation	$0.00	$0.00
Total Income/Pay	$4,125.00	$8,250.00

Before Tax Deductions		
	This Period	**YTD**
Medical Insurance	$90.00	$180.00
Retirement [401(k)]	$200.00	$400.00
Total Before Tax Deductions	$290.00	$580.00

Taxes		
	This Period	**YTD**
Federal Income Tax	$415.71	$831.42
Social Security Tax (FICA)	$255.75	$511.50
Medicare Tax (FICA)	$59.81	$119.62
Total	$731.27	$1,462.54

Gross Pay	$4,125.00	$8,250.00
Total Deductions	$1,021.27	$2,042.54
Net Pay	$3,103.73	$6,207.46

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Handout 2.3: Assessment (page 5 of 5)

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? _____

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

1. What does "exemption from withholding" mean?

   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.

2. Some people claim others 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 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 a text to Angela explaining 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. You are not a head of household, so Step 1, part (c) does not apply to you. Since you only have one job and you are not married, you can also skip Step 2.

   You can skip Step 3 because you have no children or other dependents, and Step 4 doesn't apply because you don't have other income (not from jobs), deductions, or extra withholding to claim.

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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*

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Standards and Benchmarks

National Standards for Personal Finance Education

Standard I: Earning Income

- **Benchmarks: Grade 8**

  6. Social Security is a federal government program that taxes workers and employers to provide retirement, disability, and survivor income benefits for workers or their dependents.

  7. People are required to pay taxes on most types of income, including wages, salaries, commissions, tips, earnings on investments, and self-employment income.

- **Benchmarks: Grade 12**

  6. Federal, state, and local taxes fund government-provided goods, services, and transfer payments to individuals. The major types of taxes are income taxes, payroll taxes, property taxes, and sales taxes.

  7. The type and amount of taxes people pay depend on their sources of income, amount of income, and amount and type of spending.

  8. Interest, dividends, and capital appreciation (gains) are examples of unearned income derived from financial investments. Capital gains are subject to different tax rates than earned income.

  9. Tax deductions and credits reduce income tax liability.

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