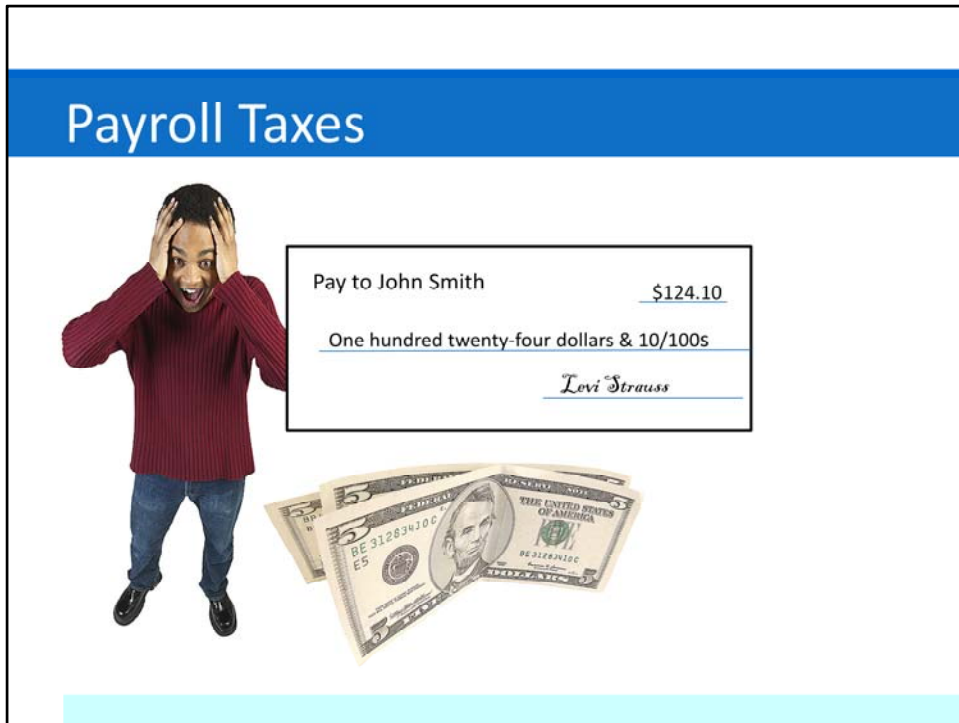


## Payroll Taxes



You just got your first check in the mail from the Levi Outlet store, where you work as a sales clerk for \$8.50 an hour. You worked twenty hours and have big plans for that one hundred seventy dollars. You open the envelope and your jaw drops. The check is for one hundred twenty-four dollars and ten cents. What happened? Did the company make a mistake? Nope. They paid you one hundred seventy dollars, but then they withdrew forty-five dollars and ninety cents for a whole bunch of things you've never heard of. Welcome to the working world!

Why did your employer take out all that money out of your paycheck? You didn't authorize it. Or did you? All of this money was withheld as taxes, payments for retirement, health care costs and other kinds of programs. Let's look at these different payroll deductions and see where they go.

# The W-4 Form

----- Cut 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 **2010**

▶ 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.

1 Type or print your first name and middle initial. Last name 2 Your social security number

Home address (number and street or rural route) 3  Single  Married  Married, but withhold at higher Single rate. (the "Single" box.)

City, town, village, 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.

5 Total allowances claimed for 2010. 6 Additional withholding. 7 I claim exemption from withholding for 2010, and I certify that I meet both of the following conditions for exemption:  
• I am a U.S. citizen or resident alien.  
• I have no other income subject to withholding.  
If you meet both conditions, write "Exempt" here.

Under penalty 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 (Form is not valid unless you sign it.)

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** (2010)

Determines what your employer withholds from each paycheck  
Fill it out accurately or you may face a big tax bill!

With all these deductions, how is there going to be anything left in your paycheck? Don't worry! The good news is that you have some control over how much of your money is automatically deducted from your paycheck.

Before you ever start a job at a company, you must complete an IRS W-4 form. How you complete this form determines what your employer withholds from each paycheck. For example, are you married or single? Do you have any children? It's very important that you complete the W-4. If it isn't complete, your employer may withhold too much or too little from your paycheck. While it might sound good to get too little withheld, it's not so good when you end up having to write a big check when you file!

## How Allowances Affect Your Paycheck

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

Form **W-4** **Employee's Withholding Allowance Certificate** DMB No. 1545-0074

Department of the Treasury Internal Revenue Service **2010**

Whether you are entitled to claim a certain number of allowances, you must file Form W-4 with your employer. Your employer must use the information on Form W-4 to determine the amount of federal income tax to withhold from your pay.

1 Type or print your first name and middle initial. Last name

Home address (number and street or rural route)

City

5 Total number of allowances you claim for yourself

6 Additional allowances you claim for your spouse, dependent, or other person

7 I am claiming the following allowances:

- I am claiming the standard deduction and I am not claiming any other federal income tax withholding allowances.
- I am claiming the standard deduction and I am claiming federal income tax withholding allowances.

If you meet both conditions, write "Exempt" here

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

Employee's signature (Form is not valid unless you sign it.)

8 Employer's name and address (Employer: Complete lines 8 and 10 only if you are an employer.)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 102200 Form **W-4** (2010)

**Number of Allowances** →

You receive a specific amount of money for each allowance that you claim. The more allowances you claim, the less amount of money is deducted from your paycheck

When you file a W-4 form with your employer, you tell them how many allowances or dependents you have. The more allowances you have, the less tax that is withheld from each paycheck. Why would this be the case? Does it cost more money to raise one child, or two? The federal government recognizes that it costs more money to raise more children, so they charge less tax the more children you have, up to a point. As a result, they withhold less money the more dependents you have.

While you are not allowed to exaggerate the number of dependents you have, you are allowed to claim fewer allowances than you actually have, which will result in greater paycheck withholdings.

# W-4 Form

**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.

## Form W-4 (2010)

**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 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

**Basic instructions.** If you are not exempt, complete the Exemption Worksheet below. The instructions further adjust your withholding allowances based on earned deductions, other adjustments to income, or factoring in multiple job 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 may claim head of household filing status on your tax return only if you are unmarried and pay more than half the costs of keeping up a home.

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 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, minus adjustments from other

**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 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

Let's look at the W-4 form and see how to fill it out.

First, notice that the purpose of the form matches what we've been talking about, and that you need to revise your W-4 whenever your personal situation changes.

Second, are you required to pay income tax, or are you exempt? Read the section Exemption from withholding. Does it apply to you?



## Are You Exempt?

If your parents claim you as a dependent, you are not exempt!

Are you exempt from paying any taxes if you have a part-time job while you are a student? Probably not. Check with your parents, but chances are that they claim you as a dependent on their tax return. As we just noted, the federal government gives people like your parents a break on their taxes for each child they support. Therefore, you will have to pay taxes.

## Example W-4

Personal Allowances Worksheet (Keep for your records.)			
A	Enter "1" for yourself if no one else can claim you as a dependent . . . . .	A	_____
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	<u>1</u>
C	Enter "1" for your spouse. 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.) . . . . .	C	_____
D	Enter number of dependents (other than your spouse or yourself) you will claim on your tax return . . . . .	D	_____
E	Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above) . . . . .	E	_____
F	Enter "1" if you have at least \$1,800 of child or dependent care expenses for which you plan to claim a credit . . . . .	F	_____
<b>(Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)</b>			
G	<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 \$61,000 (\$90,000 if married), enter "2" for each eligible child; then less "1" if you have three or more eligible children.</li> <li>• If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" additional if you have six or more eligible children.</li> </ul>	G	_____
H	Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.)	H	<u>1</u>
For accuracy, complete all worksheets that apply. <ul style="list-style-type: none"> <li>• 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.</li> <li>• If you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld.</li> <li>• If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.</li> </ul>			

Watch as fifteen-year-old John Smith completes the form. His parents still claim him on their tax returns, therefore, he is not exempt from paying taxes.

His first step is to fill out the Personal Allowances Worksheet, where he determines his allowances. He doesn't submit this portion of the form to the IRS. John enters one for himself on line B. Since his parents claim him as a dependent, he leaves line A blank. He's not married, so he leaves line C blank. Since he has no children, and therefore no childcare expenses, he leaves lines D, F and G blank. Likewise, he is not the head of household, so he leaves line E blank as well.

On line H, he adds up lines A through G. He ends up with one allowance, which is probably the same as you would have. He uses this number to complete the actual form at the bottom.



## Example W-4 (cont.)

Form <b>W-4</b>		<b>Employee's Withholding Allowance Certificate</b>		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		<p>▶ 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.</p>		<b>2010</b>
1 Type or print your first name and middle initial.		Last name		2 Your social security number
John		Smith		000 32 5454
Home address (number and street or rural route)		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withheld at higher Single rate. <small>Note, if married, but legally separated, or spouse is a nonresident alien, check the "Single" box.</small>		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.
123 Main St.				
City or town, state, and ZIP code				
Springfield, Mo.				
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
1				
7 I claim exemption from withholding for 2010, 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 all federal income tax withheld because I had no tax liability and</li> <li>• This year I expect a refund of all federal income tax withheld because I expect to have no 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		Date
(Form is not valid unless you sign it.)		John Smith		April 14, 2011
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 <b>W-4</b> (2010)

Now John needs to complete the actual form, which his employer uses to calculate how much to withhold from his paycheck.

First, he fills in all of his basic information. He should be very careful not to make any mistakes since it can cause all kinds of problems with his pay and his taxes.

He enters his name and address in section one, and his social security number in section two. He's single, so he checks that box for three, and then leaves four blank because his name matches his social security card. On line five, he enters the information from line H of the worksheet, which is one allowance. If John wanted to have the employer withhold additional funds from his paycheck for tax purposes, he would enter that amount on line six. He does not, so he leaves it blank. Line seven does not apply since John does not meet the conditions stated. Almost done. He has to sign and date the form or the form is not valid. He doesn't have to fill out sections eight, nine and ten.

Well, that's pretty simple. Now, John is ready to go to work!

# Practice

## Personal Information

Frank J. Doe  
556 Cash St.  
Detroit, MI 98696

## Social Security Number

455-89-8578

## Marital Status

Single

## Allowances

1

## Additional Tax Withholding

\$10.00

## IRS W-4 Form

### Form W-4 (2010)

**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 marital status changes.

**Exemptions from withholding.** If you are exempt, complete only lines 1, 2, 3, 4, and 7 and skip the lines to complete 5. Your exemption for 2010 begins January 15, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$100 and includes more than \$500 of presumed income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

**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 marital deductions, certain credits, adjustments to income, or tax-exempt multiple jobs situations.

Complete all worksheets that apply. However, you may claim more for your allowances, for regular wages, withholding must be based on allowances rather than on the number of jobs you work.

**Head of household.** Generally, you may 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 one dependent or other qualifying individual. See Pub. 502, Exemptions, Charitable Deductions, 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. 972, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

**Nonresident alien.** If you have a large amount of nonresident income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Likewise, you may owe additional tax. If you have pension or annuity income, see Pub. 575 for the rules that you should adjust your withholding on Form W-4 or W-4S.

**Two earners or multiple jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are allowed 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. 972 for details.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 972 to see how the amount you are having withheld compares to your projected total tax for 2010. See Pub. 972, especially if your earnings exceed \$150,000 (single) or \$180,000 (married).

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

A Enter "1" for yourself if no one else can claim you as a dependent . . . . . A

B Enter "1" if:

- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. . . . . B

C Enter "1" for your spouse. 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.) . . . . . C

D Enter number of dependents (other than your spouse or yourself) you will claim on your tax return . . . . . D

E Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above) . . . . . E

F Enter "1" if you have at least \$1,000 of child or dependent care expenses for which you plan to claim a credit . . . . . F

G Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.

- If your total income will be less than \$40,000 (\$45,000 if married), enter "1" for each eligible child.
- If your total income will be between \$40,000 and \$44,000 (\$45,000 and \$49,000 if married), enter "1" for each eligible child plus "1" additional if you have six or more eligible children.

H Add lines A through G and enter total here. (Note: This may be different from the number of exemptions you claim on your tax return.) . . . . . H

**For accuracy, complete all worksheets:**

- 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 have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$15,000 (\$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.

W-4 Employee's Withholding Allowance Certificate (OMB No. 1545-0047) 2010

1 Type in your first name and middle initial. Last name 2 Your social security number

Home address (number and street or rural route) 3 Single  Married  Married, but without at regular single rate. Write I intend to report married or single as a corrected filer, 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.

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 2010, and I certify that I meet both of the following conditions for exemption:  
• 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.

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.

Employer's signature (Even if not valid unless you sign it.) Date  
8 Employer's name and address (employer completes lines 8 and 10 only if handing to the IRS) 9 Other use (optional) 10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Form W-4 2010

Now it's your turn. Fill out the W-4 using the information on screen and submit it. Click the link to open a new form, enter the information, save the form and then submit to the dropbox. The only information you won't be able to enter is the signature and date since these cannot be completed on the computer.





## Methods of Payment

### Actual Paycheck

You can immediately see the deductions that were taken from your earnings. However, this can also be the least secure way. Why? You are responsible for taking that check to get it cashed. What if you lose it or someone steals it? This could cause you to lose money or create a delay in receiving another paycheck.

### Direct Deposit

Your employer electronically deposits your paycheck into your bank account after you give the employer your bank and account information. On pay day, you receive a statement detailing your earnings and deductions. This method is considered more secure since there is no direct handling of the actual check and you know exactly where your money will be – in your account.

Before you can get your first paycheck, you have to decide how you will get it. The most common options are either in the form of a check, or deposited directly into your bank account. Here are the plusses and minuses for each method.

Regardless of the payment method you choose, it is important that you review every paycheck or statement to ensure that your earnings and deductions are correct.

## It's Tax Time!

If you're getting a big tax refund, your paychecks have been smaller than they need to be and you've been giving a free loan to the government.

If you owe a lot of money, you might have difficulty paying the bill, unless you've been saving money for that purpose all year.

Department of the Treasury - Internal Revenue Service

**Income Tax Return for Single and Joint Filers With No Dependents** 2010

OMB No. 1545-0047

<b>Name, Address, and SSN</b> Your first name and initial, last name, and middle initial If a joint return, spouse's first name and initial, last name, and middle initial Home address (number and street), if you have a P.O. box, use instructions. City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.	Your social security number Spouse's social security number Make sure the SSN(s) above are correct.
---	---

Check here if you, or your spouse if a joint return, own 5% or more of the total value of:

1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1
2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2
3 Unemployment compensation and Alaska Permanent Fund dividends (see page 11).	3
4 Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4
5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$0,000 if single; \$10,000 if married filing jointly. See book for explanation.	5
6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-	6
7 Federal income tax withheld from Form(s) W-2 and 1099.	7
8 Making work pay credit (see worksheet on back).	8
9a Earned income credit (EIC) (see page 13).	9a
9b Nonrefundable employer pay reductions.	9b
10 Add lines 7, 8, and 9a. These are your total payments and credits.	10
11 Tax. Use the amount on line 6 above to find your tax in the tax table on page 27 through 27 of the instructions. Then, enter the tax from the table on this line. If Form 8888 is attached, check here <input type="checkbox"/> 12a	11
12a If line 10 is larger than line 11, subtract line 11 from line 10. This is your refund. If Form 8888 is attached, check here <input type="checkbox"/> 12b	12a
12b Routing number <input type="text"/> e Type <input type="checkbox"/> Checking <input type="checkbox"/> Savings	12b
13 Account number <input type="text"/>	13
14 If line 11 is larger than line 10, subtract line 10 from line 11. This is the amount you owe. For details on how to pay, see page 10.	14

**Third Party Designee**  
Do you want to allow another person to discuss this return with the IRS (see case 2007-1)?  Yes. Complete the following.  No

Designee's name	Phone	Residential identification number (RIN)
Under penalty of perjury, I declare that I have prepared this return and to the best of my knowledge and belief, it is true, correct, and accurate. I am not aware of any material omissions or misstatements of fact. I understand that anyone who furnishes false or misleading information on a tax return or who omits material or information requested on the tax return may be guilty of tax evasion, tax fraud, and other crimes that can result in imprisonment and fines. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.		
Signature	Date	Your occupation
Spouse's signature (if a joint return, both must sign)	Date	Spouse's occupation

**Paid Preparer Use Only**  
Preparer's name  Preparer's signature  Preparer's title  Preparer's address

For Disclosures, Privacy Act, and Paperwork Reduction Act Notices, see page 36. Cat. No. 11320W Form 1040EZ (2010)

The final check on your W-4 skills comes when you go to file your taxes. You'll either owe money because you deducted too little from each paycheck, or the government will owe you money because you deducted too much.

You'll want to get your deductions right because if you're getting a big tax refund, your paychecks have been smaller than they need to be and you've been giving a free loan to the government. On the other hand, if you owe a lot of money, you might have difficulty paying the bill, unless you've been saving money for that purpose all year. Owing money is usually a bigger problem for most people to handle, so you'll want to make sure you get your deductions and allowances correct.

Many individuals choose to have additional earnings withheld from their wages in order to make themselves save money or to receive the money back at the end of the year so that they don't find themselves with a big tax bill.

