

Chapter 2

Payroll and Paychecks

Objective

This simulation helps students understand all deductions in a paycheck and the impact they have on take-home pay. Students will learn to calculate the student income, tax deductions, and daily and hourly pay rates to be used for each payday. Student absences cost them a day's pay, and a tardy is a deduction of an hour's wages. This is done even if most are salaried employees to create an awareness of good work ethics. Students will also fill out a W-4 Form to specify withholding allowance to their employer.

Reproducible Masters

(Also available in PDF form on the enclosed CD)

Tax Tables for 2005. These can be used as an example for working through payroll deductions if current numbers are not available. The tax table for the current year is available online on the Internal Revenue Service Web site, www.irs.gov.

Calculating Payroll Tax Deductions Worksheet. This worksheet will help students work through calculations for their payroll deductions. Also have students fill out a W-4 Form to specify their withholding allowances.

Calculating Payroll Tax Deductions Sample. Use this as a transparency or handout to illustrate to students how tax tables are used to calculate payroll deductions.

Paycheck Forms. Students act as the accountant to complete the monthly paychecks that will be used for each payday. This activity helps students develop an understanding of how to read a paycheck. The paycheck stubs are issued for each monthly payday.

Paycheck Math Calculations Explanation. Use this master as a transparency or handout to show students how to calculate year-to-date gross pay.

Payroll Entry Worksheet Master. Use the master payroll form to calculate student paychecks for each monthly payday. This is *not* a student handout.

Payroll Entry Worksheet Sample. Review this sample to understand how the payroll works.

Monthly Payroll Worksheet Master. Use the master to keep track of students' monthly net pay as well as absences and tardies. This is *not* a student handout. (This can also be easily updated each payday using the Excel file provided.)

Monthly Payroll Worksheet Sample. Review this sample to understand how the monthly payroll works. This is *not* a student handout.

Excel Files

Payroll Entry Worksheet Master.xls. Data can be entered into this Excel file to calculate student paychecks for each monthly payday. Manual entry of data is required for the student identification number, student name, career, and yearly income. The remaining data will be calculated automatically. The tax rate information can be adjusted to reflect annual changes. You will also want to research and fill in your state's tax information.

Payroll Entry Worksheet Sample.xls. This master payroll sample has been completed to demonstrate how the payroll works using the *Payroll Entry Worksheet Master* Excel file.

Teaching Tips

- The W-4 Forms can be obtained from your school accounting office or downloaded and printed from the IRS Web site, www.irs.gov.
- Read through the instructions on the W-4 Form before having students fill it out and explain the option of claiming “zero” or one dependent in terms of the amount taken as a deduction. If a person is single, it might be wise to claim “zero” with professional wages.

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■ ■ ■ ■ Tax Tables for 2005 ■ ■ ■ ■

Federal Income Taxes—Singles

Note: The tax table is updated yearly by the IRS. This update can be found at www.irs.gov.

If taxable income is over...	but not over...	The tax is...	Plus...
\$0	\$7,300.00	\$0	10% of the amount over \$0
\$7,300.00	\$29,700.00	\$730.00	15% of the amount over \$7,300.00
\$29,700.00	\$71,950.00	\$4,090.00	25% of the amount over \$29,700.00
\$71,950.00	\$150,150.00	\$14,652.50	28% of the amount over \$71,950.00
\$150,150.00	\$326,450.00	\$36,548.50	33% of the amount over \$150,150.00
\$326,450.00	No Limit	\$94,727.50	35% of the amount over \$326,450.00

State Income Tax

Research to find out current state income tax rates, if applicable.

Medicare

Yearly Gross Income
 × 1.45%
 = yearly Medicare deduction

FICA

Yearly Gross Income
 × 6.2%
 = yearly FICA deduction

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Calculating Payroll Tax Deductions Worksheet

Name: _____ Career Choice _____

Education Required _____

Yearly Gross Pay \$ _____ (Fill in after completing Step 3.)

Step 1

Calculate the monthly gross pay: divide the yearly gross by 12. \$ _____

Step 2

Calculate deductions based on your personal yearly gross income. Show your math for all, even if you use a calculator.

Yearly Gross Deductions

Federal Income Tax

Refer to the current tax chart for the appropriate bracket for your salary. This can be found at www.irs.gov under the individual tax schedule for the current year.

Formula:

Yearly gross
 – Standard deduction (based on the current ranges)
 = \$X
 × tax rate (the current percentage brackets)
 = \$Y
 + Flat rate amount (based on student income)
 = Federal Income Tax Amount: \$ _____

Yearly State Income Tax

Formula for your state:

Yearly State Income Tax Amount: \$ _____

Federal Insurance Contributions Act (FICA)

_____ % of Gross

FICA Tax Amount: \$ _____

(continued)

Calculating Payroll Tax Deductions Worksheet (cont.)

Name: _____

Medicare

_____ % of Gross

Medicare Amount: \$ _____

Total for yearly gross deductions: \$ _____

Monthly Deductions from Monthly GrossMonthly Federal tax deduction amount (divide the yearly Federal income tax amount by 12):
\$ _____Monthly State Income Tax amount (divide yearly State income tax amount by 12):
\$ _____

Federal Insurance Contributions Act (FICA): _____ % of Gross

Monthly FICA Tax Amount: \$ _____

Medicare: _____ % of Gross

Monthly Medicare Amount: \$ _____

Total amount for monthly gross deductions (may be off by a few cents): \$ _____

Step 3

Calculating yearly and monthly net incomes.

Yearly gross – all yearly deductions = yearly net pay: \$ _____

Monthly gross – all monthly deductions = monthly net pay: \$ _____

Step 4

Calculate the daily net pay. Divide the monthly net by 20 days.

Daily pay: \$ _____

Use this amount to calculate daily pay for absences from class. This helps show the impact on your spending power.

One absence per semester is excused!

Step 5

To calculate the hourly rate, divide yearly gross by 2000 hours a year. Use this number to calculate hourly pay for tardies in class to show you the impact on your spending power.

Yearly Gross ÷ 2000 hours = \$ _____ Yearly Net ÷ 2000 hours = \$ _____

Step 6

Fill out a W-4 Form to specify your withholding allowance to your employer. Assume that you are single and have no dependents.

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■ ■ ■ ■ **Calculating Payroll** ■ ■ ■ ■ **Tax Deductions Sample**

Example:

\$ 35,459.50 *Gross Income*

– 29,700.00 (*standard deduction using 2005 tax chart, would be \$0, \$7,300.00;
\$ 29,700.00; \$71,950.00; \$150,150.00; or \$326,450.00*)

= \$ 5,759.50

× 25% (*tax rate using 2005 tax chart: 10%, 15%, 25%, 28%, 33%, or 35%*)

= \$ 1,439.88

+ 4,090.00 (*flat rate using 2005 tax chart: \$730.00; \$4,090.00; \$14,652.50;
\$36,548.50; or \$94,727.50*)

= \$ 5,529.88 *Federal Income Tax deduction for the year*

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■ ■ ■ ■ **Paycheck Form** ■ ■ ■ ■

ABC School Corporation					
Job/Career _____			Paycheck # _____		
Name _____			Date _____		
Mo. Gross Pay	Fed. Income Tax W/Held	State Income Tax W/Held	FICA W/Held	Medicare W/Held	Monthly Net Pay
Year-to-Date Gross	Federal Year-to-Date	State Year-to-Date	FICA Year-to-Date	Medicare Year-to-Date	Year-to-Date Net

ABC School Corporation					
Job/Career _____			Paycheck # _____		
Name _____			Date _____		
Mo. Gross Pay	Fed. Income Tax W/Held	State Income Tax W/Held	FICA W/Held	Medicare W/Held	Monthly Net Pay
Year-to-Date Gross	Federal Year-to-Date	State Year-to-Date	FICA Year-to-Date	Medicare Year-to-Date	Year-to-Date Net

ABC School Corporation					
Job/Career _____			Paycheck # _____		
Name _____			Date _____		
Mo. Gross Pay	Fed. Income Tax W/Held	State Income Tax W/Held	FICA W/Held	Medicare W/Held	Monthly Net Pay
Year-to-Date Gross	Federal Year-to-Date	State Year-to-Date	FICA Year-to-Date	Medicare Year-to-Date	Year-to-Date Net

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■ ■ ■ ■ **Paycheck Math** ■ ■ ■ ■ Calculations Explanation

ABC School Corporation					
Job/Career _____ Paycheck # _____					
Name _____ Date _____					
Mo. Gross Pay	Fed. Income Tax W/Held	State Income Tax W/Held	FICA W/Held	Medicare W/Held	Monthly Net Pay
A					
Year-to-Date Gross	Federal Year-to-Date	State Year-to-Date	FICA Year-to-Date	Medicare Year-to-Date	Year-to-Date Net

ABC School Corporation					
Job/Career _____ Paycheck # _____					
Name _____ Date _____					
Mo. Gross Pay	Fed. Income Tax W/Held	State Income Tax W/Held	FICA W/Held	Medicare W/Held	Monthly Net Pay
B					
Year-to-Date Gross	Federal Year-to-Date	State Year-to-Date	FICA Year-to-Date	Medicare Year-to-Date	Year-to-Date Net
C					

A + B = C

ABC School Corporation					
Job/Career _____ Paycheck # _____					
Name _____ Date _____					
Mo. Gross Pay	Fed. Income Tax W/Held	State Income Tax W/Held	FICA W/Held	Medicare W/Held	Monthly Net Pay
D					
Year-to-Date Gross	Federal Year-to-Date	State Year-to-Date	FICA Year-to-Date	Medicare Year-to-Date	Year-to-Date Net
E					

C + D = E

