

6-3 INCOME STATEMENTS

Advanced Financial Algebra



WHY IS YOUR TAKE-HOME PAY (NET PAY) LOWER THAN YOUR SALARY (GROSS PAY)?

- Withhold taxes
- Social security
- Medicare
- Retirement savings
- etcetera

EXAMPLE #1

- Barbara has a new job and wonders whether or not her net pay is correct on her first paycheck.
- Her gross pay per week is \$469.75, social security withholdings are 6.2% of her paycheck, and medicare is 1.45% of her paycheck.
- According to her W-4 form, federal taxes are \$110.51, and state taxes are \$66.62.
- Her retirement savings are \$9, disability insurance is \$2.56, medical insurance is \$12, and dental insurance is \$6.

EXAMPLE #1 SOLUTION

Gross pay	\$469.75	
-social security	-\$29.12	(6.2% of gross pay)
-medicare	-\$6.81	(1.45% of gross pay)
-federal taxes	-\$110.51	
-state taxes	-\$66.62	
-retirement savings	-\$9	
-disability insurance	-\$2.56	
-medical insurance	-\$12	
-dental insurance	-\$6	
<hr/> Net pay	=\$227.13	

EXAMPLE #2

- Examine Lorena's bi weekly pay stub to the right.
- If everything stays the same, how much will be taken out of her total annual gross salary for federal and state taxes?


EARNINGS		
PERIOD	AMOUNT	YTD AMOUNT
3/15 - 3/28	\$4,596.39	\$32,174.73
DEDUCTIONS		
TAX TYPE	AMOUNT	YTD AMOUNT
Social Security	\$284.98	\$1,994.86
Medicare	\$66.65	\$666.55
Federal Tax	\$1,001.47	\$7,010.29
State Tax	\$280.89	\$1,966.23
ADJUSTMENTS		
ITEM	AMOUNT	YTD AMOUNT
Union Dues	\$61.00	\$427.00
Family Health Ins.	\$67.55	\$472.85
Retirement	\$50.00	\$350.00

EXAMPLE #2 SOLUTION

- Paycheck stub says that \$280.89 was taken out for state taxes. Biweekly means 26 times per year: $\$280.89 * 26 = \7303.14
- Paycheck stub says that \$1001.47 was taken out for federal taxes. Biweekly means 26 times per year: $\$1001.47 * 26 = \$26,038.22$
- Therefore total annual taxes taken out of her annual gross salary
= $\$7303.14 + \$26,038.22$
= $\$33,341.36$

EXAMPLE #3

- On January 30th, Joanne received the W-2 form to the right from her employer.
- How much did she pay in income taxes during the year?

a Employee's social security number		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile.	
000-00-0000		OMB No. 1545-0008			
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$76,350.00	2 Federal income tax withheld \$15,851.00		
c Employer's name, address, and ZIP code Crawfish Castle 500 Pecan Parkway Colfax, Louisiana 71417		3 Social security wages \$76,350.00	4 Social security tax withheld \$4,733.70		
		5 Medicare wages and tips \$76,350.00	6 Medicare tax withheld \$1,017.08		
		7 Social security tips	8 Allocated tips		
		d Control number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Joanne S.		Last name Toscano		Suff.	
3 Delta Queen Drive Colfax, Louisiana 71417		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number 00-0000000	16 State wages, tips, etc. \$76,350.00	17 State income tax \$5,344.50	18 Local wages, tips, etc. \$76,350.00	19 Local income tax \$1,092.00
					20 Locality name

EXAMPLE #3 SOLUTION

Federal taxes	\$15,851.00
+ State taxes	+\$5,344.50
+ Local taxes	<u>+\$1,092.00</u>
=Total income taxes withheld	= \$22,287.50

ASSIGNMENT: PG 354 #2 & #3

• 2)

Joe makes an hourly wage of \$14.10. For hours worked over 40, he is paid at a rate of \$21.15 per hour. Last week, Joe worked 45 hours.

a. What is Joe's gross pay for this pay period?

b. What is Joe's Social Security deduction?

c. What is Joe's Medicare tax deduction?

d. Joe's other deductions are: federal tax \$61.12, state tax \$21.03, city tax \$6.01, retirement insurance \$4.12, disability insurance \$1.31, medical insurance \$13.05, and dental insurance \$5.46. What are Joe's total deductions for this pay period?

e. What is Joe's net pay for this pay period?

f. If Joe pays the same amount for medical insurance each weekly pay period, what is his annual premium?

g. Does Joe receive time-and-a-half, double-time, or triple-time for each hour of overtime?

ASSIGNMENT: PG 354 #2 & #3

Leslie works for Blanck Corporation. His annual salary is \$57,285.50.

• 3)

a. What is Leslie's annual Social Security deduction?

b. What is Leslie's annual Medicare deduction?

c. Leslie is paid every other week. What is his biweekly gross pay?

d. Each pay period, Leslie's employer deducts \$418.63 for federal withholding tax. What percentage of Leslie's yearly salary is withheld for federal income tax?

e. If Leslie is taxed at an annual rate of 3.65% for city tax, how much is deducted from his salary per paycheck for city tax?

f. Leslie's net pay for each pay period is \$1,347.34. What percent of his biweekly gross pay is deducted from his salary to yield this net pay amount?

g. As of January 1, Leslie will receive a 12.5% raise. What will Leslie's new annual salary be?

h. If the percentage of his biweekly deductions remains the same, what should Leslie's new net pay be for each pay period?