

NG STATUS

FL
NY
DBL
NYC

W 01
W 01
W 01

Unit 2: Understanding Taxes

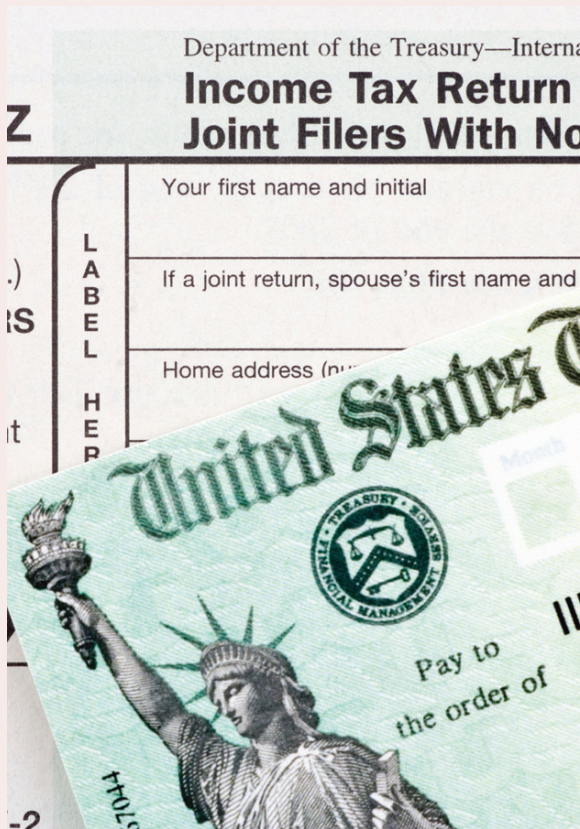
Personal Financial Literacy

TOTAL WITHHOLDINGS

Objectives

- Define gross and net income.
- List items deducted by law from a paycheck.
- List items deducted by request from a paycheck.
- State the purposes of income taxes.
- Discuss the consequences of failing to pay taxes.

Why Pay Taxes?



- Congress - levied taxes on Americans since 1789
- Taxes pay for
 - emergency services
 - schools
 - roads
 - Government services
 - libraries
 - parks

Income Taxes

- Taxes based on the ability to pay or benefits received
- **Progressive** - Example: income taxes; based on ability to pay. Larger incomes pay larger tax
- **Regressive** - Examples: sales tax, tolls; benefits-received tax; everyone pays the same if they buy the same.

Federal, State Local Taxes

- Federal taxes
 - From income tax, payroll deductions
 - Pay for national defense, roads, bridges, federal aid programs
- State taxes
 - From income taxes; states also charge a *sales* tax
 - Support education, prisons, employee pensions, public assistance programs

Local Government

- Local governments add a sales tax rate onto state tax rate
- Also receive money from property taxes
- Local taxes fund education, public safety, roads, public libraries, and animal shelters



2019 federal income tax brackets

(for taxes due in April 2020)

Tax rate	Single	Married, filing jointly	Married, filing separately	Head of household
10%	\$0 to \$9,700	\$0 to \$19,400	\$0 to \$9,700	\$0 to \$13,850
12%	\$9,701 to \$39,475	\$19,401 to \$78,950	\$9,701 to \$39,475	\$13,851 to \$52,850
22%	\$39,476 to \$84,200	\$78,951 to \$168,400	\$39,476 to \$84,200	\$52,851 to \$84,200
24%	\$84,201 to \$160,725	\$168,401 to \$321,450	\$84,201 to \$160,725	\$84,201 to \$160,700
32%	\$160,726 to \$204,100	\$321,451 to \$408,200	\$160,726 to \$204,100	\$160,701 to \$204,100
35%	\$204,101 to \$510,300	\$408,201 to \$612,350	\$204,101 to \$306,175	\$204,101 to \$510,300
37%	\$510,301 or more	\$612,351 or more	\$306,176 or more	\$510,301 or more

How tax brackets work

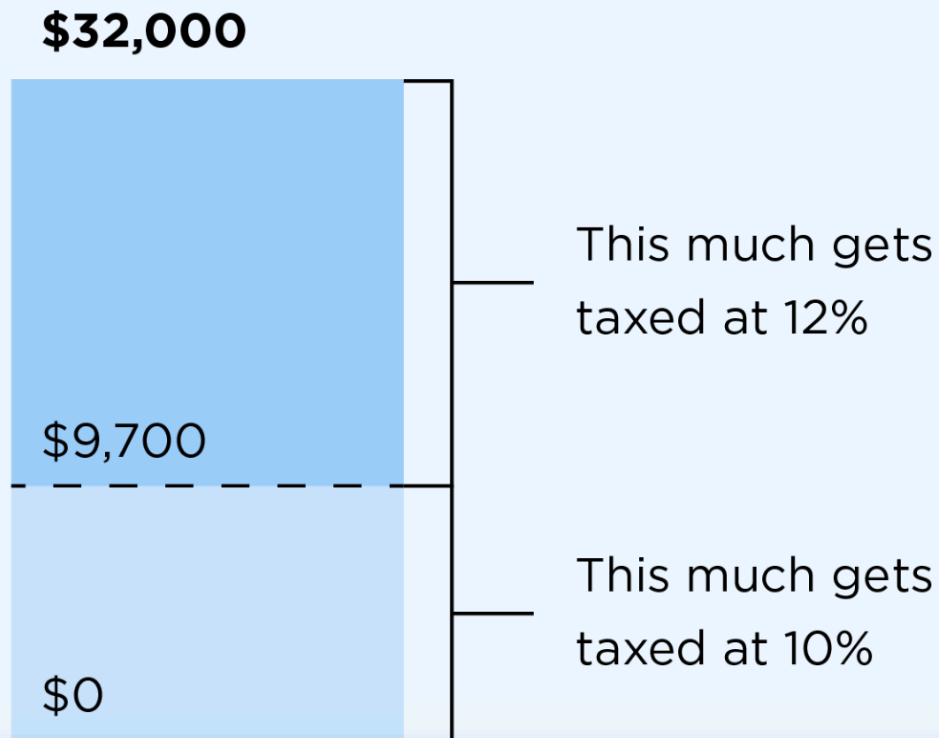
The United States has a progressive tax system, meaning people with higher taxable incomes pay higher federal income tax rates.

- **Being “in” a tax bracket doesn’t mean you pay that federal income tax rate on everything you make.** The progressive tax system means that people with higher taxable incomes are subject to higher federal income tax rates, and people with lower taxable incomes are subject to lower federal income tax rates.
- **The government decides how much tax you owe by dividing your taxable income into chunks** — also known as tax brackets — and each chunk gets taxed at the corresponding tax rate. The beauty of this is that no matter which bracket you’re in, you won’t pay that tax rate on your entire income.

- **Example #1:** Let's say you're a single filer with \$32,000 in taxable income. That puts you in the 12% tax bracket in 2019. But do you pay 12% on all \$32,000? No. Actually, you pay only 10% on the first \$9,700; you pay 12% on the rest. (Look at the tax brackets above to see the breakout.)

Example #1

Taxable Income
\$32,000

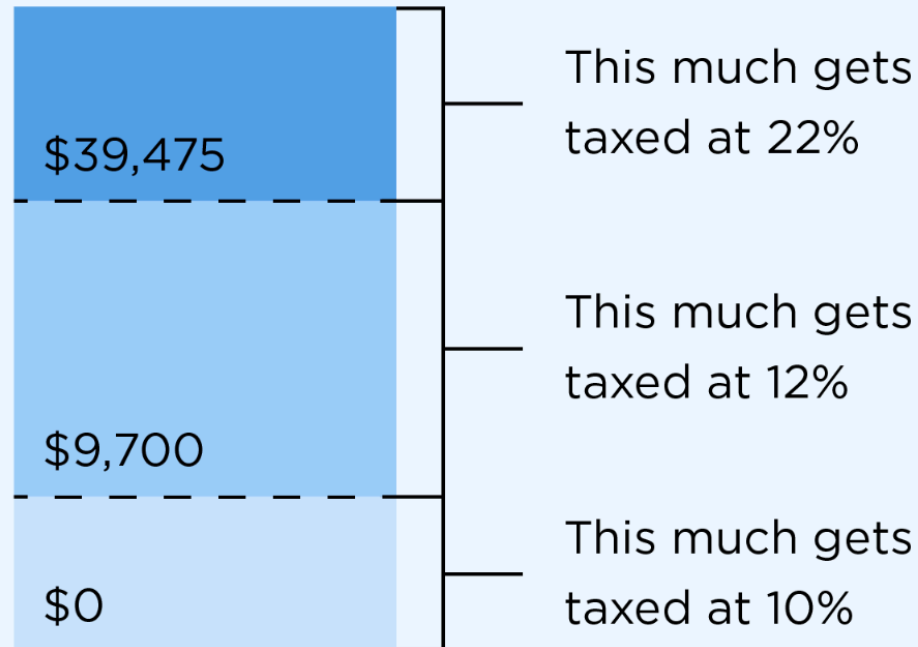


- **Example #2:** If you had \$50,000 of taxable income, you'd pay 10% on that first \$9,700 and 12% on the chunk of income between \$9,701 and \$39,475. And then you'd pay 22% on the rest, because some of your \$50,000 of taxable income falls into the 22% tax bracket. The total bill would be about \$6,900 — about 14% of your taxable income, even though you're in the 22% bracket.

Example #2

Taxable Income
\$50,000

\$50,000





Tax Year 2018 Oklahoma Income Tax Brackets

TY 2018 - 2019

Federal Tax Reform: In December 2017, congress passed a sweeping federal income tax overhaul that affects personal income tax rates from tax year 2018 onward. You can see the released tax table, which will be effective for tax returns filed in April 2019, on the [tax year 2018 brackets page](#).

Oklahoma - Single Tax Brackets

Tax Bracket	Tax Rate
\$0.00+	0.5%
\$1,000.00+	1%
\$2,500.00+	2%
\$3,750.00+	3%
\$4,900.00+	4%
\$7,200.00+	5%

Oklahoma - Married Filing Jointly Tax Brackets

Tax Bracket	Tax Rate
\$0.00+	0.5%
\$2,000.00+	1%
\$5,000.00+	2%
\$7,500.00+	3%
\$9,800.00+	4%
\$12,200.00+	5%



TABLES FOR PERCENTAGE METHOD OF WITHHOLDING

Table 1: WEEKLY Payroll Period

A: SINGLE person:

If the amount of wages is:

(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$122	\$ 0
\$122	\$141	\$ 0 +(0.50% of the excess over \$122)
\$141	\$170	\$ 0.10 +(1.00% of the excess over \$141)
\$170	\$194	\$ 0.38 +(2.00% of the excess over \$170)
\$194	\$216	\$ 0.87 +(3.00% of the excess over \$194)
\$216	\$261	\$ 1.53 +(4.00% of the excess over \$216)
\$261	and above	\$ 3.30 +(5.00% of the excess over \$261)

B: MARRIED person:

If the amount of wages is:

(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$244	\$ 0
\$244	\$283	\$ 0 +(0.50% of the excess over \$244)
\$283	\$340	\$ 0.19 +(1.00% of the excess over \$283)
\$340	\$388	\$ 0.77 +(2.00% of the excess over \$340)
\$388	\$433	\$ 1.73 +(3.00% of the excess over \$388)
\$433	\$479	\$ 3.06 +(4.00% of the excess over \$433)
\$479	and above	\$ 4.90 +(5.00% of the excess over \$479)

Table 2: BI-WEEKLY Payroll Period

A: SINGLE person:

If the amount of wages is:

(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$244	\$ 0
\$244	\$283	\$ 0 +(0.50% of the excess over \$244)
\$283	\$340	\$ 0.19 +(1.00% of the excess over \$283)
\$340	\$388	\$ 0.77 +(2.00% of the excess over \$340)
\$388	\$433	\$ 1.73 +(3.00% of the excess over \$388)
\$433	\$521	\$ 3.06 +(4.00% of the excess over \$433)
\$521	and above	\$ 6.60 +(5.00% of the excess over \$521)

B: MARRIED person:

If the amount of wages is:

(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$488	\$ 0
\$488	\$565	\$ 0 +(0.50% of the excess over \$488)
\$565	\$681	\$ 0.38 +(1.00% of the excess over \$565)
\$681	\$777	\$ 1.54 +(2.00% of the excess over \$681)
\$777	\$865	\$ 3.46 +(3.00% of the excess over \$777)
\$865	\$958	\$ 6.12 +(4.00% of the excess over \$865)
\$958	and above	\$ 9.81 +(5.00% of the excess over \$958)

Table 3: SEMI-MONTHLY Payroll Period

A: SINGLE person:

If the amount of wages is:
(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$265	\$ 0
\$265	\$306	\$ 0 +(0.50% of the excess over \$265)
\$306	\$369	\$ 0.21 +(1.00% of the excess over \$306)
\$369	\$421	\$ 0.83 +(2.00% of the excess over \$369)
\$421	\$469	\$ 1.88 +(3.00% of the excess over \$421)
\$469	\$565	\$ 3.31 +(4.00% of the excess over \$469)
\$565	and above	\$ 7.15 +(5.00% of the excess over \$565)

B: MARRIED person:

If the amount of wages is:
(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$529	\$ 0
\$529	\$613	\$ 0 +(0.50% of the excess over \$529)
\$613	\$738	\$ 0.42 +(1.00% of the excess over \$613)
\$738	\$842	\$ 1.67 +(2.00% of the excess over \$738)
\$842	\$938	\$ 3.75 +(3.00% of the excess over \$842)
\$938	\$1,038	\$ 6.63 +(4.00% of the excess over \$938)
\$1,038	and above	\$ 10.63 +(5.00% of the excess over \$1,038)

Table 4: MONTHLY Payroll Period

A: SINGLE person:

If the amount of wages is:
(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$529	\$ 0
\$529	\$613	\$ 0 +(0.50% of the excess over \$529)
\$613	\$738	\$ 0.42 +(1.00% of the excess over \$613)
\$738	\$842	\$ 1.67 +(2.00% of the excess over \$738)
\$842	\$938	\$ 3.75 +(3.00% of the excess over \$842)
\$938	\$1,129	\$ 6.63 +(4.00% of the excess over \$938)
\$1,129	and above	\$ 14.29 +(5.00% of the excess over \$1,129)

B: MARRIED person:

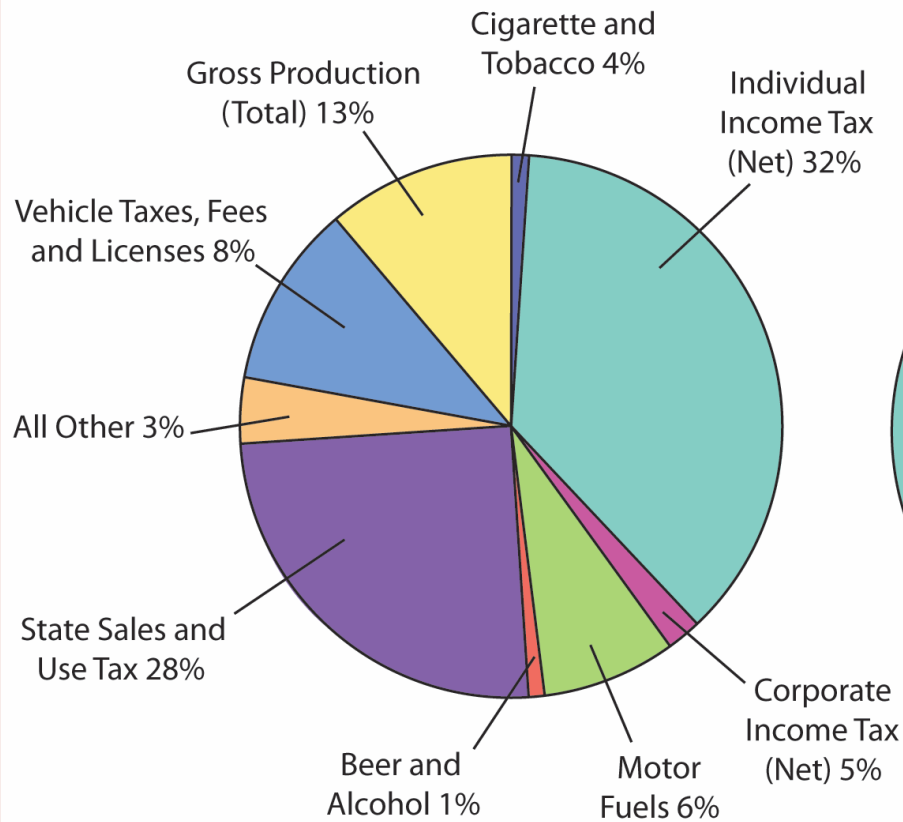
If the amount of wages is:
(after subtracting withholding allowances)

Over	but less than	The amount of income tax to withhold is:
\$0	\$1,058	\$ 0
\$1,058	\$1,225	\$ 0 +(0.50% of the excess over \$1,058)
\$1,225	\$1,475	\$ 0.83 +(1.00% of the excess over \$1,225)
\$1,475	\$1,683	\$ 3.33 +(2.00% of the excess over \$1,475)
\$1,683	\$1,875	\$ 7.50 +(3.00% of the excess over \$1,683)
\$1,875	\$2,075	\$ 13.25 +(4.00% of the excess over \$1,875)
\$2,075	and above	\$ 21.25 +(5.00% of the excess over \$2,075)

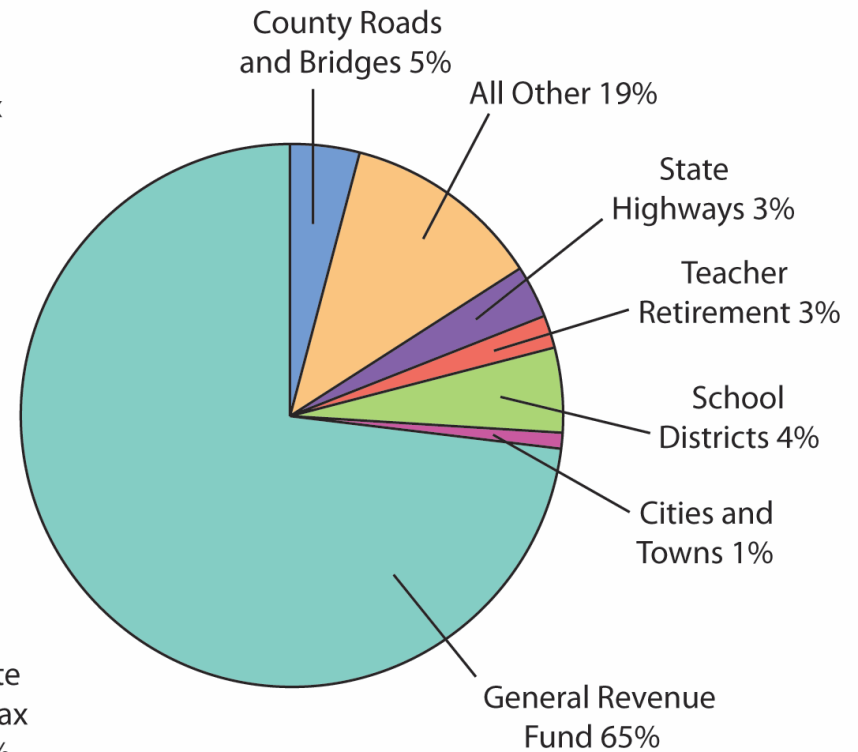
The Oklahoma Tax Dollar 2010-2011 (fiscal year)

2011 Oklahoma Tax Commission Annual Report (<http://www.tax.ok.gov/annrpts.html>)

Tax Dollars Came From



Allocations of Tax Dollars



Your Income

- Gross income - amount of money you earn in a pay period
- What you take home:

Gross income — deductions = Net income

W-4 Form

- Form W-4 – tells employer how much to withhold from paychecks for federal taxes

----- Separate here and give Form W-4 to your employer. Keep the worksheet(s) for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service	<h2 style="margin: 0;">Employee's Withholding Allowance Certificate</h2> <p style="margin: 0;">▶ Whether you're 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>	OMB No. 1545-0074 <h1 style="font-size: 2em; margin: 0;">2018</h1>
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. Note: If married filing separately, check "Married, but withhold at higher Single rate." 4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>	
5 Total number of allowances you're claiming (from the applicable worksheet on the following pages)	5 _____	6 Additional amount, if any, you want withheld from each paycheck
7 I claim exemption from withholding for 2018, and I certify that I meet both of the following conditions for exemption. <ul style="list-style-type: none"> • 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 ▶	7 _____	6 \$ _____
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 boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.) _____	9 First date of employment _____	10 Employer identification number (EIN) _____

Deductions

- Social Security tax (Old Age, Survivors and Disability Insurance – OASDI)
- Medicare tax (Hospital Insurance – HI)
- State tax

For 2018, the FICA tax rate for employers is 7.65%—6.2% for OASDI and 1.45% for HI.

For 2018, an employee will pay:

- 6.2% Social Security tax on the first \$128,700 of wages (maximum tax is \$7,960.80 [6.2% of \$128,400]), plus*
- 1.45% Medicare tax on the first \$200,000 of wages (\$250,000 for joint returns; \$125,000 for married taxpayers filing a separate return), plus*
- 2.35% Medicare tax (regular 1.45% Medicare tax + 0.9% additional Medicare tax) on all wages in excess of \$200,000 (\$250,000 for joint returns; \$125,000 for married taxpayers filing a separate return). (Code Sec. 3101(b)(2))*

Social Security Retirement

- Full retirement age - 67 if born after 1959.
Reduced benefits as early as 62.
- Age 62 – benefits reduced 30%; Age 63 –25%;
Age 64 –20%; Age 65 - 13.3%; Age 66 - 6.7%
- Benefits increase each year you wait after age 67, until age 70, to draw Social Security.

Optional Deductions

- Flexible spending account
 - Used for specific health care or childcare
 - Made with pre-tax dollars
 - reduces taxable income
- Insurance
- Retirement plans, pensions, annuities
- Charities
- Union Dues

W-2 Form

- Wage and Tax Statement by January 31st
- Shows income was earned in previous year and how much was withheld or deducted

Sample W-2

22222		a Employee's social security number		OMB No. 1545-0008					
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld				
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld				
			5 Medicare wages and tips		6 Medicare tax withheld				
			7 Social security tips		8 Allocated tips				
d Control number			9 Verification code		10 Dependent care benefits				
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a	
f Employee's address and ZIP code						13 Statutory employee	Retirement plan	Third-party sick pay	12b
						<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
						14 Other		12c	
							12d		
15 State	Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2** Wage and Tax Statement
 Copy 1—For State, City, or Local Tax Department

2017

Department of the Treasury—Internal Revenue Service

Federal Tax Forms

- **1040EZ** – Easiest form to complete. Can be used by a person to file as single or married filing jointly, taxable income is \$100,000 or less, all income comes from wages, salary, tips, interest income of less than \$1,500, unemployment compensation, etc.
- **1040A** (short form) - Longer than 1040EZ but shorter than 1040. Form 1040A can be used to file as head of household instead of just single and you can claim dependents and take tax credits for child and dependent care, retirement savings, earned income, premium tax and education.
- **1040** (long form) – Anyone can use Form 1040, regardless of whether they qualify to use the 1040EZ or 1040A. If you are self-employed, itemize your deductions, owe household employment tax or have \$100,000 or more in taxable income you must file form 1040 according to the IRS.

Form
1040EZ

**Income Tax Return for Single and
Joint Filers With No Dependents (99) 2010**

OMB No. 1545-0074

**Name,
Address,
and SSN**

See separate instructions.

**Presidential
Election
Campaign
(see page 9)**

P R I N T	Your first name and initial Sample	Last name Student
	If a joint return, spouse's first name and initial	Last name
C L E A R L Y	Home address (number and street). If you have a P.O. box, see instructions. 1234 My Street	
	City, town or post office, state, and ZIP code. If you have a foreign address, see instructions. My Town, ST 99999	
	Apt. no.	

Your social security number
1 2 3 4 5 6 7 8 9

Spouse's social security number

▲ Make sure the SSN(s) above are correct. ▲

Checking a box below will not change your tax or refund.

Check here if you, or your spouse if a joint return, want \$3 to go to this fund . . . **You** **Spouse**

Income

**Attach
Form(s) W-2
here.**

Enclose, but do not attach, any payment.

You may be entitled to a larger deduction if you file Form 1040A or 1040. See *Before You Begin* on page 4.

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	13,164	00
2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2	131	64
3	Unemployment compensation and Alaska Permanent Fund dividends (see page 11).	3		
4	Add lines 1, 2, and 3. This is your adjusted gross income .	4	13,295	64
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 checked="" type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$9,350 if single ; \$18,700 if married filing jointly . See back for explanation.	5	5,700	00
6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income .	6	7,595	64

**Payments,
Credits,
and Tax**

7	Federal income tax withheld from Form(s) W-2 and 1099.	7	921	48
8	Making work pay credit (see worksheet on back).	8	0	00
9a	Earned income credit (EIC) (see page 13).	9a	0	00
b	Nontaxable combat pay election. 9b 0 00			
10	Add lines 7, 8, and 9a. These are your total payments and credits .	10	921	48
11	Tax. Use the amount on line 6 above to find your tax in the tax table on pages 27 through 35 of the instructions. Then, enter the tax from the table on this line.	11	758	00

Refund

Have it directly deposited! See page 18 and fill in 12b, 12c, and 12d or Form 8888.

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"/>	12a	163	48
b	Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
d	Account number <input type="text"/>			

**Amount
You Owe**

13	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 19.	13		
-----------	-----------------------------------------------------------------------------------------------------------------------------------------------	----	--	--

**Third Party
Designee**

Do you want to allow another person to discuss this return with the IRS (see page 20)? **Yes**. Complete the following. **No**

Designee's name	Phone no.	Personal identification number (PIN)
		<input type="text"/>

**Sign
Here**

Joint return? See page 6.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature <i>Sample Student</i>	Date 1/16/11	Your occupation Student	Daytime phone number (555) 555-5555
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

**Paid
Preparer
Use Only**

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name	Firm's EIN		Phone no.	
Firm's address				

Filing Taxes

- Paying taxes late = fine or penalty
- IRS or State can take income and property for tax payment
- File, even if you can't pay!



Unit Review

1. Explain the purpose of taxes.
2. What is the difference between gross income and net income?
3. How does an employer know how much federal tax to deduct from a paycheck?
4. Discuss progressive and regressive taxes, giving examples of each.
5. Compare and contrast the two types of deductions from paychecks.

Unit Review - Continued

6. Give examples of withholding.
7. What are two important dates related to income tax filing? (April 15 – tax return and October 15 - extensions)
8. What government agencies oversee federal and state taxes in Oklahoma? – IRS and Oklahoma Tax Commission
9. Describe the three types of federal tax forms and the requirements to use each.
10. Where can federal tax forms be found?
11. What happens when someone is late or refuses to file income taxes?

*career*tech

Curriculum and Instructional Materials Center

1500 West 7th Ave.

Stillwater, OK 74074

www.okcimc.com

1-800-654-4502