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.

■ ■ ■ 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

 $\times 1.45\%$

= yearly Medicare deduction

FICA

Yearly Gross Income

× 6.2%

= yearly FICA deduction

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 if you use a calculator.	. Show your math for all, even
Yearly Gross Deductions	
Federal Income Tax	
Refer to the current tax chart for the appropriate bracket for you www.irs.gov under the individual tax schedule for the current year.	r salary. This can be found at
Formula:	
Yearly gross	
 Standard deduction (based on the current ranges) 	
= \$X	
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 Gross
Monthly 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 o 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 t 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.

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

x 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

Daycheck Form

ABC Sch	ool Corp	oration			
Job/Career _		Paye	check #		
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 Sch	ool Corp	 oration			
	-	Paye	check #		
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 Sch	ool Corp	oration			

Job/Career _		Pay	check #		
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

••• Paycheck Math ••• Calculations Explanation

ABC Sch	ool Corpo	ration			
Job/Career _		Payo	check #		
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 Sch	ool Corpo	ration			
Job/Career _		Paye	check #		
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
A + B = C					
ABC Sch	ool Corpo	oration			
Job/Career _		Paye	check #		
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

C + D = E

Reproducible Master

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Section:

	Pay F	↔	\$ \$	\$ \$	\$ \$	\$ ↔	\$ \$	\$ \$	↔	\$ \$	\$ \$	\$ \$	\$ \$
Daily Pay	Rate	₩	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
Monthly	Net Pay	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
Monthly	Gross Pay	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
Annual	Net Pay	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
State	Тах	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
-	Medicare	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
Č	FICA A	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
ome Tax	Total	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
Federal Income Tax	Flat Tax Amount	\$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$ \$	\$	\$ \$	\$ \$	\$ \$	\$ \$
Yearly Gross													
Career													
Name													
٩	Number												

Payroll Entry Worksheet Sample

Semester: Fall 2007

Section: A

0	Name	Career	Yearly Gross	Federal In	Federal Income Tax	Č		State	Annual	Monthly	Monthly	Daily Pay	Hourly
Number				Flat Tax Amount	Total	¥ 2	Medicare	Тах	Net Pay	Pay	Net Pay	Rate	Pay Rate
A1001	Casey, Kerry	Pastry chef	\$24,400.00	\$700.00	\$3,310.00	\$1,512.80	\$353.80	\$732.00	\$18,491.40	\$2,033.33	\$1,540.95	\$77.05	\$9.63
b1002	Cighal, Nathan	State trooper	\$30,000.00	\$3,910.00	\$4,310.00	\$1,860.00	\$435.00	\$900.00	\$25,690.00	\$2,500.00	\$2,140.83	\$107.04	\$13.38
1003	Drake, Nadia	Attorney/clerk	\$32,681.00	\$3,910.00	\$4,980.25	\$2,026.22	\$473.97	\$980.43	\$27,700.75	\$2,723.42	\$2,308.40	\$115.42	\$14.43
1209	Harton, Franklin	Vet tech	\$25,903.00	\$700.00	\$3,535.45	\$1,605.99	\$375.59	\$777.09	\$22,367.55	\$2,158.58	\$1,863.96	\$93.20	\$11.65
1390	Kaufman, Siddell	Dental hygienist	\$33,235.00	\$3,910.00	\$5,118.75	\$2,060.57	\$481.91	\$997.05	\$28,116.25	\$2,769.58	\$2,343.02	\$117.15	\$14.64
1400	Lawrence, Jamal	Dental hygienist	\$33,235.00	\$3,910.00	\$5,118.75	\$2,060.57	\$481.91	\$997.05	\$28,116.25	\$2,769.58	\$2,343.02	\$117.15	\$14.64
1347	Moore, Patricia	Physical therapist	\$41,093.00	\$3,910.00	\$7,083.25	\$2,547.77	\$595.85	\$1,232.79	\$34,009.75	\$3,424.42	\$2,834.15	\$141.71	\$17.71
3456	Natwell, Colton	Pipe fitter	\$30,219.00	\$3,910.00	\$4,364.75	\$1,873.58	\$438.18	\$906.57	\$25,854.25	\$2,518.25	\$2,154.52	\$107.73	\$13.47
4567	Newsome, Leo	Musician	\$29,294.00	\$3,910.00	\$4,133.50	\$1,816.23	\$424.76	\$878.82	\$25,160.50	\$2,441.17	\$2,096.71	\$104.84	\$13.10
5678	Pincing, Jake	C.I.S. manager	\$39,139.00	\$3,910.00	\$6,608.25	\$2,429.97	\$568.30	\$1,175.79	\$32,584.75	\$3,266.08	\$2,715.40	\$135.77	\$16.97
6289	Pressman, Michael	Carpenter	\$25,264.00	\$700.00	\$3,439.60	\$1,566.37	\$366.33	\$757.92	\$21,824.40	\$2,105.33	\$1,818.70	\$90.94	\$11.37
7890	Rosterbach, Celia	Dental hygienist	- \$	- \$	-	-\$	- \$	- \$	-\$	- \$	\$ -	-	- \$
1234	Sasaki, Akio	Agriculture salesperson	\$32,817.00	\$3,910.00	\$5,014.25	\$2,034.65	\$475.85	\$984.51	\$27,802.75	\$2,734.75	\$2,316.90	\$115.84	\$14.48

Reproducible Master

Monthly Dayroll Worksheet Master

.h 6	Net Pay												
Month 6	_												
	AB												
th 5	Net Pay												
Month 5	T												
	AB												
th 4	Net Pay												
Month 4	_												
	AB												
h 3	Net Pay												
Month 3	_										_		
	AB												
2 ר	Net Pay												
Month 2	-												
	AB												
h 1	Net Pay												
Month 1	_												
	AB												
Name													
9	Number												

Semester: 0

Section: 0

Monthly Dayroll Worksheet Sample

Semester: Fall 2007

Section: A

Ω	Name		Mo	Month 1		Month 2	th 2		Month 3	h3		Month 4	th 4		Month 5	h 5		Month 6	th 6
Number		AB		Net Pay	AB	_	Net Pay	AB	-	Net Pay	AB	_	Net Pay	AB	-	Net Pay	AB	_	Net Pay
A1001	Casey, Kerry	-	-	\$1,454.27	-		\$1,463.90			\$1,540.95	2	က	\$1,357.96			\$1,540.95			\$1,540.95
B1002	Cighal, Nathan			\$2,140.83			\$2,140.83			\$2,140.83			\$2,140.83			\$2,140.83			\$2,140.83
1003	Drake, Nadia			\$2,308.40			\$2,308.40			\$2,308.40			\$2,308.40			\$2,308.40	3	1	\$1,947.71
1209	Harton, Franklin			\$1,863.96			\$1,863.96			\$1,863.96			\$1,863.96			\$1,863.96			\$1,863.96
1390	Kaufman, Siddell		-	\$2,328.38			\$2,343.02			\$2,343.02			\$2,343.02			\$2,343.02			\$2,343.02
1400	Lawrence, Jamal			\$2,343.02			\$2,343.02			\$2,343.02			\$2,343.02			\$2,343.02			\$2,343.02
1347	Moore, Patricia	-	2	\$2,657.01	-		\$2,692.44			\$2,834.15		7	\$2,710.15			\$2,834.15			\$2,834.15
3456	Natwell, Colton			\$2,154.52			\$2,154.52			\$2,154.52			\$2,154.52			\$2,154.52			\$2,154.52
4567	Newsome, Leo			\$2,096.71			\$2,096.71			\$2,096.71			\$2,096.71			\$2,096.71			\$2,096.71
5678	Pincing, Jake			\$2,715.40			\$2,715.40			\$2,715.40			\$2,715.40			\$2,715.40			\$2,715.40
6289	Pressman, Michael			\$1,818.70			\$1,818.70			\$1,818.70			\$1,818.70			\$1,818.70			\$1,818.70
7890	Rosterbach, Celia			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00
1234	Sasaki, Akio			\$2,316.90			\$2,316.90			\$2,316.90			\$2,316.90			\$2,316.90			\$2,316.90
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