

Understanding Payroll Activity 3

Directions:

On the question and answer page, please write thoughts/answers in COMPLETE sentences. Math calculations must be shown to receive credit. Remember, you are receiving a grade for this assignment.

3. Payroll Taxes- F.I.C.A. tax. Two more federal taxes you pay through paycheck withholding.

In Activity 2, we took a quick look at two payroll taxes, **Federal Income Tax** and **Georgia (State) Income Tax**. Now, let's look at two other federal taxes:



Social Security (SS) and Medicare (MC) are federal payroll taxes imposed to fund federal programs: **Social Security** provides benefits for retirees, old aged, the disabled, and children of deceased workers.

Medicare provides hospital benefits for the elderly.

SS & MC are often referred to as one item: **F.I.C.A. Tax**
-or- ***Federal Insurance Contribution Act***

It is the intention, through Social Security tax collection, for us to have some income once we retire (usually not enough to live on). The Social Security Administration calculates your average monthly earnings during the 35 years in which you earned the most. It is from this average that your yearly/monthly retirement income will be based. You can start collecting your full benefit at 66 years of age. You can collect at age 62 but at a reduced benefit.

12.4% of your income goes to Social Security.

2.9% of your income goes to Medicare.

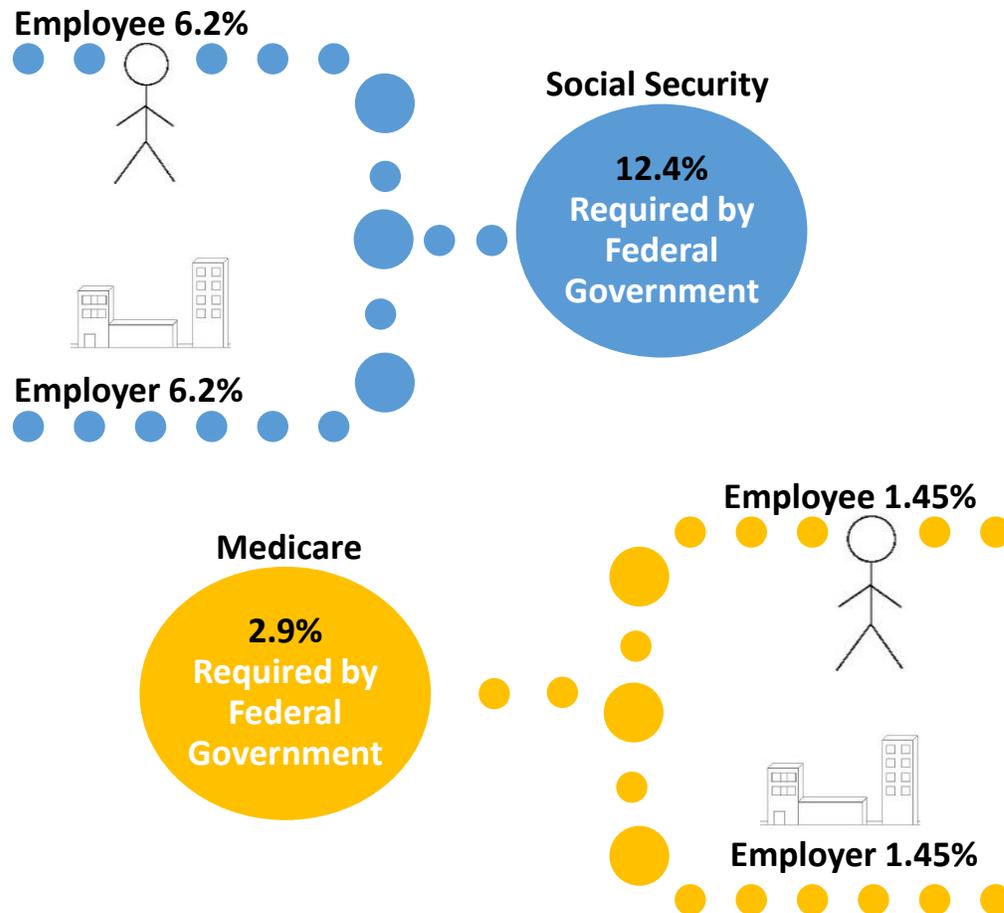
These taxes are based on a percentage, not number of dependents.

It is the intention, through Medicare tax collection, to spread the financial risk that comes with illness; so that all of society contributes and helps to pay for health insurance/care to those 65 and older and 8,000,000 young people with disabilities.



If you are an employee, you only have to pay half of the required FICA taxes! Your employer is required to pay the other half.

Diagram of the division of payment of F.I.C.A. taxes per paycheck:



DO THE MATH: This week's paycheck will include 20 hours you've worked at \$10 per hour. Your gross pay is \$200.

Gross pay is how much you earn before any monies are taken out of your pay.

Social Security requires 12.4% of your pay amount.

$\$200.00 \times 12.4\% = \24.80 is due in Social Security

But you pay only half (6.2%) $\$200 \times 6.2\% = \12.40

Medicare requires 2.9% of your pay amount.

$\$200. \times 2.9\% = \5.80 is due in Medicare

But you pay only half (1.45%) $\$200 \times 1.45\% = \2.90

FICA taxes that come out of your paycheck will total \$15.30 (\$12.40+\$2.90)
Your employer will pay the other half!

Payroll Activity 3 Instructions:

On the next page, you will find 10 payroll math calculations and questions to answer. Key your math calculations (to show your work) along with your answers in the right column of the table on the question/answer page. TAKE A PHOTO your answer-page and submit according to your school's WBL Coordinator's instructions.

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| 1. | Which type of tax is intended to provide some income during our retirement years? | |
| 2. | If you worked 22 hours at \$9.50 per hour, how much is your gross pay? | |
| 3. | What is the <u>total percentage</u> of Social Security tax that is <u>due based on an employee's single paycheck</u> ? | |
| 4. | What is the <u>total percentage</u> of Medicare tax that is <u>due based on an employee's single paycheck</u> ? | |
| 5. | If your gross pay is \$450, how much is due for Social Security tax? | |
| 6. | If your gross pay is \$450, how much is due for Medicare Tax? | |
| 7. | If your gross pay is \$450, how much will be deducted from your paycheck for Social Security tax? | |
| 8. | If your gross pay is \$450, how much will be deducted from your paycheck for Medicare tax? | |
| 9. | Name the portion of F.I.C.A. tax that provides hospital benefits for the elderly: | |
| 10. | This paycheck will include your pay for working 17 regular hours at \$8.00 per hour and 12 holiday hours at \$12 per hour. What is your gross pay? | |