

2-1 Earned Income and Benefits

OBJECTIVES

- *List and discuss types of earned income, such as wages, salaries, tips, and commissions.*
- *Discuss the advantages and disadvantages of self-employment.*
- *Describe employee benefits.*

People receive income from working and from other sources, such as investments. Another source of income for some people is government transfer payments. These payments help people who do not have other sources of income pay for their needs. Many workers receive benefits such as paid vacation or sick leave. You need to understand how benefits are a part of the total payments for a job. Various taxes must be paid on earnings. Taxes help cover the cost of government services and transfer payments. In this chapter, you will learn about income sources and benefits and about how taxes affect disposable income.

TYPES OF EARNED INCOME

Many people work for hourly wages; others work for an annual salary. Some people have additional income through tips or commissions. Some people work for themselves, which is called self-employment. All these types of income are earned income and are subject to income taxes and other taxes. A tax is a required payment for the support of a government. The tax may be based on items such as earnings, property values, or the sale price of an item. More information about taxes is provided later in this chapter.

WAGES

Employees who work for wages are paid for each hour worked. Minimum wage is the lowest pay rate allowed by law for each hour of work. The federal minimum wage is set by the U.S. Congress. In 2015, that rate was \$7.25 per hour. Many states have minimum wage laws that set a rate higher than the federal rate. In 2015, Ohio’s minimum wage was \$8.10 per hour. The state minimum wage rates can be found on the U.S. Department of Labor Web site. In many jobs, new workers will begin at minimum wage. This is because they do not have the education or experience that would allow them to earn a higher wage rate.

Employees who are paid by the hour must sometimes work more than the set regular number of hours. When this happens, they are entitled to extra pay called overtime pay. By law, overtime pay of at least 1½ times regular pay must be paid for hours worked above 40 work hours in a week. For example, a worker who earns \$10 per hour for regular pay might earn \$15 per hour for overtime pay. People who work on holidays may be entitled to even higher pay rates for those hours. Both federal and state laws control when extra pay is required for more time worked.

SALARIES

Some people work for a set salary, such as \$3,000 a month or \$36,000 a year. Salaried workers usually do not keep time cards or count hours worked. They may have more flexibility in the times they work than do hourly workers. They often work more than 40 hours a week but do not receive overtime pay. People who work for a salary must often be self-directed. They must complete their work in a timely manner with little supervision. Managers and supervisors are typically paid a salary.

TIPS AND COMMISSIONS

Some workers receive tips in addition to wages. A tip is money, often a percentage of the total bill, or a gift given to a person for performing a service. The amount of the tip may be based on the quality of service provided. For example, a waiter may receive tips in the form of money from customers. A caddy at a golf course might receive free tickets to a show as a tip. Some workers make most of their earnings from tips rather than hourly pay. Tips are subject to federal taxes. Tips may be subject to state taxes as well. The law requires some employers (such as restaurants and hair salons) to withhold taxes based on tips, even though tips may have been received in cash directly from customers.

Some workers are paid a commission. A commission is a set fee or a percentage of a sale paid to a salesperson instead of or in addition to salary or wages. Sales commissions are earned only when a sale is made. If no sale is made, no commission is received. In some types of jobs, such as real estate sales, the worker’s entire earnings may be based on commission. For example, a real estate agent who arranges the sale of a home for \$200,000 might receive a \$12,000 commission. In other types of jobs, workers may be paid a base salary plus commissions. For example, a person who sells cars might receive a salary of \$10,500 a year plus 25 percent of the profit on each car sold.

SELF-EMPLOYMENT

Working for yourself is called self-employment. A person who takes the risks of being self-employed and owning a business is called an entrepreneur. Owning a business can be challenging, but it can have rewards as well. If the business fails, the money invested in the business may be lost. The owner may have to work long hours and do many different tasks to keep the business running. These can be disadvantages of owning a business. An advantage of owning a business is that the owner can make decisions about how the business will be run. She or he also keeps all the earnings or profits from the business. Profit is the amount left after all costs are deducted from the income of a business. This is another advantage of being an entrepreneur.

Some entrepreneurs want to keep their businesses small. They want to be able to oversee all the daily operations of the business. Others want their businesses to grow into large companies with many workers. In a large company, the owner cannot oversee all the daily operations. Some people start a business at an early age.

Some people work for other businesses first to gain knowledge and experience. Some people seek education about how to run a business before they start a company. Owning a business involves much risk for the entrepreneur. He or she may need to borrow money to start the business. Repaying the money and paying other debts of the business are responsibilities of the owner. The owner may need to reinvest part of the income from the business to help the business grow. The owner will typically have to work hard to make the company successful.

EMPLOYEE BENEFITS

Full-time workers usually have benefits provided by the employer. Benefits are forms of pay other than salary or wages. Paid vacation and holidays are examples of benefits. Some benefits are paid for by the company. For other benefits, such as health insurance, the worker may need to pay part or all of the cost.

A cafeteria plan is a benefit plan that allows workers to choose from a number of options. Workers may be able to save money by selecting only the options they need. Most plans include basic choices for health, life, and other insurance. Other options, such as a savings plan, may also be available.

Benefits increase the overall value a worker receives for a job. Disposable income refers to the money a person has available to spend or save after taxes have been paid. Money received from some benefits, such as a profit-sharing plan, can directly increase a worker's disposable income. Other benefits have the effect of increasing disposable income. For example, health insurance bought through a company plan may be cheaper than an individual policy. The money saved by buying the company plan is available to save or spend on other items.

Benefits are also important to workers for several other reasons:

- Workers are not taxed on most benefits. This means that workers receive something of value without paying tax as part of the cost.
- Some benefits allow workers to buy services at a cheaper price than they could otherwise. For example, group insurance costs a lot less than individual policies. Paying a lower cost for insurance increases the worker's disposable income.
- Some benefits that are offered to workers may not be available to individuals. Company retirement plans and stock options are examples of these benefits.
- Some benefits that are offered to workers may not be affordable at individual prices. For example, workers who have health problems might not be able to afford insurance at individual rates.
- Some benefits help workers reach financial goals. For example, some people find it hard to save money. With company-sponsored savings plans, saving becomes easier because the money is deducted from the worker's paycheck.

PAY WITHOUT WORK

Pay without work refers to times when an employee who is not working will be paid. Vacation, holidays, and sick leave are examples of pay without work. Full-time and salaried employees usually get annual paid vacations. Typically, after the first year, an employee gets 1 or 2 weeks of vacation per year.

Most employers provide certain paid holidays. Examples of paid holidays are Thanksgiving, Christmas Day, Easter, Labor Day, Memorial Day, Veterans Day, and Presidents' Day. On those days, employees will be paid but will not have to work.

Employees who do work on holidays may receive extra pay. Typically, working on holidays pays two times the regular rate of pay.

Many companies allow workers to take a certain number of sick leave days per year. Sick leave covers days the worker is paid even though she or he is not at work due to illness. Some companies allow the use of sick leave to care for a sick child or other family member. Typically, sick leave is 10 days a year. Some companies allow unused sick leave to accumulate. That means that workers can save sick leave and use it later. Workers might also get paid for unused sick leave at some time in the future.

Some companies also offer personal leave. Personal leave is time away from work for personal reasons. The worker usually does not have to give a reason. Typically, personal leave is 2 or 3 days a year. Unused personal leave usually is not carried forward to another year. These and other pay-without-work benefits allow employees to rest and get away from work pressure and stress. They also allow workers to plan family vacations and special events and to enjoy a balanced and healthy life.

EDUCATIONAL REIMBURSEMENT

Some employers provide plans that reimburse (pay back) money spent on education. For example, some companies will pay for the cost of classes or training related to the worker's job. This training can benefit the company because the worker may be able to do a better job using the skills learned. The training benefits the worker on the present job. It may also improve the chances of getting a promotion or a better job with the same or a different company. Some employer plans will pay for classes toward a degree. Getting a college degree paid for by an employer is a benefit of great value, not just for this job, but for all future jobs as well.

In a typical education plan, the worker might be paid 100 percent of the cost of tuition and books if an A grade is received in the class. If the worker earns a B grade, 90 percent of the costs will be paid. If the worker earns a C grade, 80 percent of the costs will be paid. If the worker's grade is below a C, no costs will be paid.

PERKS

Providing high wages and good benefits like pay without work and education plans is one way that companies motivate workers. Other types of benefits, called perks, have a different value. They provide emotional satisfaction or social status rather than money. Examples of perks are a prime parking space, an office with a view, an expense account, and a company car. Some of these benefits are not taxable.

INSURANCE

Health insurance is an important benefit for many workers. The price paid for health insurance is called a premium. Premiums are typically paid by employers and employees. In the past, many employers paid the full price of insurance for employees. However, the costs of health care have risen steadily over the past several years. The costs are expected to continue increasing. Today, employees typically pay a portion or all of insurance premiums.

The premiums employees pay vary depending on the coverage provided. For example, an employee with a spouse and children would pay more for health insurance than a single employee. Group health insurance premiums are lower than those for individual policies.

Group life insurance is often available at work. The premium may be paid by the employer or the employee. In some companies, the employer pays for a certain amount of life insurance. For example, this amount may be twice the employee's annual salary. The employee may be able to purchase additional coverage at the group rate. The premium is often lower than for an individual policy. Life insurance paid for by the employee may be portable. A portable policy goes with the employee when he or she leaves the employer.

Disability insurance provides payments to replace income lost when illness or injury prevents the employee from working. This type of insurance is an option for many employees. Coverage for short-term disability (up to two years) is often paid for by the employer. The employee may be able to purchase long-term disability coverage. Longterm disability insurance typically covers periods longer than two years and up to retirement. The premiums are deducted from the employee's paycheck.

Workers' compensation is an insurance plan that employers are required to provide for employees. It pays medical and disability benefits to workers who are injured or contract diseases on the job. Benefits may be paid to the worker's family if the worker is killed on the job.

Other types of group insurance coverage may also be available. For example, the employer may offer dental, vision, or long-term care.

RETIREMENT PLANS

Some companies offer 401(k) retirement plans. This type of plan allows employees to put aside money for retirement that is not subject to federal income tax at the time it is earned. Some states also do not require that state income tax be paid on money placed in a 401(k). The employer may match the contribution to some extent, such as 25 percent or more. The money put into the plan will be taxed later when it is taken from the account. Deductions for the plan are made from the worker’s pay. Some companies offer retirement accounts that are paid for entirely by the employer. These accounts are also called pension plans. Pension plans provide payments to retired workers. Typically, employees must work for the company for a certain number of years to qualify. The payment amounts vary depending on the number of years worked, the worker’s salary, and other factors. This type of fringe benefit is being offered by fewer companies now than in the past.

PROFIT-SHARING PLANS

A profit-sharing plan means that when the company does well, employees are paid a share of the profits. This money can be paid in cash, or it can be added to a retirement account. When the money is paid in cash, it is taxable in the year received. When the money is added to a retirement account, it is taxed when withdrawn by the employee.

STOCK OPTION PLANS

Some companies allow employees to buy stock in the company at a reduced price. The purchase price of the stock may be deducted from the employee’s pay. This is a convenient way to acquire stock, and it does not involve brokerage or trading fees. Other companies may give shares of stock in the company to employees as a benefit.

HEALTH FLEXIBLE SPENDING ARRANGEMENTS

A health flexible spending arrangement (FSA) allows employees to set aside money to pay for qualified medical expenses. The money set aside is not included in the amount on which employment or federal income taxes are paid. The plans are often set up by employers as an employee benefit. Deductions are made from the employee’s pay to fund the account. The employer may also contribute. The employee files claims to be paid from the account for qualified expenses.

2-2 Unearned Income

OBJECTIVES

- *List private sources of unearned income.*
- *List several types of government transfer payments.*
- *Explain the difference between in-kind and in-cash transfer payments.*
- *Discuss the costs and benefits of paying taxes.*

PRIVATE SOURCES

Unearned income is money received from sources other than working in a job, either for yourself or for someone else. There are several private sources of unearned income. For example, interest earnings on a savings account is money received that the owner does not work to get. People who buy stocks in a corporation may receive dividend payments.

A dividend is money shared with stockholders when a corporation makes profits. Retired people may receive pension payments. These are examples of unearned income.

The Internal Revenue Service (IRS) lists some types of income as variable income. The income may be earned or unearned, depending on the situation in which it is received. Royalties and rent are examples of variable income. The table above shows different types of income as listed by the IRS.

CLASSIFICATION OF TYPES OF INCOME		
Earned Income	Unearned Income	Variable Income
Salaries and wages Commissions Bonuses Professional fees Tips	Dividends Interest Capital gains Gambling winnings Alimony Social Security Pensions Annuities	Business profits Royalties Rents

Unearned income is taxable. However, the tax rates may be lower than income tax rates on earned income. For example, qualified dividend income is subject to a maximum 15 percent tax rate. Because this income is not earned, it also is not subject to employment taxes.

GOVERNMENT TRANSFER PAYMENTS

Money and benefits received from local, state, or federal governments are called transfer payments. Transfer payments are made from many different programs. Transfer payments increase the disposable income of those who receive them. Some transfer payments provide income to retired people. When people get older, they stop working. However, their needs continue. In fact, some needs increase, such as the need for medical care. For some people, medical care and prescriptions are their largest expenses. Retired people also need health insurance. Social Security and Medicare programs provide benefits for these retired workers. Other programs provide benefits to help low-income families with medical needs or living expenses. For example, Medicaid is a program of medical aid designed for those unable to afford medical service. It is financed by the state and federal governments in the United States. Examples of transfer payments provided from state and federal governments are shown in table to the right. Transfer payments may be in-cash or in-kind payments. Examples of each are discussed in the following sections.

IN-KIND TRANSFER PAYMENTS

In-kind transfer payments include food stamps, rent subsidies, and vouchers that can be exchanged for goods and services. People do not receive money directly. Instead, they are provided with the means to get goods and services. In-kind payments are made available to those in need. The federal government and state governments make in-kind transfer payments. For example, Medicaid is a program of medical aid designed for those unable to afford medical service. It is financed by the state and federal governments in the United States. Many people age 65 or older qualify for Medicare hospital insurance (Part A) based on their own or their spouse’s work record. Some people under age 65 who are disabled may also qualify for Medicare hospital insurance. This is another type of in-kind transfer payment.

TRANSFER PAYMENT EXAMPLES	
Aid to Families with Dependent Children	Payments to needy families with children. Programs vary by state.
Medicaid	Benefits that provide health care and related services for low-income individuals.
Veterans’ benefits	Benefits for veterans (those who have completed active military service), their families, and their survivors.
Supplemental Security Income (SSI)	Benefits for low-income elderly and disabled persons.
State-provided medical care plans	Benefits for people who cannot afford health insurance.
Social Security	Benefits for retired people, disabled workers, and their dependents.
Medicare	Health insurance for retired people and those who receive Social Security benefits.
Unemployment compensation	Benefits for workers who are laid off or dismissed from jobs. To qualify, individuals must have worked for a required time. Program rules vary by state.
Workers’ compensation	Benefits for workers who become injured or ill on the job.

IN-CASH TRANSFER PAYMENTS

In-cash transfer payments are money in the form of a check, debit card, or other direct payment. For example, after Hurricane Katrina, flood victims were given debit cards worth \$1,000. They used the cards to buy food, clothing, and other items. Social Security payments, unemployment benefits, and workers’ compensation payments are examples of in-cash payments. People receive checks or have direct deposits made to their checking accounts.

FOCUS ON: Social Security Benefits

Most workers in the United States pay into the Social Security fund. A Social Security number is assigned to each person’s account. Payments are made into the account by employees. The payments are matched by employers. Based on the amount paid into the account and other factors, the worker will receive monthly benefit checks when retired. Each year while paying into the fund, workers should receive a Social Security Statement. The statement allows workers to see that earnings are being posted properly to the account. If you are a worker and do not receive a statement, you should request one. A statement can be requested at a local Social Security office or on the Social Security Web site.

COSTS AND BENEFITS OF PAYING TAXES

Taxes are collected from many sources. Income taxes, use taxes, and excise taxes are examples. Income taxes are paid on earned and unearned income. You will learn more about income taxes later in this chapter. Use taxes are paid by people who use certain goods or services provided by the government. For example, people who visit a state or national park may be

charged a use tax. This money is used to help pay for operation of the park. Drivers may have to pay a toll to be able to cross a bridge. This use tax helps to pay for the bridge maintenance and operation. Another form of tax is called the excise tax. Excise taxes are charged on the purchase of specific goods, such as motor fuel, cigarettes, and alcohol. They are also charged on services such as phone service, utilities, and garbage collection. Excise taxes are usually included in the price of the product or service. They help pay for the cost of government goods and services. When the excise tax is on a product that is not considered essential for a normal standard of living, such as an expensive car, it is often called a luxury tax.

COSTS OF PAYING TAXES

Paying taxes reduces the disposable income of an individual. The person has less money available to save or spend than if taxes were not paid. This is the main cost of paying taxes for an individual. When people have less money to spend, the economy of the area may be affected. When people spend less on goods and services, businesses have lower sales. Lower sales may lead to lower profits. Workers may have to be laid off or dismissed from their jobs. Charitable groups may receive less money from donations. Having less money means the groups are able to help fewer people in need. In fact, cutting taxes is a method governments can use to stimulate the economy.

BENEFITS OF PAYING TAXES

Paying taxes can benefit the person making the payments and others who do not make payments. For example, Social Security tax provides a system of old-age, survivors, and disability insurance. Workers pay Social Security tax during their working years. When they retire, workers receive payments from the fund. This is an example of a direct benefit from paying taxes. Money collected from various taxes is used by governments to provide goods and services for citizens. For example, roads and highways are paid for with government money—either federal or state. Everyone (whether or not they paid taxes) is able to use them. Government transfer payments, in-kind and in-cash, are funded with taxes. Everyone benefits from government goods and services that are paid for with tax dollars. Examples include public education, national defense, police protection, and parks. Most individuals could not afford to pay for these items. Not everyone benefits directly from every type of tax. For example, some people may never visit a state or national park. However, everyone benefits from some government services.

2-3 Taxes and Other Deductions

OBJECTIVES

- Explain how taxes affect disposable income.
- List types of deductions required for taxes.
- Compute net pay.
- List examples of optional deductions from pay.
- Complete a Form I-9, a Form W-4, and a Form 1040EZ federal income tax return.

TAXES AND DISPOSABLE INCOME

Wages, salaries, and profits from owning a business are taxable. Unearned income, such as interest from a savings account, is also taxable. As you learned earlier, disposable income refers to the money left to save or spend after taxes are paid. Lower taxes result in higher disposable income. Higher taxes result in lower disposable income.

REQUIRED DEDUCTIONS

Workers are required to have money withheld from their paychecks for income tax, Social Security tax, and Medicare tax. Other taxes and deductions may also be withheld. Many states have a state income tax. Some counties and cities have an income tax. Taxes and payments for other items are subtracted from the worker’s gross pay to calculate net pay. The paycheck stub shown to the right shows a worker’s gross earnings, deductions, and net pay.

EMPLOYEE NAME	EMPLOYEE ID	PAY PERIOD	CHECK DATE	CHECK NO.
Gloria M. Perez	482975	2/1/20– thru 2/14/20–	2/21/20–	A001161
EARNINGS	HOURS	RATE	THIS PERIOD	YEAR-TO-DATE
Regular	80	\$13.00	\$1,040.00	\$3,120.00
Overtime				
TAXES				
		Federal Income Tax	\$82.19	\$246.57
		Social Security Tax	64.48	193.44
		Medicare Tax	15.08	45.24
		State Income Tax	34.27	102.81
		City Income Tax	3.14	9.42
		SUBTOTAL	\$199.16	\$597.48
DEDUCTIONS				
		Health Insurance	\$150.00	\$450.00
		Life Insurance	12.00	36.00
		401(k) Plan	52.00	156.00
		Dental Insurance	10.00	30.00
		SUBTOTAL	\$224.00	\$672.00
NET PAY			\$616.84	\$1,850.52

INCOME TAX WITHHOLDING

Federal and state income taxes are withheld according to income amount and the number of exemptions claimed on Form W-4. A sample form is shown below.

----- Separate here and give Form W-4 to your employer. Keep the top part for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you are 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.		OMB No. 1545-0074 201
1 Your first name and middle initial		Last name		2 Your social security number
Home address (number and street or rural route)			3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code			4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>	
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5
6 Additional amount, if any, you want withheld from each paycheck				6 \$
7 I claim exemption from withholding for 201 ₁ , and I certify that I meet both of the following conditions for exemption. • 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				
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 lines 8 and 10 only if sending to the IRS.)			9 Office code (optional)	10 Employer identification number (EIN)

Exemptions are persons you claim on your tax return as dependents. The Internal Revenue Service provides details of how a person qualifies as a dependent. For example, your child who lives with you and for whom you provide more than 50 percent of living expenses would be a dependent. The more exemptions you claim, the less tax is withheld. Everyone is allowed to claim one exemption (unless that person is claimed as an

exemption by someone else). People who are married or have children can claim more exemptions. Federal Social Security number. The employer pays the same amount into your account. People who are self-employed must pay 12.4 percent on earnings up to \$94,200. Amounts may be different for the current year. Your account continues to grow as you are working and paying the tax. Social Security tax is also known as FICA because it was created by the Federal Insurance Contribution Act.

Employers are required to verify that workers are eligible for employment. When a worker begins a job, the worker is required to complete Section 1 of Form I-9, Employment Eligibility Verification. Section 1 of the form is shown below. The employee must enter a name, an address, and a Social Security number. The Social Security number recorded on this form is used to report Social Security taxes for the employee. The form also shows whether the employee is a U.S. citizen, a lawful permanent resident, or an alien who is authorized to work. The employer must verify the information by looking at certain documents. A U.S. passport, a driver's license, and a U.S. Social Security card are examples of these documents.

Department of Homeland Security
 U.S. Citizenship and Immigration Services

Form I-9, Employment Eligibility Verification

Please read instructions carefully before completing this form. The instructions must be available during completion of this form.

ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work eligible individuals. Employers CANNOT specify which document(s) they will accept from an employee. The refusal to hire an individual because the documents have a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Verification. To be completed and signed by employee at the time employment begins.

Print Name: Last		First	Middle Initial	Maiden Name
Address (Street Name and Number)			Apt. #	Date of Birth (month/day/year)
City		State	Zip Code	Social Security #
I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.			I attest, under penalty of perjury, that I am (check one of the following): <input type="checkbox"/> A citizen or national of the United States <input type="checkbox"/> A lawful permanent resident (Alien #) A _____ <input type="checkbox"/> An alien authorized to work until _____ (Alien # or Admission #) _____	
Employee's Signature				Date (month/day/year)

MEDICARE TAX

Medicare tax is withheld by the federal government. This tax pays for medical care for retired persons and those who receive Social Security benefits. Currently, workers pay 1.45 percent on all earnings for this tax. The employer also pays the same amount into your account. People who are self-employed pay 2.9 percent on all earnings.

WORKERS' COMPENSATION INSURANCE

Workers' compensation is an insurance plan that pays medical and disability benefits to workers who are injured or contract diseases on the job. Benefits may be paid to the worker's family if the worker is killed on the job. The laws that cover workers' compensation vary by state. In some states, the entire cost of the insurance is paid by the employer. In other states, the worker must also pay some fees related to workers' compensation.

OPTIONAL DEDUCTIONS

Employees may have optional deductions made from their pay. Full-time workers usually have benefits provided by the employer. Employees may share in the cost of some benefits, such as health insurance. Workers may also have money deducted from their pay for items such as the following:

- Health insurance
- Life insurance
- Disability insurance
- Dental insurance
- Vision insurance
- Long-term care insurance
- Savings plan
- Retirement plan
- Health flexible spending plan
- Stock purchase plan

FEDERAL TAX FILING

If you are a U.S. citizen or resident, whether you must file a federal income tax return depends upon your gross income, your filing status, your age, and whether you are a dependent. After taxes are filed the first time, the IRS may send paper forms to use in filing. Forms can be accessed online at the IRS Web site. Users can download, save, and print tax forms needed for filing federal tax returns.

FORM W-2

Form W-2 is used to report the taxable income a worker received during the calendar year. This form is required to prepare an income tax return. Employers are required to send workers a W-2 for the calendar year (January 1 through December 31) by the following January 31. The information on the form is sent to the federal, state, and local governments as well as to the worker. Multiple copies are provided for the worker to attach to tax forms and to keep on file. If the worker's tax returns are filed in paper form, the appropriate copy should be attached to each return.

FORM 1040EZ

Several different forms can be used to file a federal tax return. The form that should be used depends on the type of income and deductions claimed. Form 1040EZ is designed for use by single and joint filers with no dependents. This is a simple, one-page form that can be completed using information found on the filer's Form W-2 and tax tables provided by the IRS.

OTHER FORMS

Form 1040A is a two-page form that allows more options for income and deductions to be entered. Some sections require the filer to attach additional forms, often called schedules. Taxpayers might use Form 1040A instead of Form 1040EZ if they have more than \$1,500 in interest income. Form 1099-INT shows the interest income earned during the year. This form is sent to individuals by the bank or other institution that pays the interest. If tax returns are filed in paper form, the appropriate copy of the form should be attached to the return.

Chapter Summary

- *Sources of earned income include wages, salaries, tips, commissions, and self-employment. Earned income is subject to income taxes and other taxes.*
- *Minimum wage is the lowest hourly pay rate allowed by law. Many states have minimum wage laws that set a rate higher than the federal rate.*
- *By law, overtime pay of at least 1 ½ times the regular rate must be paid for hours worked above 40 work hours in a week.*
- *Networking is the process of making contacts and building relationships with other people.*
- *Disposable income refers to the money a person has available to spend or save after taxes have been paid.*
- *Benefits are forms of pay other than salary or wages. Benefits can directly increase disposable income or can have the effect of increasing disposable income.*
- *Benefits such as profit sharing and retirement accounts provide valuable resources for workers later in their lives.*
- *Unearned income is money or benefits received without working directly to earn them. Examples of unearned income are interest and dividends.*
- *Paying taxes reduces the disposable income of an individual. This is the main cost of paying taxes for an individual.*
- *Government transfer payments are funded by taxes collected by the government. This is a benefit of paying taxes.*
- *Government goods and services are available to all people who qualify, regardless of taxes paid. This is a benefit of paying taxes.*
- *Required deductions for taxes reduce disposable income.*
- *If you are a U.S. citizen or resident, whether you must file a federal income tax return depends upon your gross income, your filing status, your age, and whether you are a dependent.*
- *E-filing is a fast, safe way to file a federal tax return electronically.*