

OVERVIEW

If your job pays \$8 an hour and you work 20 hours, your paycheck will be \$160, right? The reality is, what you earn is not the same as what you actually receive to spend as you wish. After taxes and other items are deducted from your paycheck, you will have less money in hand to save, spend, or invest.

In this lesson you will investigate factors that impact your take-home pay and learn about choices you have to make the most of your hard-earned money.

LEARNING OUTCOMES

In this lesson students examine factors that impact personal tax liability and take-home pay. Along the way they will:

- ☒ Calculate net pay.
- ☒ List factors that impact personal income tax liability.
- ☒ List factors that impact net pay.

Students will use what they learn to maximize their pay options.

PREPARATION

- ☐ Order a Module 3 Student Guide for each student. (The Guide is also available online to download.)
- ☐ Preview the lesson PowerPoint presentation, learning tasks, and Module 3 Student Guide, particularly pages 21-25.
- ☐ Print or download the Student Learning Plan for this lesson so each student has a copy.
- ☐ Review government resources to become familiar with current income tax information and social security eligibility requirements. (Info sheets, www.irs.gov, www.ssa.gov)
- ☐ Gather information from your local state Department of Labor to become familiar with state income tax rates, minimum wage rates, child labor laws, and any requirements for youth work permits.

WHAT YOU WILL NEED

- ☐ Module 3 Student Guide (pages 21-25)
- ☐ PowerPoint Presentation 3-3
- ☐ Student Learning Plan 3-3
- ☐ Task: Figure the Net Pay
- ☐ Activity 3.7: Get the W-4 Right
- ☐ Activity 3.8: Check it Out!
- ☐ Social Security Administration Publication: Your Retirement Benefit: How It's Figured
- ☐ IRS Form W-4 Instructions and Certificate
- ☐ Student Work Permit (optional if required in local state)
- ☐ Challenge 3-B: Thumbs Up or Thumbs Down?
- ☐ Internet access

NOTES:

Approximate time: 45 minutes (minimum) - 90 minutes (with extension activities)

Lesson 3-3: Pay and Taxes

Learning Tasks	Teaching Notes	Materials
<p>1. If Kevin earns \$6.50 an hour and worked 60 hours last month, how much did he earn for the entire month? Complete Activity 3.8: Check it Out! to see how much money he actually took home.</p>	<p>PROCEDURE TIME ESTIMATE: 10 minutes</p> <p><input type="checkbox"/> [Slide 2] Before showing the students Activity 3.8, tell them to calculate how much Kevin earned and compare their answers with a neighbor. Ask the students if he will receive all of that money when he cashes his paycheck. When student responds that he won't receive all of the earnings, ask for reasons why his actual "take-home pay" is less than what he earned. Reference the responses later in the lesson as you discuss payroll deductions.</p> <p><input type="checkbox"/> Wrap up this task by having the students complete Activity 3.8: Check it Out, either individually or as a whole class. Point out that "Net Pay" is the actual "take-home pay" that Kevin has available to use as he wishes for saving, investing, or spending.</p> <p><input type="checkbox"/> [Slide 3] Transition into the lesson preview by noting that although Kevin is required to pay income taxes on earnings, he does have some control in deciding how much he receives in net pay. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to investigate factors that impact their take-home pay and learn about choices they have to maximize their pay options.</p>	<p>Module 3 Student Guide</p> <p>Student Learning Plan</p> <p>STUDENT GUIDE Page 24</p> <p>SLIDES 2 – Kevin's Paycheck 3 – Preview</p> <p>ACTIVITY Activity 3.8: Check it Out!</p> <p>Calculators (optional)</p>
<p>2. What do you know about taxes? Participate in a discussion on how taxes are paid. Then brainstorm reasons why we need to pay taxes.</p>	<p>PROCEDURE TIME: 10 minutes</p> <p><input type="checkbox"/> Begin a discussion about income tax deductions. If the students have previous experience with income taxes, ask them to share what they know about the types of income taxes paid by workers and why workers pay taxes. Use Slide 4 and page 21 to introduce or review the types of income taxes and fill in gaps for how the taxes are calculated.</p> <p><input type="checkbox"/> Use Slide 5 to differentiate between income taxes and FICA contributions. Point out that the students are already saving for their retirement when they have Social Security and Medicare contributions deducted from their paychecks. This money is pooled in a fund to distribute to eligible retirees, survivors of workers who have died, and people who are disabled. Employers add to the pool by matching employee contributions. Retirement benefits are based on the average indexed monthly earnings during a worker's 35 years of highest earnings before age 62. So, it pays to stay in the workforce and increase earnings over time. Additional information is available at www.ssa.gov. An information sheet is also provided to explain how Social Security benefits are figured.</p>	<p>STUDENT GUIDE Pages 21-22</p> <p>SLIDES 4 – Income Tax for Individuals 5 – Social Security & Medicare Contributions</p> <p>ACTIVITIES Social Security Administration Publication: Your Retirement Benefits: How It's Figured (optional) Internet access: www.irs.gov www.ssa.gov</p>

Lesson 3-3: Pay and Taxes

Learning Tasks	Teaching Notes	Materials
	<p><input type="checkbox"/> Ask the students, “How do we pay income taxes?” Allow one or two minutes for responses before telling them that as workers, they get to choose the method for paying taxes: a little at a time out of each paycheck (withholding) or all at once (after calculating exactly what is owed filing taxes). Point out that having taxes withheld from each paycheck is a way to help workers set aside funds at regular intervals for their tax liabilities, much like when they create a spending plan to regularly set aside funds for savings goals and occasional expenses such as insurance.</p> <p>EXTENSION: If this is a new concept for students, use one of the many lesson plans available on the IRS educator website: www.irs.gov/app/understandingTaxes/index.jsp</p>	
<p>3. Find out the financial decisions you need to address when starting a new job. Make one of your first adult financial decisions when you fill out an IRS Form W-4.</p>	<p>PROCEDURE TIME: 10 minutes</p> <p><input type="checkbox"/> Ask students to share their experiences about what paperwork they had to fill out when they started new jobs. Fill in gaps by explaining what documentation is often required of new hires, including proof of citizenship, emergency contact information, payroll preferences (i.e. deductions, automatic deposit option), insurance applications or waivers, employee policy/handbook acknowledgement, and in some states, a youth work permit. [Slide 6] Point out financial decisions that will need to be addressed when accepting and starting a new job. As time allows, elaborate on these decisions or share personal stories about the decisions.</p> <p><input type="checkbox"/> [Slide 7] Read through the Student Guide text (page 22) with students. Make sure they understand the choices they have to make when filling out an IRS Employee’s Withholding Allowance Certificate (Form W-4). Explain that deciding what to claim for allowances is a financial decision they will make every time they fill out the form. What they record in lines 3, 5, 6, and 7 will impact the amount of federal income tax that is deducted from their gross pay. Guide students as they complete Activity 3.7: Get the W-4 Right.</p> <p>Note: IRS Form W-4 (2015) is provided for reference. Ideally, a worker should claim withholding allowances in such a way that a sufficient amount of taxes should be withheld throughout the year to avoid the need to come up with a big chunk of money to pay additional income taxes owed at the end of the year. Reversely, there should not be too much withheld so a large refund is received when filing taxes—this is money a person could have had in hand for saving, investing, or spending rather than having it held by the government during the year. (This is a good time to review how the time value of money applies in this situation if you have already covered the concept in <i>Module 4: Investing</i>.)</p>	<p>STUDENT GUIDE Pages 22-23</p> <p>SLIDES 6 – Financial Decisions When Starting a Job 7 – W-4 Withholding Certificate 8 – Youth Work Permits</p> <p>ACTIVITIES Activity 3-7: Get the W-4 Right IRS Form W-4 with instructions Student Work Permit (if applicable in your state) Internet www.irs.gov</p>

Lesson 3-3: Pay and Taxes

Learning Tasks	Teaching Notes	Materials
	<p>Explanation: Most people who are single and have no children will claim either “0,” “1,” or “2” allowances on their W-4 form. With a higher number of allowances claimed, a lower amount of income taxes will be withheld from paychecks. Someone who expects to not owe any income tax, such as a student who works short-term in the summer, might claim “exempt” on the W-4 Certificate to increase the net pay received each paycheck rather than wait for a tax refund at the end of the year. However, an employee needs to make sure to have enough money to cover any taxes owed when taxes are due on April 15. The most convenient way to plan for tax payments is to pay a little at a time from each paycheck rather than all at once at the end of the year.</p> <p><input type="checkbox"/> [Slide 8 - optional if your state requires Youth Work Permits] If work permits are required in your state, provide an explanation of how to get a permit. Point out that the purpose of a child labor work permit is to ensure that all parties (student, employer, and parent) comply with minimum age employment restrictions. Additional information about work permits and child labor laws can be found at your state’s Labor Department website and the U.S. Department of Labor website, www.dol.gov/dol/topic/youthlabor/workpermitsagecert.htm.</p> <p>Additional Resources:</p> <ul style="list-style-type: none"> ▪ Department of Revenue video, “Teens 'n Taxes What's a W-4 form?” (1 minute, 48 seconds). Use either the YouTube™ link, www.youtube.com/watch?v=oKLTwk_Jh6o, or the DOR website link, www.mass.gov/dor/individuals/seniors-students-and-military-personnel/students/ ▪ IRS W-4 Form, www.irs.gov/pub/irs-pdf/fw4.pdf ▪ 360 Degrees of Financial Literacy, IRS.gov, a free program of the nation’s certified public accountants, www.360financialliteracy.org/Topics/Taxes/Income-Tax ▪ NEFE’s CashCourse website, www.cashcourse.org. Students and Instructors who are not affiliated with a college or university can register as “Other” to access CashCourse and utilize the site resources. 	
<p>4. Congratulations! You are now earning \$30,000 a year. Calculate your net, or take-home, pay.</p>	<p>PROCEDURE TIME: 10 minutes</p> <p><input type="checkbox"/> [Slide 9] Distribute the Figure the Net Pay task and preview the directions for each situation. Arrange for students to work individually or in pairs to complete calculations for each situation. (Note: Retirement fund investing and contributions are covered more in depth in <i>Module 4: Investing</i>, but this is a good time to point out how pre-tax deductions impact net pay and tax liability.)</p>	<p>SLIDE 9 – What is Your Net Pay?</p> <p>ACTIVITY Task: Figure the Net Pay Calculators (optional)</p>

Lesson 3-3: Pay and Taxes

Learning Tasks	Teaching Notes	Materials
	<p><input type="checkbox"/> Debrief by asking the students to react to the scenario differences, specifically the tax liability, net pay, and retirement fund contributions. Ask the students what they think is a good course of action when they receive a raise or bonus “windfall.” Point out that having a plan in advance can help them be in control with how their money is used.</p> <p>Extension:</p> <ul style="list-style-type: none"> ▪ The Federal, Social Security, and Medicare tax information provided for this exercise are the rates for the 2015 tax year. Have students go to the IRS website (www.irs.gov) to research the additional information about current tax rates and calculations. ▪ The state withholding rate provided is for Colorado. Have students look up the tax rate for their own state. (Try a website like www.taxadmin.org/fta/rate/tax_stru.html) ▪ Students can also analyze the impact being married has on tax withholdings. ▪ Students can research dues related to their possible career fields and compare the costs of dues. <p>Additional Learning Resources provided by NEFE:</p> <ul style="list-style-type: none"> ▪ www.cashcourse.org articles about taxes and paycheck deductions 	
<p>5. Complete Challenge Assignment 3-B: Thumbs Up or Thumbs Down? to identify potential job options and payroll options that match your preferences.</p>	<p>PROCEDURE In-class or out-of-class assignment</p> <p><input type="checkbox"/> Assign the students to complete Challenge 3-B: Thumbs Up or Thumbs Down. This Challenge is appropriate to assign with this lesson or after completing Lesson 3-2 or Lesson 3-4.</p> <p>Resource: This is a good time to introduce students, particularly students in Grades 11-12, to the CashCourse Prep website, www.cashcourse.org/prep. Here they will find helpful resources such as a Job Priorities worksheet and a Job Comparison worksheet. Students and Instructors who are not affiliated with a college or university can register as “Other” to access CashCourse and utilize the site resources.</p>	<p>STUDENT GUIDE Page 29</p> <p>SLIDE 10 - Challenge</p> <p>ACTIVITY Challenge 3-B: Thumbs Up or Thumbs Down</p>

Learning Tasks	Teaching Notes	Materials
TAKING IT HOME Take a close look at one of your recent paystubs to see how payroll information is recorded.	PROCEDURE Out-of-class assignment <input type="checkbox"/> Encourage students who have been or are employed to closely examine one of their recent paystubs to become familiar with the information recorded by the employer. Stress the importance of verifying payroll information to ensure accuracy. Explain that this information should be kept to confirm year-end data when the students receive their W-2 Wage and Tax Statement at the end of each year. It is the employee's responsibility to ensure that all information is documented accurately.	
REFLECTION Think about what allowances you might record on a W-4 Form when your life situation changes.	PROCEDURE In-class or out-of-class assignment <input type="checkbox"/> Guide the students to reflect on what they might record on an IRS W-4 Certificate in the future when they have a full-time job, if they are married and their spouse works full time, and if they have children.	

TAKING IT HOME

Take a close look at one of your recent paystubs to see how payroll information is recorded. Keep your paystubs to match up data on the W-2 Wage and Tax Statement you receive from your employer at the end of the year. This information is needed when filing your income taxes, and your total wages are also tracked for future Social Security benefits.

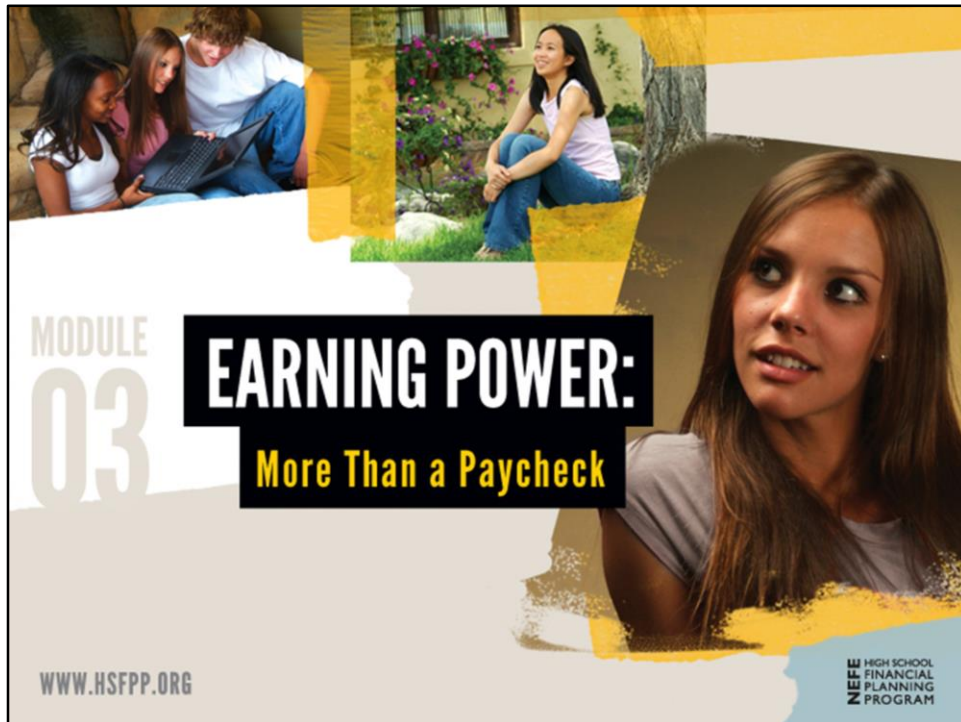
REFLECTION

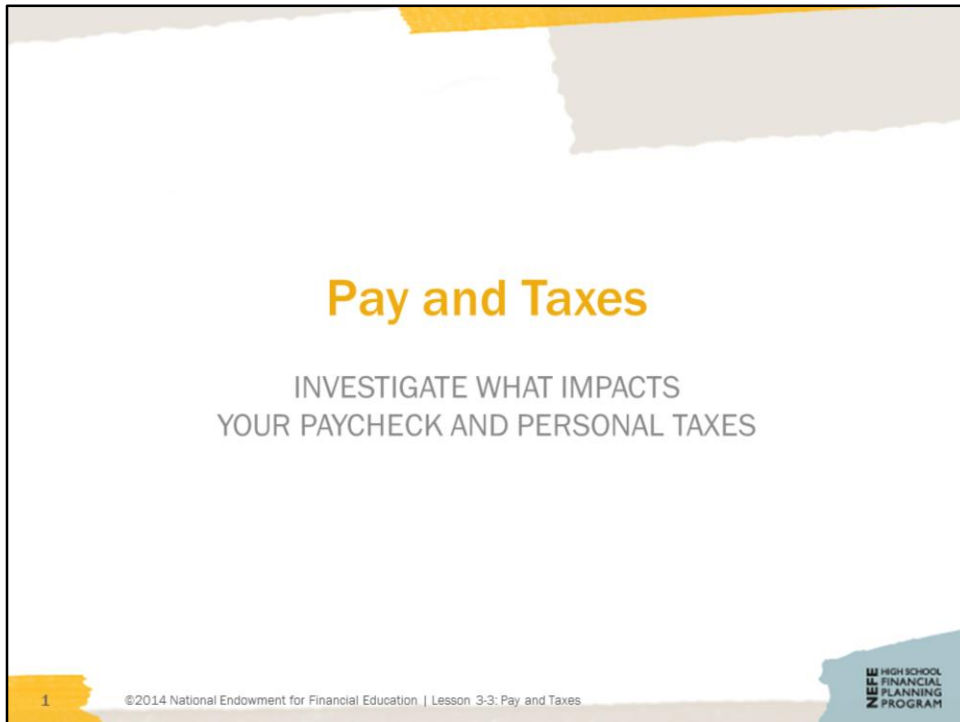
Think about the number of W-4 allowances you think best reflects your needs right now. Now, imagine into the future and indicate how you would change your number of allowances for each of the following scenarios and why.

- You accept your first full-time job.
- You just got married and your spouse also works full-time.
- Your first child was just born.

FURTHER STUDY

Practice filling out an income tax form. You can find simulations for several situations on the IRS.gov Understanding Taxes Student Site, www.irs.gov/app/understandingtaxes/index.jsp





- ☐ Display this slide as you prepare to introduce this lesson.

Kevin's Paycheck

How much did Kevin earn?

Last month he worked 60 hours at \$6.50 an hour.

How does this compare with what he actually takes home?

Calculating Income		Kevin's Monthly Pay
	Regular Pay	\$ 390
+	Tips	\$ 148
=	Gross Pay	\$ 538
-	Payroll Taxes	\$ 77
-	Other Deductions	\$ 21
=	Net Pay	\$ 440

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Student Guide, page 24

- ❑ Before showing the students **Activity 3.8**, tell them to calculate how much Kevin earned and compare their answers with a neighbor. Ask the students if he will receive all of that money when he cashes his paycheck. When student responds that he won't receive all of the earnings, ask for reasons why his actual "take-home pay" is less than what he earned. Reference the responses later in the lesson as you discuss payroll deductions.
- ❑ Wrap up this task by having the students complete **Activity 3.8: Check it Out**, either individually or as a whole class. Point out that "Net Pay" is the actual "take-home pay" that Kevin has available to use as he wishes for saving, investing, or spending.

Preview

Today we will answer these questions:

- Why don't I get all of my pay?
- How are payroll taxes calculated?
- Do I have any control over the amount of my net pay?

Use what you learn today to maximize your pay options.

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- Transition into the lesson preview by noting that although Kevin is required to pay income taxes on earnings, he does have some control in deciding how much he receives in net pay. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to investigate factors that impact their take-home pay and learn about choices they have to maximize their pay options.

Income Taxes for Individuals

Calculated as a percentage of your taxable income

Taxable income = gross pay minus any pre-tax deductions
(examples: retirement plan contributions, qualifying insurance premiums)

Federal Income Tax

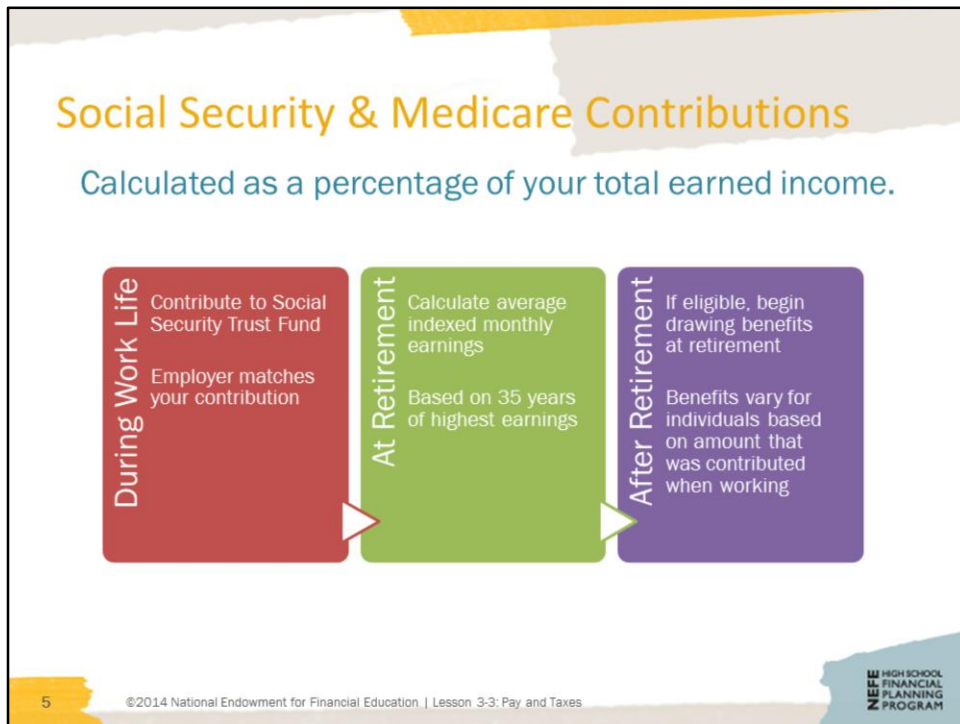
State Income Tax

Local Income Tax

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Student Guide, pages 21-22

- ❑ Begin a discussion about income tax deductions. If the students have previous experience with income taxes, ask them to share what they know about the types of income taxes paid by workers and why workers pay taxes. Use this slide and page 21 to introduce or review the types of income taxes and fill in gaps for how the taxes are calculated.



Student Guide, pages 21-22

- ❑ Use this slide to differentiate between income taxes and FICA contributions. Point out that the students are already saving for their retirement when they have Social Security and Medicare contributions deducted from their paychecks. This money is pooled in a fund to distribute to eligible retirees, survivors of workers who have died, and people who are disabled. Employers add to the pool by matching employee contributions. Retirement benefits are based on the average indexed monthly earnings during a worker's 35 years of highest earnings before age 62. So, it pays to stay in the workforce and increase earnings over time.

Additional Information:

- Social Security Administration Publication: Your Retirement Benefit: How It's Figured
- www.ssa.gov
- ❑ Ask the students, "How do we pay income taxes?" Allow one or two minutes for responses before telling them that as workers, they get to choose the method for paying taxes: a little at a time out of each paycheck (withholding) or all at once (after calculating exactly what is owed filing taxes). Point out that having taxes withheld from each paycheck is a way to help workers set aside funds at regular intervals for their tax liabilities, much like when they create a spending plan to regularly set aside funds for savings goals and occasional expenses such as insurance.

EXTENSION: If this is a new concept for students, use one of the many lesson plans available on the IRS educator website: www.irs.gov/app/understandingTaxes/index.jsp

Financial Decisions When Starting a Job

- **Pay**
 - Will your earnings fit into your spending plan?
- **Paycheck**
 - Do you want to automatically deposit your paycheck to savings or receive it in person?
- **Employee Benefits**
 - Which insurance plan best fits your situation?
 - How much will you contribute to a retirement or insurance savings program?
 - Do you have the automatic payroll deduction option for any of your regular expenses?
- **Withholding Allowance**
 - How much income tax is withheld from each paycheck?

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Student Guide, pages 22-23

- ❑ Ask students to share their experiences about what paperwork they had to fill out when they started new jobs. Fill in gaps by explaining what documentation is often required of new hires, including proof of citizenship, emergency contact information, payroll preferences (i.e. deductions, automatic deposit option), insurance applications or waivers, employee policy/handbook acknowledgement, and in some states, a youth work permit.
- ❑ Point out financial decisions that will need to be addressed when accepting and starting a new job. As time allows, elaborate on these decisions or share personal stories about the decisions.

W-4 Withholding Certificate

Form W-4 **Employee's Withholding Allowance Certificate** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service **2015**

1 Your first name and middle initial Last name 2 Your social security number

Home address (number and street or rural route) 3 ☐ Single ☐ Married ☐ Married, but withheld at higher Single rate.
 City or town, state, and ZIP code Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.

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. ☐

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 2015, 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)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 102200 Form W-4 (2015)

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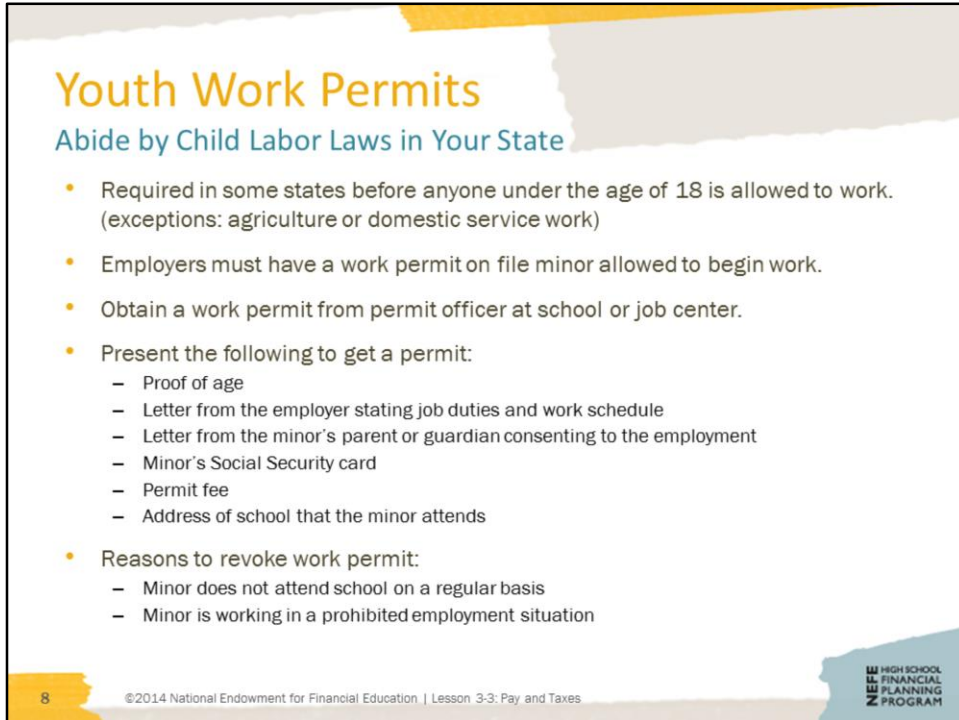
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Student Guide, pages 22-23

- Read through the Student Guide text (page 22) with students. Make sure they understand the choices they have to make when filling out an IRS Employee's Withholding Allowance Certificate (Form W-4). Explain that deciding what to claim for allowances is a financial decision they will make every time they fill out the form. What they record in lines 3, 5, 6, and 7 will impact the amount of federal income tax that is deducted from their gross pay. Guide students as they complete **Activity 3.7: Get the W-4 Right**.

Note: IRS Form W-4 (2015) is provided for reference. Ideally, a worker should claim withholding allowances in such a way that a sufficient amount of taxes should be withheld throughout the year to avoid the need to come up with a big chunk of money to pay additional income taxes owed at the end of the year. Reversely, there should not be too much withheld so a large refund is received when filing taxes—this is money a person could have had in hand for saving, investing, or spending rather than having it held by the government during the year. (This is a good time to review how the time value of money applies in this situation if you have already covered the concept in *Module 4: Investing*.)

Explanation: Most people who are single and have no children will claim either "0," "1," or "2" allowances on their W-4 form. With a higher number of allowances claimed, a lower amount of income taxes will be withheld from paychecks. Someone who expects to not owe any income tax, such as a student who works short-term in the summer, might claim "exempt" on the W-4 Certificate to increase the net pay received each paycheck rather than wait for a tax refund at the end of the year. However, an employee needs to make sure to have enough money to cover any taxes owed when taxes are due on April 15. The most convenient way to plan for tax payments is to pay a little at a time from each paycheck rather than all at once at the end of the year.

A presentation slide titled "Youth Work Permits" with the subtitle "Abide by Child Labor Laws in Your State". The slide contains a bulleted list of requirements and reasons to revoke a permit. The background features a torn paper effect with yellow and grey sections. The slide number "8" is in the bottom left, and the copyright notice "©2014 National Endowment for Financial Education | Lesson 3-3: Pay and Taxes" is in the bottom center. The HSFP logo is in the bottom right.

Youth Work Permits

Abide by Child Labor Laws in Your State

- Required in some states before anyone under the age of 18 is allowed to work. (exceptions: agriculture or domestic service work)
- Employers must have a work permit on file minor allowed to begin work.
- Obtain a work permit from permit officer at school or job center.
- Present the following to get a permit:
 - Proof of age
 - Letter from the employer stating job duties and work schedule
 - Letter from the minor's parent or guardian consenting to the employment
 - Minor's Social Security card
 - Permit fee
 - Address of school that the minor attends
- Reasons to revoke work permit:
 - Minor does not attend school on a regular basis
 - Minor is working in a prohibited employment situation

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- ❑ [Optional if your state requires Youth Work Permits] If work permits are required in your state, provide an explanation of how to get a permit. Point out that the purpose of a child labor work permit is to ensure that all parties (student, employer, and parent) comply with minimum age employment restrictions. Additional information about work permits and child labor laws can be found at your state's Labor Department website and the U.S. Department of Labor website, www.dol.gov/dol/topic/youthlabor/workpermitsagecert.htm.

Additional Resources:

- Department of Revenue video, "Teens 'n Taxes What's a W-4 form?" (1 minute, 48 seconds). Use either the YouTube™ link, www.youtube.com/watch?v=oKLtwk_Jh6o, or the DOR website link, www.mass.gov/dor/individuals/seniors-students-and-military-personnel/students/. If you use the DOR website link below, there are two videos, the first on the W-2 form. Go to the second video using the arrow on the right side of the video frame.
- IRS W-4 Form, www.irs.gov/pub/irs-pdf/fw4.pdf
- 360 Degrees of Financial Literacy, IRS.gov, a free program of the nation's certified public accountants, www.360financialliteracy.org/Topics/Taxes/Income-Tax
- NEFE's CashCourse website, www.cashcourse.org. Students and Instructors who are not affiliated with a college or university can register as "Other" to access CashCourse and utilize the site resources.

What is Your Net Pay?

Given:

- Receive an annual salary of \$30,000
- Paid twice a month (24 payments a year)
- Deduct income taxes and union dues

What is your **gross** pay per paycheck?

What is your **net** pay per paycheck?

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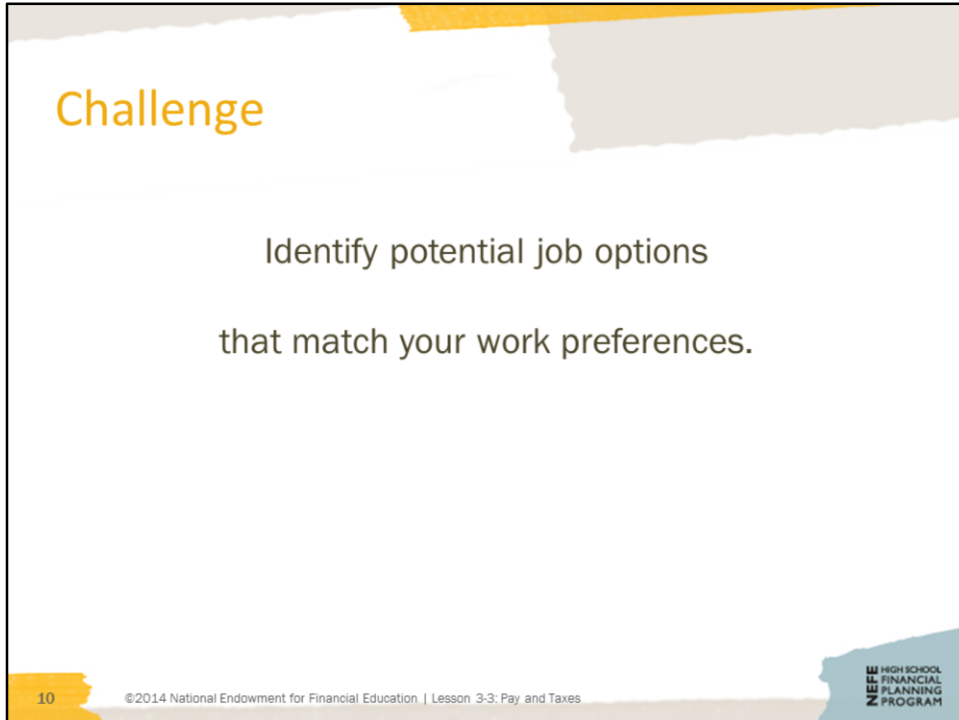
- ❑ Distribute the **Figure the Net Pay** task and preview the directions for each situation. Arrange for students to work individually or in pairs to complete calculations for each situation. (Note: Retirement fund investing and contributions are covered more in depth in *Module 4: Investing*, but this is a good time to point out how pre-tax deductions impact net pay and tax liability.)
- ❑ Debrief by asking the students to react to the scenario differences, specifically the tax liability, net pay, and retirement fund contributions. Ask the students what they think is a good course of action when they receive a raise or bonus “windfall.” Point out that having a plan in advance can help them be in control with how their money is used.

Extension:

- The Federal, Social Security, and Medicare information provided for this exercise are the rates for the 2015 tax year. Have students go to the IRS website (www.irs.gov) to research the additional information about current tax rates and calculations.
- The state withholding rate provided is for Colorado. Have students look up the tax rate for their own state. (Try a website like www.taxadmin.org/fta/rate/tax_stru.html)
- Students can also analyze the impact being married has on tax withholdings.
- Students can research dues related to their possible career fields and compare the costs of dues.

Additional Learning Resources provided by NEFE:

- www.cashcourse.org, articles about taxes and paycheck deductions

A slide with a torn paper effect. The top left corner is yellow with the word "Challenge" in orange. The rest of the slide is white. The text "Identify potential job options that match your work preferences." is centered. The bottom left has a yellow tab with the number "10". The bottom center has the copyright text. The bottom right has a blue tab with the program logo.

Challenge

Identify potential job options
that match your work preferences.

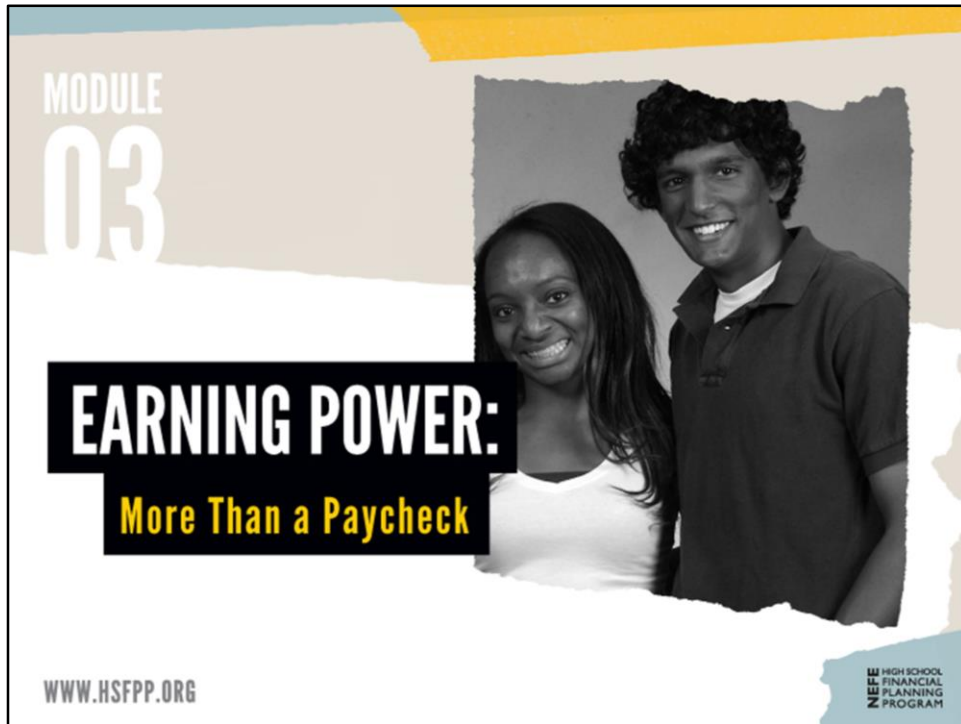
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Student Guide, page 29

- ❑ Assign the students to complete **Challenge 3-B: Thumbs Up or Thumbs Down**. This Challenge is appropriate to assign with this lesson or after completing Lesson 3-2 or Lesson 3-4.

Resource: This is a good time to introduce students, particularly students in Grades 11-12, to the CashCourse Prep website, www.cashcourse.org. Here they will find helpful resources such as a Job Priorities worksheet and a Job Comparison worksheet. Students and Instructors who are not affiliated with a college or university can register as “Other” to access CashCourse and utilize the site resources.



OVERVIEW

If your job pays \$8 an hour and you work 20 hours, your paycheck will be \$160, right? The reality is, what you earn is not the same as what you actually receive to spend as you wish. After taxes and other items are deducted from your paycheck, you will have less money in hand to save, spend, or invest.

In this lesson you will investigate factors that impact your take-home pay and learn about choices you have to make the most of your hard-earned money.

LEARNING OUTCOMES

In this lesson you will examine factors that impact personal tax liability and take-home pay. Along the way you will:

- ☒ Calculate net pay.
- ☒ List factors that impact personal income tax liability.
- ☒ List factors that impact your net pay.

Use what you learn to maximize your pay options.

LEARNING TASKS

These tasks match pages 21-25 in Student Guide 3.

__ 1.	If Kevin earns \$6.50 an hour and worked 60 hours last month, how much did he earn for the entire month? Complete Activity 3.8: Check it Out! to see how much money he actually took home.
__ 2.	What do you know about taxes? Participate in a discussion on how taxes are paid. Then brainstorm reasons why we need to pay taxes.
__ 3.	Find out the financial decisions you need to address when starting a new job. Make one of your first adult financial decisions when you fill out an IRS Form W-4.
__ 4.	Congratulations! You are now earning \$30,000 a year. Calculate your net, or take-home, pay.
__ 5.	Complete Challenge 3-B: Thumbs Up or Thumbs Down? to identify potential job options and payroll options that match your preferences.



TAKING IT HOME

Take a close look at one of your recent paystubs to see how payroll information is recorded. Keep your paystubs to match up data on the W-2 Wage and Tax Statement you receive from your employer at the end of the year. This information is needed when filing your income taxes, and your total wages are also tracked for future Social Security benefits.



REFLECTION

Think about the number of W-4 allowances you think best reflects your needs right now. Now, imagine into the future and indicate how you will change your number of allowances for each of the following scenarios and why.

- You accept your first full-time job.
- You just got married and your spouse also works full-time.
- Your first child is just born.



FURTHER STUDY

Practice filing out an income tax form. You can find simulations for several situations on the IRS.gov Understanding Taxes Student Site, www.irs.gov/app/understandingtaxes/index.jsp.

Activity 3-7: Get the W-4 Right

NAME:

DATE:

Directions:

When you begin a new job, you will complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Use the form below to practice filling out a form based on your current situation.

You can download a copy of the full IRS Form W-4 from www.irs.gov for additional instructions to fill out the withholding allowance information.

Keep your Social Security number a secret; use 000-00-0000 to fill out this form.

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate		OMB No. 1545-0074 2015
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 2015, 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 <input type="checkbox"/> 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.) <input type="checkbox"/>			Date <input type="checkbox"/>	
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)	
For Privacy Act and Paperwork Reduction Act Notice, see page 2.				
Cat. No. 10220Q			Form W-4 (2015)	

Activity 3-8: Check it Out!

NAME:

DATE:

Directions:

Use the information provided to calculate Kevin's net pay.

Kevin earns \$6.50 an hour and worked 60 hours last month. During the month he received \$148 in tips. He also used his employee food discount and chose to have the cost of his meals deducted from his paycheck.

If Kevin had \$21 deducted last month for meals, what was his net pay?

Calculating Your Income		Kevin's Monthly Pay
	Regular Pay	
+	Tips	
=	Gross Pay	
-	Payroll Taxes	\$ 77
-	Other Deductions	
=	Net Pay	

Activity 3-8: Check it Out!

NAME: **KEY**

DATE:

Directions:

Use the information provided to calculate Kevin's net pay.

Kevin earns \$6.50 an hour and worked 60 hours last month. During the month he received \$148 in tips. He also used his employee food discount and chose to have the cost of his meals deducted from his paycheck.

If Kevin had \$21 deducted last month for meals, what was his net pay?

Calculating Your Income		Kevin's Monthly Pay
	Regular Pay	\$ 390
+	Tips	\$ 148
=	Gross Pay	\$ 538
-	Payroll Taxes	\$ 77
-	Other Deductions	\$ 21
=	Net Pay	\$ 440

Task: Figure the Net Pay

NAME:

DATE:

Directions:

Situation A. Congratulations! You are now getting a regular paycheck. Although your annual salary is \$30,000, you know that there are several deductions that will be taken out of your paycheck. Use the data provided in the chart to calculate your net pay (aka take-home pay) for each pay period.

Situation B. You just found out that your employer will match a portion of any contributions you make to a retirement fund. To take advantage of this generous benefit, you have chosen the option to automatically have \$100 deducted from each paycheck to build up your retirement fund. You can take this as a pre-tax deduction, meaning your income taxes will be calculated *after* subtracting your retirement fund deduction of \$100 per pay period. Calculate how this pre-tax deduction impacts your total taxes and your net pay.

Situation C. At your one-year review you received good news—you have earned a three percent raise for taking on new responsibilities and being a valued employee! Recalculate your net pay to see how your raise impacts your tax liability and net pay.

What is the difference between your original **gross pay** (A1) and your **gross pay** after your raise (C1)?

Gross Pay: \$_____ after raise per pay period \$_____ after raise over one year

If you continue to contribute \$100 to your retirement fund each pay period, what is the difference in what you owe in **taxes** and your **net pay** comparing Situation A and Situation C?

Total Taxes: \$_____ after raise per pay period \$_____ after raise over one year

Net Pay: \$_____ after raise per pay period \$_____ after raise over one year

Task: Figure the Net Pay

	Filing Status: ✓ Single ✓ 1 Withholding Allowance ✓ Paid semimonthly	Situation A	Situation B	Situation C	Difference C-A	Difference Over One Year (C-A)
1	Gross Pay	\$1,250	\$1,250	\$1,287.50		
2	Retirement Fund Contribution Pre-Tax Deduction	\$0	\$100	\$100		
3	Taxable Pay					
4	Federal Income Tax*	\$129.00	\$114.00	\$120.00		
5	State Income Tax (4.63% of taxable income, CO rate)					
6	Social Security FICA Tax (6.2% of gross income)					
7	Medicare FICA Tax (1.45% of gross income)					
8	Total Tax Deduction					
9	Union Dues	\$15.71	\$15.71	\$15.71		
10	Total Deductions					
11	Net Pay					

*The federal income tax has been calculated for you based on filing status and 2015 Tax Tables, IRS pub. 15.

Task: Figure the Net Pay

NAME: **KEY**

DATE:

Directions:

Situation A. Congratulations! You are now getting a regular paycheck. Although your annual salary is \$30,000, you know that there are several deductions that will be taken out of your paycheck. Use the data provided in the chart to calculate your net pay (aka take-home pay) for each pay period.

Situation B. You just found out that your employer will match a portion of any contributions you make to a retirement fund. To take advantage of this generous benefit, you have chosen the option to automatically have \$100 deducted from each paycheck to build up your retirement fund. You can take this as a pre-tax deduction, meaning your income taxes will be calculated *after* subtracting your retirement fund deduction of \$100 per pay period. Calculate how this deduction impacts your total taxes and your net pay.

Situation C. At your one-year review you received good news—you have earned a three percent raise for taking on new responsibilities and being a valued employee! Recalculate your net pay to see how your raise impacts your tax liability and net pay.

What is the difference between your original gross pay (A1) and your gross pay after your raise (C1)?

Gross Pay: \$37.50 increase after raise per pay period \$900 increase after raise over one year

If you continue to contribute \$100 to your retirement fund each pay period, what is the difference in what you owe in **taxes** and your **net pay** comparing Situation A and Situation C?

Total Taxes: \$9.025 less after raise per pay period \$216.60 less after raise over one year

Net Pay: \$53.475 decrease after raise per pay period \$1,283.40 decrease after raise over one year*

*Point out that although there was a decrease in net pay in spite of a raise, Situation C involved contributing an annual total of \$2,400 to a retirement fund, which has the potential to increase in value.

Task: Figure the Net Pay

	Filing Status: ✓ Single ✓ 1 Withholding Allowance ✓ Paid Semimonthly	Situation A	Situation B	Situation C	Difference C-A	Difference Over One Year (C-A)
1	Gross Pay	\$1,250.00	\$1,250.00	\$1,287.50	\$37.50	\$900.00
2	Pre-Tax Deduction	\$0	\$100.00	\$100.00	\$100.00	\$2,400.00
3	Taxable Pay	\$1,250.00	\$1,150	\$1,187.50	-62.50	-\$1,500.00
4	Federal Income Tax*	\$129.00	\$114.00	\$120.00		
5	State Income Tax (Co rate, 4.63% of taxable income)	\$57.875	\$53.245	\$54.981		
6	Social Security FICA Tax (6.2% of gross income)	\$77.500	\$77.500	\$79.825		
7	Medicare FICA Tax (1.45% of gross income)	\$18.125	\$18.125	\$18.669		
8	Total Tax Deduction	\$282.50	\$262.87	\$273.475	-\$9.025	-\$261.60
9	Union Dues	\$15.71	\$15.71	\$15.71		
10	Total Deductions	\$298.21	\$278.58	\$289.185		
11	Net Pay	\$951.79	\$871.42	\$898.32	-\$53.48	-\$1,283.40

*The federal income tax has been calculated for you based on filing status and 2015 Tax Tables, IRS pub. 15.

Reflection Discussion/Follow-up to Situation C:

Encourage the students to weigh the value of decreasing their net pay to increase their retirement contribution after receiving a raise. Point out that although the \$2,400 is not included in their take-home pay, it is money they have available to invest. In essence, it's a built-in way to "pay yourself first."

Ask the students to think about what they would do if they actually did get the raise. If they were already living on an established budget under Scenario A, how would they apply their raise "windfall" to improve their financial situation? Would they continue with the same pre-tax contribution, increase their contribution, or stop contributing? Facilitate a discussion to encourage students to provide rational for their decisions.

Challenge 3-B: Thumbs Up or Thumbs Down

NAME:

DATE:

For this challenge task, use what you have learned in Module 3: Earning Power and other career-related study to thoughtfully identify potential job or career options that match your criteria for financial goals and desired lifestyle. Add this decision summary to your personal financial planning portfolio to track your progress towards achieving your educational and career goals.

Directions:

- ☐ 1. Apply what you have learned about criterion-based decision making as you complete this challenge. Review the six DECIDE action steps to guide your work (Page 40 Appendix or Module 1 Student Guide, page 20). Preview the criteria listed in the Scoring Guide to plan for your assessment.
- ☐ 2. Use the chart below or create a separate document to summarize your decision-making process. Take into consideration your current circumstances and values. Ask for input from someone who knows you well enough to discuss your likes and dislikes as well as your values, aptitudes, and personality characteristics.
- ☐ 3. Self-assess your work using the Scoring Guide. Consider asking a classmate or family member to peer assess your work.

	DECIDE Steps	My Situation		
1	Define your goal.			
2	Establish your criteria.			
3	Choose three good options.			
4	Identify the pros and cons of the options.			
5	Decide what's best.			
6	Evaluate the results.			

Challenge 3-B: Thumbs Up or Thumbs Down

NAME: _____

DATE: _____

Required Criteria		Status		
Content				
1.	In one sentence you state what you want to achieve as a result of the decision-making process.	acceptable	not acceptable	
2.	Outcome involves a major decision related to a future career path.	acceptable	not acceptable	
3.	You justify how the decision and outcome relates to your current circumstances and values.	acceptable	not acceptable	
4.	Summary lists at least six criteria for an acceptable outcome, including the features or circumstances you absolutely must have as well as those you would like to have or will not accept.	acceptable	not acceptable	
Option Status Rating Key: "A" = Acceptable / "NA" = Not Acceptable		Option A	Option B	Option C
5.	Summary includes details about three possible options.			
6.	You devise a way to illustrate how well each option matches your criteria.			
7.	You point out the option that you have chosen.	acceptable	not acceptable	
8.	You justify why the chosen option was selected.	acceptable	not acceptable	
9.	Your choice is logical based on the known circumstances, stated criteria, and potential to achieve the desired outcome.	acceptable	not acceptable	
10.	You summarize what you do and don't like about your choice and justify any modifications that were made in the purpose, criteria, or options.	acceptable	not acceptable	
General				
11.	Content is clearly stated with distinct detail.	acceptable	not acceptable	
12.	Documentation is neat and easy to read.	acceptable	not acceptable	
13.	Information about the options is accurate or can be verified.	acceptable	not acceptable	

Feedback: _____

Score: _____ / _____