

# Income Withholdings

## Summary

Students will understand required income withholdings, reasons for taxation, the purposes of Social Security and Medicare, and the net income from a payroll statement.

## Main Core Tie

Adult Roles and Financial Literacy

[Strand 2 Standard 3](#)

## Materials

- [Cookie Monster Activity](#)
- [Read and Interpret Pay Stubs](#)
- [Understanding Paycheck Teacher Information](#)
- [Vocabulary Worksheet and Key](#)

## Instructional Procedures

### Vocabulary

Use the [Vocabulary Worksheet and Key](#) (pdf).

### Primary Vocabulary

Income  
Taxation  
Tax Revenue  
Social Security  
Medicare  
Net Income  
State Withholding Tax  
Federal Withholding Tax

### Supplementary Vocabulary

Income  
Internal Revenue Service (IRS)  
Gross Income  
W-4 Form  
I-9  
W-2 Form

### Introduction/Pre-Assessment

Taxes are compulsory charges imposed on citizens by local, state, and federal government. The money is used to provide public goods and services. The largest amount of taxes a person pays is on his/her income. Federal taxes are the largest tax and are collected by a government agency called the Internal Revenue Service. The Internal Revenue Service collects federal income taxes, issues regulations, and enforces tax laws written by the United States Congress.

Federal Withholding Tax - The amount required by law for employers to withhold from earned wages to pay taxes. The amount withheld depends on two things: the amount of money earned and the information provided on the Form W-4.

State Withholding Tax - The percentage deducted from an individual's paycheck to assist in funding government agencies within the state. The percentage deducted depends on the amount of gross pay the employee has earned.

FICA (Federal Insurance Contribution Act) - This tax includes two separate taxes: Federal Old Age

Survivors Disability Insurance Employee Employment Tax (Fed OASDI/EE) or Social Security and Federal Medicare Employee Employment Tax (Fed MED/EE) or Medicare.

Social Security Tax -The nation's retirement program. This tax helps provide retirement income for the elderly and pays disability benefits. Social Security taxes are based on a percentage (6.2%) of the employee's gross income. The employer matches the contribution made by the employee.

Medicare Tax -The nation's health care program for the elderly and the disabled. This tax provides hospital and medical insurance to those who qualify. Medicare taxes are based on a percentage (1.45%) of the employee's gross income. (FEFE 1.13.1 Understanding You Paycheck Introduction)

Content Outline, Activities and Teaching Strategies

(All options do not necessarily need to be taught. Select ones to cover standards and objectives and according to your district policies.)

Option 1: Cookie Monster Activity

This activity gives a brief overview of taxes. Refer to [Teacher Information-Cookie Monster](#) (pdf).

Option 2: FEFE Understanding Your Paycheck Lesson Plan

In this lesson students learn how to understand paycheck deductions, why deductions are taken, and how to complete employment forms which determine some of the deductions. They learn the difference between gross and net pay, state taxes, federal taxes, social security, and Medicare.

Students practice calculating different amounts deducted from a paycheck, complete a W-4 form, and review terminology and concepts learned by participating in "Where Does All the Money Go."

Step #1: Go to: <http://www.fefe.arizona.edu/download-lessons>. (You will need to register and log in to this website prior to use)

Step #2: Click on Educational Resources, then click on Curriculum, then click on 13.0 Paychecks and Taxes

Step #3: Click on 1.13.1 Understanding Your Paycheck and download the lesson plan and resources.

Option 3: Vocabulary

Use the [Vocabulary Worksheet and Key](#) (pdf).

Option 4: Simulation to Complete Tax Form - IRS

Step #1: Go to: <http://www.irs.gov/>

Step #2: Click on Individual, then click on Students, then click on Understand Taxes Lesson Plan.

Follow the simulations to complete tax forms.

Option 5: Income and Deductions

[UEN Lesson Plan on income and deductions.](#)

Introduction of the payroll process, determining ones income, deductions taken out of paychecks (taxes, insurance, charitable contributions, retirement), fixed and variable expenses to expect and money management. Author: Nicole Larsen

Option 6: Interpret Pay Stubs

Student will read and interpret taxes taken out of a paycheck. Refer to [Interpret Pay Stubs Worksheet and Teacher Key and Transparency](#) (pdf).

Option 7: Textbook

Text- *Personal Finance* ©2007 Glencoe

Summary/Evaluation All income from wages, salaries, and tips is taxable. Wages, salaries, bonuses, and commissions are compensation received by employees for services performed.

Authors

[CTE LESSON PLANS](#)