Section 7.3:
Income Statements
Read pg. 344

1. Jack's employer just switched to a new payroll system. He wants to make sure that his net pay has been computed correctly. His gross pay per pay period is $587.34. He has the following deductions: Social Security tax (6.2%), Medicare tax (1.45%), federal withholding tax $164.45, state withholding tax $76.34, retirement insurance contribution $50.00, disability insurance fee $8.00, medical insurance fee $23.00, and dental insurance fee $8.00. What should his net pay be for this pay period?

Tax = taxable amount × rate as decimal

Social Security tax = 587.34 × 0.062 = 36.42

Medicare Tax = 587.34 × 0.0145 = 8.52

$$\frac{.062}{1} = \frac{SS}{587.34}$$

$$SS = 36.42$$

Sum of deductions = 36.42 + 8.52 + 164.45 + 76.34 + 50.00 + 2(8.00) + 23.00

Sum of deductions = 374.73

Net pay = gross pay – deductions

Net pay = 587.34 – 374.73 = 212.61

Jack's net pay for this period is _____.

2. A taxpayer's annual Social Security tax is $6,107. What is the taxpayer's gross annual salary?

$$\text{Tax rate} = \frac{\text{tax amount}}{\text{gross income}}$$

Rewrite ~~to solve for the gross salary.~~

~~$\text{Gross salary} = \frac{\text{tax amount}}{\text{tax rate}} = \underline{\quad\quad} = \underline{\quad\quad}$~~

A taxpayer with an annual Social Security tax of $6,107 has a gross salary of _____.

$$\frac{.062}{1} = \frac{6107}{\text{Gross}(x)}$$

$$\frac{.062x = 6107}{.062 \quad\quad .062}$$

$$\boxed{x = 98500}$$

1 Wages, tips, other compensation	2 Federal income tax withheld
3 Social security wages	4 Social security tax withheld $6,361.20
5 Medicare wages and tips	6 Medicare tax withheld
7 Social security tips	8 Allocated tips
9 Advance EIC payment	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12 E $2,400.00
13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b
14 Other caf125 $5,600.00	12c

3. Use the partial information given in this electronic W-2 form to calculate the amount in Box 3.

$$\frac{.062}{1} = \frac{6361.20}{X}$$

$$.062X = 6361.20$$

$$\boxed{X = \$102,600}$$

4. Tony makes an hourly salary of $11.50 for 40 regular hours of work. For any time worked beyond 40 hours, he is paid at a rate of time-and-a-half per hour. Last week, Tony worked 46 hours. Find Tony's gross pay, Social Security tax, and Medicare tax.

$11.50(40) = 460$

$17.25(6) = 103.5$
$+$

Total Pay = $\boxed{563.50}$
(Gross)

$\dfrac{.062}{1} = \dfrac{SS}{563.50}$

$\boxed{SS\ Tax = 34.94}$

Overtime Rate =
$1.5(11.50) =$
$\boxed{17.25}$

HR Overtime
$46 - 40 = \boxed{6}$

$\dfrac{.0145}{1} = \dfrac{Med}{563.50}$

$\boxed{Med\ Tax = 8.17}$

5. A taxpayer's annual Medicare tax is $841. What is the taxpayer's gross annual salary?

$$\frac{.0145}{1} = \frac{841}{Gross(x)}$$

$$.0145x = 841$$

$$\boxed{x = 58,000}$$

6. Examine Alfredo Plata's incomplete W-2 form. Based on the information in Box 2, determine the amounts in boxes 1, 3, 4, and 5.

a Employee's social security number 000-00-0000	OMB No. 1545-0008	Safe, accurate, FAST! Use	**e-file**	Visit the IRS website at www.irs.gov/efile

b Employer identification number (EIN) 00-0000000	1 Wages, tips, other compensation	2 Federal income tax withheld $14,662.50

c Employer's name, address, and ZIP code	3 Social security wages	4 Social security tax withheld

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234 Washington Blvd
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	5 Medicare wages and tips	6 Medicare tax withheld $1,346.04
	7 Social security tips	8 Allocated tips

d Control number	9 Advance EIC payment	10 Dependent care benefits

e Employee's first name and initial Last name Suff.	11 Nonqualified plans	12a See instructions for box 12 E $2,300.00

Alfredo   Plata

13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b
14 Other caf125 $4,280.00	12c

137 Michigan Rd.
Seven Bridges, NY 10515

| | 12d |

f Employee's address and ZIP code					
15 State Employer's state ID number 00-0000000	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Box 5: $\dfrac{.0145}{1} = \dfrac{1346.04}{X}$

$.0145X = 1346.04$

$X = 92,830.34$

Box 3

Box 4: $\dfrac{.062}{1} = \dfrac{X}{92830.34}$

$X = 5755.48$

Box 1: $92830.34 - 2300 - 4280 = 86,250.34$