UNDERSTANDING YOUR PAY

2018 Edition  PAYROLL TAXES AND EMPLOYMENT LAW CAN COST YOU MONEY. LEARN WHAT YOU NEED TO KNOW!

SPONSORED BY
Global Cash Card
We make payments easy

BROUGHT TO YOU BY
AMERICAN PAYROLL ASSOCIATION
NOTE FROM THE PUBLISHER

USING THIS BOOK

In the preparation of this text, every effort has been made to offer the most current, correct, and clearly understandable information possible. Nonetheless, inadvertent errors can occur, and payroll rules and regulations are constantly changing. This material is distributed with the understanding that the publisher and author are not engaged in rendering legal, accounting, or other professional services. If legal advice or other professional assistance is required, the service of your attorney or certified public accountant should be sought. The publisher disclaims any responsibility for positions taken by practitioners in their individual cases or for any misunderstanding on the part of readers. The information in this text is current as of April 13, 2018.

American Payroll Institute, Inc.
660 North Main Avenue, Suite 100
San Antonio, TX 78205-1217

© 2018 American Payroll Institute, Inc. All rights reserved. Published 2018. Printed in the United States of America

No portion of this text can be reproduced in any format without prior permission of the American Payroll Institute, Inc.

Please visit our website at www.americanpayroll.org

This publication was made possible by the generous sponsorship of Global Cash Card.

Design by PRI.biz. Images from Thinkstock.com.
This book is written as an introductory guide for someone who just got their first job (Congratulations!), a foreign visitor authorized to work in the United States – including permanent immigrant workers, temporary (non-immigrant) workers, and student and exchange workers – a U.S. citizen working in another country, or someone returning to the workforce. It is designed to familiarize you with how the system works.

By system we mean the U.S. federal tax system, and related government organizations on federal, state and local levels. On a federal level, it includes the Internal Revenue Service (IRS), Social Security Administration (SSA), Department of Labor (DOL), Citizenship and Immigration Services (USCIS), and others.

We’ve incorporated symbols throughout the book that point out special hints, tips, and warnings as you read through the pages.

As an employee, you receive legal protection from the federal government (the United States) and individual states and localities. There are also U.S. and state-based tax requirements that your employer must satisfy by taking deductions from your pay. The federal government and 41 of the 50 states require income tax withholding.
That’s not all. You may be participating in a health plan, retirement plan, or other benefit plan that you pay into through payroll deductions. Or you may have other legal obligations for which your employer is required to deduct. This guide will help you understand how they work, and provide the background to ask more questions for those areas that remain unclear.

There are all sorts of ways to receive your pay, from cash to check, to direct deposit and paycard. The book discusses each one and provides the pros and cons to consider. Please consult the Table of Contents for a full overview, and see our comprehensive index for additional information.
# TABLE of CONTENTS

## CHAPTER 1: WHEN YOU GET A JOB
- Getting Started: Your Social Security Number ................................................. 3
- Proving Your Right to Work: US Citizenship and Immigration Services Form I-9, Employment Eligibility Verification ..................................................... 3
- Paying Your Fair Share, Part 1: Form W-4, Employee’s Withholding Allowance Certificate ................................................................. 8
- Paying Your Fair Share, Part 2: State Employee Withholding Allowance Certificates ................................................................. 17

## CHAPTER 2: PAYCHECK BASICS
- Getting Paid ........................................................................................................ 20
- The Wage and Hour Law, Or, How Do You Know Your Paycheck Is Correct? ........................................................................................................ 23

## CHAPTER 3: YOUR PAY STUB AND TAXES
- Income and Employment Taxes ........................................................................ 31
- Social Security Summary .................................................................................. 42
- Medicare ............................................................................................................. 42
- State Unemployment and Disability Insurance Taxes ........................................ 42

## CHAPTER 4: PRE-TAX DEDUCTIONS
- Tax-Deferred Retirement Plans ........................................................................ 45
- Cafeteria Plans .................................................................................................. 48
- Medical Savings Accounts ............................................................................... 50
- Health Savings Accounts ................................................................................ 50
- Transportation Fringe Benefits ........................................................................ 51
- Calculating Your Pre-Tax Deductions ................................................................. 52

## CHAPTER 5: AFTER-TAX DEDUCTIONS
- Involuntary Deductions .................................................................................... 57
- Voluntary Deductions ....................................................................................... 64

## CHAPTER 6: BENEFITS OF ELECTRONIC PAY
- Electronic Wage Payment: Go Green With Your Green ................................ 68
- Benefits of Paycards and General Prepaid Reloadable Cards ....................... 70
- Understanding Banking Fees .......................................................................... 71

## CHAPTER 7: YOUR RIGHTS AND RESPONSIBILITIES IN THE WORKPLACE
- First the Basics: Form W-2, Your Wage and Tax Statement ............................ 74
- The Earned Income Credit ............................................................................... 77
- Check on Your Social Security Benefits ......................................................... 79
- Workers’ Compensation Insurance ................................................................. 80
- The Family and Medical Leave Act ................................................................ 80
- Health Insurance Under the Affordable Care Act .......................................... 84
- ‘COBRA’: Your Right to Continued Health Coverage .................................... 86
- Educational Assistance Benefits ...................................................................... 87
- Adoption Assistance Benefits ......................................................................... 88
- Unemployment Insurance Benefits ................................................................. 88

## INDEX .................................................................................................................. 91
IN THIS CHAPTER

Getting Started: It all starts with a Social Security number, we’ll explain its importance and how to get one or update one you already have.

Proving Your Right to Work: Form I-9, we’ll walk you through what it is and what you’ll need to prove who you are and your right to work.

Paying Your Fair Share, Part 1: Form W-4 can seem daunting to many, we’ll break it down for you.

Paying Your Fair Share, Part 2: State employee withholding allowance certificate, do you need one?

Plus
Quick tips, online resources, and a first-day checklist.
Congratulations, you got the job! Your job hunt has paid off, and now you have some paperwork to do. On your first day you’ll be filling out several forms and supplying various documentation. Your employer requires proof that you can legally work in the U.S. and they’ll also need information to calculate your taxes. Once these forms are completed (either on paper or online), they will be kept on file in the payroll or human resources department.

Your **FIRST DAY CHECKLIST**

**YOU’LL NEED to HAVE**

- Your Social Security number
- Documents proving your identity and right to work in the U.S. (see Form I-9, lists A, B, and C, for acceptable documents).

**YOU’LL NEED to COMPLETE**

- **Form I-9, Employment Eligibility Verification**: The information you provide on this form shows you can work in the U.S.
- **Form W-4, Employee’s Withholding Allowance Certificate**: Your employer uses this form to calculate the federal income tax you owe each pay period. This tax is subtracted from each wage payment by your employer and paid over to the U.S. government.

**DON’T FORGET**

- **STATE WITHHOLDING ALLOWANCE CERTIFICATE**
  
  If you live or work in a state with state income tax, this information makes it possible for your employer to figure your state taxes. Depending on where you live, you might also be asked to fill out forms for county, city, or school district income tax withholding.
GETTING STARTED: YOUR SOCIAL SECURITY NUMBER

It’s a good idea to bring your Social Security card with you on your first day of work. You will need your Social Security number to complete several forms, and your employer may ask to make a copy of your card. Your Social Security number is a nine-digit number, grouped and hyphenated like this: 123-45-6789.

WHAT’S SO IMPORTANT ABOUT MY SOCIAL SECURITY NUMBER?

When you get your Social Security number, an account is set up with the Social Security Administration. Each year, wages are recorded in your account. When you retire, or if you become disabled, your Social Security benefits will be based on your total earnings. The IRS and your employer will use your Social Security number as your personal ID number when your wages and taxes are reported. It will also go on your tax return.

SO, HOW DO I GET A SOCIAL SECURITY NUMBER?

If for some reason you don’t have a Social Security number, fill out Form SS-5, Application for a Social Security Card, and submit it to the Social Security Administration along with any required documents. To find Form SS-5:

• Ask for one from your employer.
• Call 800-SSA-1213.
• Download Form SS-5 from the Social Security Administration website.
• Visit a local Social Security Administration office to pick up a form.

When you finish filling it out, submit it to the Social Security Administration with any documents that are required. If you need any help, call the toll-free number above.

IF MY NAME CHANGES, DO I NEED A NEW SOCIAL SECURITY CARD?

Yes. If your name changes because of marriage, divorce, or some kind of legal action, you must obtain a new Social Security card and show it to your employer. First, complete Form SS-5, Application for a Social Security Card, to file your name change with the Social Security Administration. When you get your new card in the mail, take it in to your employer and have your name changed on the payroll records. If your employer changes your name before you receive your new card, someone may make a mistake in reporting wages to your Social Security account. The possible result: you might receive less money than you should when you retire or become disabled. And finally, destroy your old card.

There is another reason for getting a new Social Security card when you change your name. If you’re married and file a joint tax return with your spouse, the IRS will reject the joint return if the names and Social Security numbers on the return do not match the Social Security Administration’s records.

PROVING YOUR RIGHT TO WORK: US CITIZENSHIP AND IMMIGRATION SERVICES FORM I-9, EMPLOYMENT ELIGIBILITY VERIFICATION

Upon employment, you have to prove your identity and right to work in the U.S. Federal law requires employers to make sure they don’t accidentally hire illegal aliens. Your employer will check your documentation to make sure
it’s genuine and to be certain that you’re legally allowed to work. Regardless of your nationality, your employer will want to review your documents within three days after your first day of work.

**HOW CAN I PROVE MY IDENTITY AND RIGHT TO WORK IN THE US?**

It’s easy! On your first day of work, you need to fill out the employee portion in Section 1 of Form I-9. Your employer will complete the rest of the form. This is where you’re going to need your documentation. **Lists A, B, and C on Form I-9** outline acceptable forms of ID and work authorization to prove you’re legally allowed to work in this country. Show your employer either one document from List A, or one document each from both List B and List C. The documents must be unexpired originals, no copies, except for a certified copy of a birth certificate.

**IDENTITY THEFT AND IDENTITY FRAUD**

Identity theft is one of the fastest growing crimes in the U.S. It occurs when someone uses information that uniquely identifies you—such as your Social Security number—without permission, to commit fraud. It can create personal problems, such as being charged for unauthorized phone calls, purchases made on your credit card, or a poor credit report that keeps you from obtaining a loan for a car or home.

One of the best ways to protect yourself against identity theft is to store your Social Security card in a safe place after you’ve shown it to your employer. Your employer should also make sure that your Social Security number is only shared with those who need to know it, and that records with your number on them are properly destroyed when no longer needed.

**IT’S YOUR CHOICE**

When you present proof of your identity and right to work to your new employer, it is within their legal right to make photocopies for their records. However, your employer cannot tell you which specific documents to present. It’s your choice: as long as they appear genuine and are on Form I-9’s lists of acceptable documents, your new employer must accept them as proof.

**QUICK TIP**

Many employees use their Social Security card together with their driver’s license to prove their right to work.
Upon employment, you have to prove your identity and right to work in the U.S. Federal law requires employers to make sure they don’t accidentally hire illegal aliens. Your employer will check your documentation to make sure it’s genuine and to be certain that you’re legally allowed to work. Regardless of your nationality, your employer will want to review your documents within three days of your first day of work.

## Section 1. Employee Information and Attestation

### Employees must complete and sign Section 1 of Form I-9 no later than the first day of employment, but not before accepting a job offer.

<table>
<thead>
<tr>
<th>Last Name (Family Name)</th>
<th>First Name (Given Name)</th>
<th>Middle Initial</th>
<th>Other Last Names Used (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnson</td>
<td>Thomas</td>
<td>Thomas</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Address (Street Number and Name)</th>
<th>Apt. Number</th>
<th>City or Town</th>
<th>State</th>
<th>ZIP Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>4567 Elm Street</td>
<td></td>
<td>Hometown</td>
<td>VA</td>
<td>98765</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date of Birth (mm/dd/yyyy)</th>
<th>U.S. Social Security Number</th>
<th>Employee’s E-mail Address</th>
<th>Employee’s Telephone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/30/1965</td>
<td></td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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 boxes):

- [ ] 1. A citizen of the United States
- [ ] 2. A noncitizen national of the United States (See instructions)
- [ ] 4. An alien authorized to work: Until expiration date, if applicable; mm/dd/yyyy. Some aliens may write “N/A” in the expiration date field. (See instructions)

Aliens authorized to work must provide only one of the following document numbers to complete Form I-9:

1. Alien Registration Number/USCIS Number:

2. Form I-94 Admission Number:

3. Foreign Passport Number:

<table>
<thead>
<tr>
<th>Signature of Employee</th>
<th>Today’s Date (mm/dd/yyyy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas R. Johnson</td>
<td>03/26/2018</td>
</tr>
</tbody>
</table>

Preparer and/or Translator Certification (check one):

- [ ] I did not use a preparer or translator.
- [ ] A preparer(s) and/or translator(s) assisted the employee in completing Section 1.

I attest, under penalty of perjury, that I have assisted in the completion of Section 1 of this form and that to the best of my knowledge the information is true and correct.

<table>
<thead>
<tr>
<th>Signature of Preparer or Translator</th>
<th>Today’s Date (mm/dd/yyyy)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please fill out Section 1: Employee Information and Attestation. Read the instructions carefully before completing this form. The instructions must be available during completion of this form. The instructions are available at the U.S. Citizenship and Immigration Services website.

Download a current copy of Form I-9 from the U.S. Citizenship and Immigration Services website.
### SHOW DOCUMENTATION

This is where you're going to need to present your documentation. Show your employer either one document from List A, or one document each from both List B and List C (see next page).

### FORM I-9 in-depth

Upon employment, you have to prove your identity and right to work in the U.S. Federal law requires employers to make sure they don't accidentally hire illegal aliens. Your employer will check your documentation to make sure it's genuine and to be certain that you're legally allowed to work. Regardless of your nationality, your employer will want to review your documents within three days of your first day of work.

#### FOR EMPLOYER

Your employer will certify that they have "examined the documents presented" by you and that they "appear to be genuine and to relate to the employee named." Tip: It's your choice which documents you present.

---

### Section 2. Employer or Authorized Representative Review and Verification

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

**Employment Eligibility Verification**

 sheet 2 of 3

<table>
<thead>
<tr>
<th>Document Title</th>
<th>Issuing Authority</th>
<th>Document Number</th>
<th>Expiration Date (if any)(mm/dd/yyyy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driver License</td>
<td>Commonwealth of Virginia</td>
<td>987-987654</td>
<td>06/30/2019</td>
</tr>
<tr>
<td>Social Security Card</td>
<td>Social Security Administration</td>
<td>123-45-6789</td>
<td></td>
</tr>
</tbody>
</table>

**Certification:** I attest, under penalty of perjury, that (1) I have examined the document(s) presented by the above-named employee, (2) the above-listed document(s) appear to be genuine and to relate to the employee named, and (3) to the best of my knowledge the employee is authorized to work in the United States.

The employee's first day of employment (mm/dd/yyyy): 04/26/2018

(See instructions for exemptions)

### Section 3. Reverification and Rehires

**Reverification**

To be completed and signed by employer or authorized representative.

<table>
<thead>
<tr>
<th>A. New Name (if applicable)</th>
<th>B. Date of Rehire (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last Name (Family Name)</td>
<td>First Name (Given Name)</td>
</tr>
<tr>
<td>Middle Initial</td>
<td>Mobile Initial</td>
</tr>
<tr>
<td>Date (mm/dd/yyyy)</td>
<td></td>
</tr>
</tbody>
</table>

If the employee’s previous grant of employment authorization has expired, provide the information for the document or receipt that establishes continuing employment authorization in the space provided below.

**Certification:** I attest, under penalty of perjury, that to the best of my knowledge, this employee is authorized to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.

**Signature of Employer or Authorized Representative**

**Today's Date**

**Name of Employer or Authorized Representative**
**LISTS of ACCEPTABLE DOCUMENTS**

### List A
**DOCUMENTS THAT ESTABLISH BOTH IDENTITY AND EMPLOYMENT AUTHORIZATION**
- U.S. Passport or U.S. Passport Card
- Permanent Resident Card or Alien Registration Receipt Card (Form I-551)
- Foreign passport that contains a temporary I-551 stamp or temporary I-551 printed notation on a machine-readable immigrant visa
- Employment Authorization Document that contains a photograph (Form I-766)
- In the case of a nonimmigrant alien authorized to work for a specific employer incident to status, a foreign passport with Form I-94 or Form I-94A bearing the same name as the passport and containing an endorsement of the alien’s nonimmigrant status, as long as the period of endorsement has not yet expired and the proposed employment is not in conflict with any restrictions or limitations identified on the form
- Passport from the Federated States of Micronesia (FSM) or the Republic of the Marshall Islands (RMI) with Form I-94 or Form I-94A indicating nonimmigrant admission under the Compact of Free Association Between the United States and the FSM or RMI

### List B
**DOCUMENTS THAT ESTABLISH IDENTITY**
- Driver’s license or ID card issued by a State or outlying possession of the United States provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address
- ID Card issued by federal, state or local government agencies or entities, provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address
- School ID card with photo
- Military dependent’s ID card
- Voter’s registration card
- Native American tribal document
- U.S. Military card or draft record
- U.S. Coast Guard Merchant Mariner Card
- Driver’s license issued by a Canadian government authority

**FOR PERSONS UNDER AGE 18 UNABLE TO PRESENT A DOCUMENT LISTED ABOVE:**
- School record or report card
- Clinic, doctor, or hospital record
- Day-care or nursery school record

### List C
**DOCUMENTS THAT ESTABLISH EMPLOYMENT AUTHORIZATION**
- Social Security Account Number card unless the card says it is not valid for employment or is valid for employment only with INS or DHS authorization
- Certification of report of birth issued by the Department of State (Forms DS-1350, FS-545, FS-240)
- Original or certified copy of birth certificate issued by a State, county, municipal authority, or territory of the United States bearing an official seal
- Native American tribal document
- U.S. Citizen ID Card (Form I-197)
- Identification Card for Use of Resident Citizen in the United States (Form I-179)
- Employment authorization document issued by the Department of Homeland Security

---

*All documents must be unexpired. Illustrations of many of these documents appear in Part 8 of the Handbook for Employers (M-274)*
PAYING YOUR FAIR SHARE,
PART 1: FORM W-4, EMPLOYEE’S
WITHHOLDING ALLOWANCE CERTIFICATE

Form W-4, Employee’s Withholding Allowance Certificate, must be submitted either on or before the first day of work. The information on the W-4 will be used to calculate how much money will be withheld in federal income tax from your paycheck. Submit this form to your employer right away. If you put it off, your employer will withhold the maximum amount of tax from your paycheck! In addition, if your living situation changes, you may need to file a new W-4.

WHAT'S THE PURPOSE OF THIS FORM?

Form W-4 tells your employer how much federal income tax to deduct from each paycheck. The amount withheld is based on your marital status (married or single), and on the number of withholding allowances you claim (see next section). If you want an extra, specific dollar amount taken out of your paycheck, you can write that in on this form. Form W-4 is also used to claim a total exemption from federal income tax withholding. More on that later.

WHAT ARE WITHHOLDING ALLOWANCES?

Each withholding allowance you claim reduces the amount of federal income tax withheld each pay period. This is why submitting your W-4 is so important! Until you turn this form in, your employer has to assume that you are single and claiming zero withholding allowances. With zero allowances, you’re likely to pay more tax than is necessary. Although you will receive a tax refund for the extra tax when you file your personal income tax return, there is no good reason to give the federal government an interest-free loan of your hard-earned money. The conditions for claiming withholding allowances are listed on the next page.

You can use the W-4 Deductions, Adjustments, and Additional Income Worksheet to calculate additional allowances. These allowances are based on deductions for interest on your home mortgage, contributions you made to charities, state and local taxes, some medical expenses, and various other deductions you might have taken, see Form W-4 for details.

If you have more than one job or if you are married and both you and your spouse work, you can use the W-4 Two-Earner/Multiple Jobs Worksheet to adjust withholding amounts to avoid having too little tax withheld.

To determine total allowances, use the Personal Allowances Worksheet. Do not ask your employer how many allowances you should claim. If you need help:

- Get a copy of IRS Publication 505, Tax Withholding and Estimated Tax, from your employer or the IRS website
- Call the IRS at 800-TAX-FORM (829-3676)
- Download a W-4 from the IRS website

You can also also use the IRS Withholding Calculator to help you determine your tax withholding so that you have the right amount of tax withheld from your paycheck.
**ALLOWANCES You Might CLAIM**

<table>
<thead>
<tr>
<th>Yourself</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are married filing jointly</td>
<td>1</td>
</tr>
<tr>
<td>If you are filing as head of household (i.e., paying more than half of the cost of maintaining a home for yourself and your dependents[s])</td>
<td>1</td>
</tr>
</tbody>
</table>
| 1. If you are single, or married filing separately, **and**  
2. You have only one job | 1 |
| 1. If you are married, **and**  
2. You have only one job, **and**  
3. Your spouse doesn’t work | 1 |
| 1. If you are married, **and**  
2. You have only one job, **and**  
3. Your spouse has a job making $1,500 or less | 1 |
| 1. If you are married, **and**  
2. You have a second job making $1,500 or less, **and**  
3. Your spouse doesn’t work | 1 |
| 1. If you are married, **and**  
2. You have a second job and your spouse has a job, **and**  
3. Your combined earnings from these jobs is $1,500 or less | 1 |

**CHILD TAX CREDITS AS OF 2018**

<table>
<thead>
<tr>
<th>ALLOWANCES</th>
<th>ALLOWANCES</th>
</tr>
</thead>
</table>
| 1. If you are single, **and**  
2. Your total income is less than $69,801 | 4x each eligible child |
| 1. If you are married, **and**  
2. Your total income is less than $101,401 | 4x each eligible child |
| 1. If you are single, **and**  
2. Your total income will be from $69,801 to $175,550 | 2x each eligible child |
| 1. If you are married, **and**  
2. Your total income will be from $101,401 to $339,000 | 2x each eligible child |
| 1. If you are single, **and**  
2. Your total income will be from $175,551 to $200,000 | 1x each eligible child |
| 1. If you are married, **and**  
2. Your total income will be from $339,001 to $400,000 | 1x each eligible child |
| 1. If you are single and your total income will be higher than $200,000, **or**  
2. If you are married and your total income will be more than $400,000 | 0 |

**CREDIT FOR OTHER DEPENDENTS AS OF 2018**

<table>
<thead>
<tr>
<th>ALLOWANCES</th>
</tr>
</thead>
</table>
| 1. If you are single, **and**  
2. Your total income will be less than $69,801 | 1x each eligible dependent |
| 1. If you are married, **and**  
2. Your total income is less than $101,401 | 1x each eligible dependent |
| 1. If you are single, **and**  
2. Your total income will be from $69,801 to $175,550 | 1x for every 2 eligible dependents |
| 1. If you are married, **and**  
2. Your total income will be from $101,401 to $339,000 | 1x for every 2 eligible dependents |
| 1. If you are single & your total income will be higher than $175,550, **or**  
2. If you are married and your total income will be more than $339,000 | 0 |
You should cut the form where indicated and only provide the bottom half of Page 1 of the W-4 to your employer. You should also be sure to keep all of the worksheets that you complete. The worksheets explain how you determined the number of withholding allowances.

**ATTENTION NONRESIDENTS!**

If you’re a nonresident alien—that is, if you’re here from another country and don’t have a green card—you can claim only one withholding allowance. This holds true unless you come from Canada, Mexico, or the Republic of Korea, in which case you can claim as many allowances as apply to you. All nonresident aliens must also write “NRA” or “Nonresident Alien” above the dotted line on Line 6 of Form W-4 because of special withholding rules for nonresident aliens.

**SO, HOW DOES THIS WORK IN REAL LIFE?**

Let’s use Tom and his wife as an example. Both Tom and his wife work and they have two children under the age of 17 living with them. Their total income will be from wages. Tom will earn $35,000 and his wife will earn $40,000. Using the Personal Allowance Worksheet, Tom enters 10 allowances on Line H (One allowance for himself, one because he will file as married filing jointly, and four for each child). Because both Tom and his wife work and earn more than $24,000 combined, Tom completes the Two-Earners/Multiple Jobs Worksheet. This reduces the number of allowances from ten to seven. The W-4 Tom submitted to his employer is shown on the next page.

**CAN YOU CLAIM TO BE EXEMPT FROM FEDERAL INCOME TAX WITHHOLDING?**

Is it possible for you to have no federal income tax withholding at all?

It’s possible that you qualify, but not very likely. You can claim to be exempt from federal withholding only if both of the following conditions apply:

1. **You ended up owing no federal income tax last year**, and all the federal tax withheld from your pay during the year was given back after you filed your return, and
2. **You don’t expect to owe any federal income tax for the current year**.

You have to renew your claim to an exemption each year by February 15. If you don’t, your employer will start withholding federal tax from your paychecks as if you were single and had zero withholding allowances, unless there is a W-4 in your personnel file that doesn’t claim a total exemption from withholding. Submit a new W-4 to your employer to renew your claim.

Almost no one is exempt from Social Security or Medicare tax. A claim of exempt status won’t affect your Social Security or Medicare tax withholding.
Let’s use Tom and his wife as an example. Both Tom and his wife work and they have two children under the age of 17 living with them. Their total income will be from wages. Tom will earn $35,000, and his wife will earn $40,000. On Line 5 of the W-4, Tom claims seven withholding allowances. He calculated this number using the worksheets shown on pages 13 and 14.

Specific Instructions
Personal Allowances Worksheet
Complete this worksheet on page 3 first to determine the number of withholding allowances for:
Line C. Head of household please note:
Generally, you can claim head of household status if you’re married but withholding only if you’re unmarried and pay more than 50% of the costs of keeping up a home for yourself and a qualifying individual. See Pub. 501, More Information about filing status.
Line E. Child tax credit. When you file your tax return, you might be eligible to claim a credit for each of your qualifying children. To qualify, the child must be under age 17 as of December 31 and must be your dependent who lives with you for more than half the year. To learn more about this credit, see Pub. 507, Child Tax Credit. To reduce the tax withheld from your pay by taking this credit into account, follow the instructions on line E of the worksheet. On the worksheet you will be asked about your total income. For this purpose, total income includes all of your wages and other income, including income earned by a spouse, during the year. Line F. Credit for other dependents. When you file your tax return, you might be eligible to claim a credit for each of your dependents that don’t qualify for the child tax credit, such as any dependent children age 17 and older. To learn more about this credit, see Pub. 505. To reduce the tax withheld from your pay by taking this credit into account, follow the instructions on line F of the worksheet. On the worksheet you will be asked about your total income. For this purpose, total income includes all of your wages and other income, including income earned by a spouse, during the year.

You can also use the calculator at www.irs.gov/FormW4 to find out if you should adjust your withholding on Form W-4 or W-4P. To learn more about other adjustments, and other income worksheet, see Pub. 557. To reduce the tax withheld from your pay by taking this credit into account, refer to the instructions on line E of the worksheet. On the worksheet you will be asked about your total income. For this purpose, total income includes all of your wages and other income, including income earned by a spouse, during the year. Line F. Credit for other dependents. When you file your tax return, you might be eligible to claim a credit for each of your dependents that don’t qualify for the child tax credit, such as any dependent children age 17 and older. To learn more about this credit, see Pub. 505. To reduce the tax withheld from your pay by taking this credit into account, follow the instructions on line F of the worksheet. On the worksheet you will be asked about your total income. For this purpose, total income includes all of your wages and other income, including income earned by a spouse, during the year.

If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you might owe additional tax. Or, you can use the Deductions, Allowments, and Other Income Worksheet on page 8 of the W-4 booklet to make sure you have enough tax withheld from your paycheck. If you have wages and nonwage income, see Pub. 505 or use the calculator at www.irs.gov/W4App to find out if you should adjust your withholding on Form W-4 or W-4P.

Nonresident alien. If you’re a nonresident alien, see Notice 1369, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

For Privacy Act and Paperwork Reduction Act Notices, see page 4. Cat. No. 12330Q
Form W-4 (2018)
your wages and other income, including income earned by a spouse, during the year. Line G. Other credits. You might be able to reduce the tax withheld from your paycheck if you elect to claim other tax credits, such as the earned income tax credit and tax credits for education and child care expenses. If you do so, your paycheck will be larger but the amount of any refund that you receive when you file your tax return will be smaller. Follow the instructions for Worksheet 1-6 in Pub. 505 if you want to reduce your withholding to take these credits into account.

Deductions, Adjustments, and Additional Income Worksheet
Complete this worksheet to determine if you're able to reduce the tax withheld from your paycheck to account for your itemized deductions and other adjustments to income such as IRA contributions. If you do so, your refund at the end of the year will be smaller, but your paycheck will be larger. You're not required to complete this worksheet or reduce your withholding if you don't wish to do so.

You can also use this worksheet to figure out how much to increase the tax withheld from your paycheck if you have a large amount of nonwage income, such as interest or dividends.

Another option is to take these items into account and make your withholding more accurate by using the calculator at www.irs.gov/W4App. If you use the calculator, you don’t need to complete any of the worksheets for Form W-4.

Two-Earners/Multiple Jobs Worksheet
Complete this worksheet if you have more than one job at a time or are married filing jointly and have a working spouse. If you don’t complete this worksheet, you might have too little tax withheld. If so, you will owe tax when you file your tax return and might be subject to a penalty.

Figure the total number of allowances you're entitled to claim and any additional amount of tax to withhold on all jobs using worksheets from only one Form W-4. Claim all allowances on the W-4 that you or your spouse file for the highest paying job in your family and claim zero allowances on Forms W-4 filed for all other jobs. For example, if you earn $60,000 per year and your spouse earns $20,000, you should complete the worksheets to determine what to enter on lines 5 and 6 of your Form W-4, and your spouse should enter zero (“-0-”) on lines 5 and 6 of his or her Form W-4. See Pub. 505 for details.

Another option is to use the calculator at www.irs.gov/W4App to make your withholding more accurate. If you have a working spouse and your incomes are similar, you can check the “Married, but withhold at higher Single rate” box instead of using this worksheet. If you choose this option, then each spouse should fill out the Personal Allowances Worksheet and check the “Married, but withhold at higher Single rate” box on Form W-4, but only one spouse should claim any allowances for credits or fill out the Deductions, Adjustments, and Additional Income Worksheet.

Instructions for Employer
Employees, do not complete box 6, 9, or 10. Your employer will complete these boxes if necessary.

New-hire reporting. Employers are required by law to report new employees to a designated State Directory of New Hires. Employers may use Form W-4, boxes 8, 9, and 10 to comply with the new hire reporting requirement for a newly hired employee. A newly hired employee is an employee who hasn’t previously been employed by the employer, or who was previously employed by the employer but has been separated from such prior employment for at least 60 consecutive days. Employers should contact the appropriate State Directory of New Hires to find out how to submit a copy of the completed Form W-4. For information and links to each designated State Directory of New Hires (including for U.S. territories), go to www.acf.hhs.gov/programs/cswa/employers.

If an employer is sending a copy of Form W-4 to a designated State Directory of New Hires to comply with the new hire reporting requirement for a newly hired employee, complete boxes 8, 9, and 10 as follows.

Box 8. Enter the employer’s name and address. If the employer is sending a copy of this form to a State Directory of New Hires, enter the address where child support agencies should send income withholding orders.

Box 9. If the employer is sending a copy of this form to a State Directory of New Hires, enter the address where child support agencies should send income withholding orders.

Box 10. Enter the employer’s employer identification number (EIN).

Download a current copy of Form W-4 from the IRS website.
Tom and his wife have two children under the age of 17 living with them. Both Tom and his wife work. Their total income will be from wages. Tom will earn $35,000 and his wife will earn $40,000. Using the Personal Allowance Worksheet, Tom determines that he can claim ten withholding allowances. However, because both Tom and his wife work and earn more than $24,000 combined, Tom will also complete the Two-Earners/Multiple Jobs Worksheet shown on the next page.

**PERSONAL ALLOWANCES**

Using this worksheet, Tom claims one allowance for himself, one because he will file as married filing jointly, and eight for the child tax credit (four for each child).

**DEDUCTIONS, ADJUSTMENTS & ADDITIONAL INCOME**

You can use this worksheet to calculate additional allowances. These allowances are based on deductions for interest on your home mortgage, contributions you made to charities, state and local taxes, some medical expenses, and various other deductions you might have taken.

**YOU KEEP**

You should keep all W-4 worksheets for your own records.

**DOWNLOAD**

Download a current copy of Form W-4 from the IRS website.

---

**FORM W-4 in-depth**

**Personal Allowances Worksheet (Keep for your records.)**

<table>
<thead>
<tr>
<th>A</th>
<th>Enter “1” for yourself</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Enter “1” if you will file as married filing jointly</td>
</tr>
<tr>
<td>C</td>
<td>Enter “1” if you will file as head of household</td>
</tr>
</tbody>
</table>
| D | Enter “1” if:  
  - You’re single, or married filing separately, and have only one job; or  
  - Your wages from a second job or your spouse’s wages (or the total of both) are $1,500 or less. |
| E | Child tax credit. See Pub. 972, Child Tax Credit, for more information.  
  - If your total income will be less than $69,801 ($101,401 if married filing jointly), enter “4” for each eligible child;  
  - If your total income will be from $69,801 to $175,550 ($101,401 to $339,000 if married filing jointly), enter “2” for each eligible child;  
  - If your total income will be from $175,551 to $200,000 ($339,001 to $400,000 if married filing jointly), enter “1” for each eligible child.  
  - If your total income will be higher than $200,000 ($400,000 if married filing jointly), enter “0” for each child. |
| F | Credit for other dependents.  
  - If your total income will be less than $69,801 ($101,401 if married filing jointly), enter “1” for each dependent.  
  - If your total income will be from $69,801 to $70,200 ($101,401 to $339,000 if married filing jointly), enter “1” for every two dependents (for example, “1” for one dependent, “1” if you have two or three dependents, and “2” if you have four dependents).  
  - If your total income will be higher than $70,200 ($339,000 if married filing jointly), enter “0” for each dependent. |
| G | Other credits. If you have other credits, see Worksheet 1-6 of Pub. 505 and enter the amount from that worksheet here. |
| H | Add lines A through G and enter the total here. |

For accuracy, complete all worksheets that apply.

Note: Use this worksheet only if you plan to itemize deductions, claim certain adjustments to income, or have a large amount of nonwage income.

1. Enter an estimate of your 2018 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes (up to $10,000), and medical expenses in excess of 7.5% of your income. See Pub. 505 for details.
2. Enter:  
   - $18,000 if you’re head of household  
   - $12,000 if you’re single or married filing separately
3. Subtract line 2 from line 1. If zero or less, enter “0.”
4. Enter an estimate of your 2018 adjustments to income and any additional standard deduction for age or blindness (see Pub. 505 for information about these items).  
5. Add lines 3 and 4 and enter the total.
6. Enter an estimate of your 2018 nonwage income (such as dividends or interest).  
7. Subtract line 6 from line 5. If zero, enter “0.” If less than zero, enter the amount in parentheses.  
8. Divide the amount on line 7 by $4,150 and enter the result here. If a negative amount, enter in parentheses.  
9. Enter the number from the Personal Allowances Worksheet, line H above.
10. Add lines 8 and 9 and enter the total here. If zero or less, enter “0.” If you plan to use the Two-Earners/Multiple Jobs Worksheet, also enter this total on line 1, page 4. Otherwise, stop here and enter this total on Form W-4, line 1.

**You should keep all W-4 worksheets for your own records.**
Both Tom and his wife work. Their total income will be from wages. Tom will earn $35,000 and his wife will earn $40,000. Because both Tom and his wife work and earn more than $24,000 combined, Tom completes the Two-Earners/Multiple Jobs Worksheet. This reduces the number of allowances from ten to seven, which Tom enters on Line 5 of the Form W-4.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Internal Revenue Code sections 3401 and 6103 and their regulations require you to provide this information, your employer uses it to determine your federal income tax withholding. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation; to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws; and to the Department of Health and Human Services for use in the National Directory of New Hires. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal non-tax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You aren’t required to provide the information requested on a form that’s subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your own records.

You should keep all W-4 worksheets for your own records.
When Do I Have to Submit a New W-4?

If either of the two situations below applies to you, you have 10 days to fill out and submit a new W-4 to your employer.

1. Your living arrangement or financial situation changes, resulting in fewer withholding allowances. For example, if you get a divorce, or a previously nonworking spouse takes a job, or a dependent moves out of the house or becomes too old to be claimed as a dependent, you’re required to submit a new W-4 showing the reduced number of allowances.

2. You realize that you’re no longer exempt from federal income tax withholding because you’re going to have to pay income tax in the current year; you’re required to submit a new W-4 showing you do not claim exempt.

You can file a new W-4 if either of the two examples below applies to you, but you don’t have to. You really should though, because if you do you’ll have more take-home pay!

1. Your living arrangement or financial situation changes, resulting in more withholding allowances. For example, if you or your spouse gives birth to a child, or if a working spouse quits their job, you can claim an extra allowance. You can turn in a new W-4 reflecting this change at any time.

2. You realize that you’re now exempt from federal income tax withholding. You can turn in a new W-4 reflecting this change at any time.

If your name changes, you should submit a new W-4 to your employer, but only after you have received your new Social Security card.

You are not allowed to make changes to your W-4 in advance. Suppose, for instance, that you’re planning to get married. You have to wait until after the wedding to submit a new form with your updated marital status.

Your employer also has responsibilities with regard to the W-4. By December 1 of each year, your employer should remind you to turn in a new form for the next year if your marital status or number of allowances has changed. Your employer is also required to start using any new W-4 you turn in within a month of receiving it from you.
WHAT IF MY EMPLOYER REJECTS MY W-4?

It is your responsibility to submit accurate information on your W-4. Your employer will not review it for you. If your W-4 has obvious problems, though, your employer won’t accept it.

Any one of the following faults will cause your W-4 to be rejected:

- **Changing the text of the form**, either by crossing out parts of it or adding statements to it.
- **Using the form to request that a flat dollar amount of tax or a certain percentage of your wages be withheld** — this is illegal! Federal income tax is calculated on the basis of your withholding allowances and marital status.
- **Telling your employer that some of the information on the form is false.**

If you submit an unacceptable W-4, you ought to fill out a new one. If you don’t, and you’re a new employee, your employer will have to assume that you are single and have zero withholding allowances. If you’re not a new employee, your employer will keep using your most recent W-4 on file. Either way, you could easily end up having more taxes withheld than is necessary!

DEFINITION OF “NO FEDERAL INCOME TAX LIABILITY”

You had no federal income tax liability for a year only if all the federal income tax withheld from your pay was refunded to you.

YOU’RE NOT QUITE THERE YET!

Even if this definition applies to you, you still may not be exempt from federal income tax withholding. You are not exempt if:

- Your income for the year is more than $1,050 and includes over $350 of unearned income (e.g., interest and dividends), and
- Someone else can claim you as a dependent.

STUDENTS ARE NOT AUTOMATICALLY EXEMPT!

High school and college students have to meet the conditions above to claim an exemption.

DON’T COMMIT A FEDERAL OFFENSE

It is a federal offense to make false claims on your W-4 in the hope of reducing your federal taxes. If you’re found guilty of it, the punishment can be severe.
Paying Your Fair Share, Part 2: State Employee Withholding Allowance Certificates

Forty-one states have state income taxes. These taxes, like federal income tax, are withheld directly from employees’ paychecks. If you live in one of these states, you might have to fill out yet another form: a state withholding allowance certificate. If you’re lucky, your state will let your employer use the federal W-4 to calculate state income tax withholding. Otherwise, your employer will supply you with the state form to fill out. Some counties, cities, and school districts also withhold income tax.

Residents of these areas may have to fill out separate forms for these local taxes, too.

The states that don’t have an income tax on wages are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

Go Online

Access forms and more information on what you learned in Chapter 1:

- Form I-9, Employment Eligibility Verification
- Form W-4, Employee’s Withholding Allowance Certificate
- Identity theft
- Apply, replace, and/or correct your Social Security card
- Local Social Security Administration offices
- IRS Withholding Calculator
Make an investment that pays.

Don’t leave things to chance — invest in your future.

Join APA!
www.americanpayroll.org
In this chapter

Getting Paid: When, how (direct deposit, check, or payroll card), and what happens if you leave your job.

The Wage and Hour Law: Exempt or nonexempt? Plus, overtime pay, regular rate of pay, how to handle tips, and defining a workweek.

Plus
Which states let your employer require direct deposit, calculating gross pay.
CHAPTER 2

PAYCHECK BASICS

GETTING PAID

A paycheck is very important to all of us. It’s important to understand how and when we are paid and how to know when it’s correct, especially if we work overtime or make tips. Read on for more details.

HOW OFTEN WILL I GET PAID?

How often you are paid depends on the state you work in and the company you work for. In all cases, you have to be paid on your employer’s set payday and within a certain number of days after each pay period ends. You can be paid once a month, twice a month, every two weeks, or every week. Employers can pay you more often than the state law requires. For example, if the state says you have to be paid at least once every two weeks, your employer can pay you once every week instead. On the flip side, your employer can’t pay you less often than state law requires.

HOW WILL I GET PAID?

You’ll probably be paid by check or direct deposit (more on this later). In most states, your employer must make arrangements with a bank where you can cash your paychecks for face value. A growing number of companies also use electronic “paycards” to pay some employees, especially those without bank accounts. Paycards are “stored value” debit cards that can be used like cash.

WHAT IS DIRECT DEPOSIT, AND HOW CAN IT BENEFIT ME?

If you use direct deposit, your wages are paid directly into your checking or savings account. You won’t receive a paycheck on payday, and you won’t need one—your money will already be in your account! You will, however, receive a statement that is very much like a regular pay stub. Your statement will show: the pay period dates, the date of payment, how many hours you worked, your before- and after-tax wages,
Any taxes subtracted from your check, and any other deductions. And, as long as employees can print these statements out, all states now allow companies to provide them through their computer network rather than on paper.

You must first give your employer permission to use direct deposit. Your wages are transferred electronically into your account, and your employer can only arrange this with your permission. Some states require that you give this permission in writing; in other states, you can just tell your employer what you want. Typically, you’ll be asked to provide a checking account deposit slip or a voided check, both of which contain the following necessary information:

- The name of your financial institution (bank, credit union, etc.) and its transit routing number.
- Whether you want the deposits made to a checking or a savings account.
- Your account number.

In some states, employers can require that you use direct deposit. See the chart on the next page for more information.

Even if you live in a state where you have to use direct deposit, your employer can’t require you to deposit your wages in a specific institution. You get to choose the financial institution and which account. In some states, if you can’t use direct deposit because you don’t have a bank account, your employer can require you to receive your pay through an electronic paycard.

**WHAT IF I QUIT OR I’M LAID OFF?**

If you are leaving your job—including quitting, being laid off, or being fired—you should receive your final paycheck on your last day of work or by the next payday. Individual state laws determine exactly how quickly you’ll get your last check and specify if any extra payments (e.g., vacation pay) need to be included in your final paycheck.
In these states, employers can require that you use direct deposit.

Alabama  Indiana  North Carolina
Arkansas  Kansas  North Dakota
Kentucky  Louisiana  Oklahoma
Maine  Massachusetts  Oregon
Mississippi  Missouri  South Carolina
Missouri  Nebraska  South Dakota
Michigan  Minnesota  Tennessee
New Mexico  Utah  Texas
Florida  Hawaii  Virginia
Illinois  Iowa  Washington
Arkansas  Wyoming

*For certain groups of employees, e.g., new hires, government employees.
THE WAGE AND HOUR LAW, OR, HOW DO YOU KNOW YOUR PAYCHECK IS CORRECT?

If you’re classified as what is known as a “nonexempt” employee, you’re covered by the federal Fair Labor Standards Act, the U.S.’s main wage and hour law that requires, among other things, an employer to pay you at least minimum wage plus a certain overtime rate. If you aren’t covered by the federal law because your employer is too small, you may be protected by your own state if it is one of the states that have passed their own laws on minimum wages and overtime pay. If you ever find yourself covered by both a federal and a state law, your employer has to obey the law that’s more favorable to you, the employee. For example, suppose your state has its own minimum wage. If this wage is higher than the federal minimum wage, your employer has to pay you the higher state wage. If your employer does work under a contract with the U.S. government, you must be paid $10.35 per hour.

WHAT ARE ‘EXEMPT’ AND ‘NONEXEMPT’ EMPLOYEE STATUSES?

Under the Fair Labor Standards Act, employees are classified as exempt or nonexempt based on the kind of work they do and the salary they are paid. If you’re an exempt employee, you’ll probably be paid a set salary that is typically higher than what you’d be earning at minimum wage. The Fair Labor Standards Act does not cover exempt employees.

The Fair Labor Standards Act does, however, cover nonexempt employees. If you’re nonexempt, you have to be paid at least the minimum wage for all the hours you work, and extra overtime pay if you work more than 40 hours in a single workweek. Nonexempt employees can be paid a set salary though you still need to be paid the required minimum wage and overtime pay. To check, divide your weekly salary by the number of hours you work in a regular week. Compare this hourly rate to the minimum wage and overtime requirements to find out if you’re being paid what you’re owed.

If you’re not sure how you’re classified, ask your employer if you’re an exempt or nonexempt employee.

ARE YOU EXEMPT OR NONEXEMPT?

EXEMPT

The most common exempt employees:

- “White collar,” such as executives, administrators, professionals, computer professionals, and outside sales.
- Work on commission in retail and service industry sales.
- Work for the government such as elected officials and their appointees, and state and local legislative positions.

Many other kinds of employees are also exempt from the Fair Labor Standards Act. It’s your employer’s task to determine whether or not you’re exempt, based on your salary and job duties. The more responsibility and independent authority you have, the more likely you are to be exempt.

Your status depends on your actual duties, not on your job title.

If you’re an exempt employee and your pay is docked for missed time at work—in other
Know Your Rights

PROTECTING YOUR EXEMPT STATUS

If you’re an exempt employee, your employer shouldn’t dock your pay for less than a day’s absence from work, except for leave under the Family and Medical Leave Act. If your employer does this, you’re not being treated as an exempt employee. You might become nonexempt as a result, which means you’d have to be paid for any overtime that you work. If you’re out for less than a day and you have some paid leave time available, your employer can require you to use the paid leave time without converting your status to nonexempt.

From time to time, you might have to leave work temporarily because of jury duty, service as a witness in a court of law, or military obligations. Your salary can’t be reduced as a result of any such service that lasts less than a week, as long as you do some work during that week. If you’re paid for this service, though, your employer can subtract the amount you were paid from your regular paycheck.

LIMITS TO PUNITIVE DEDUCTIONS

If you’re a nonexempt employee and you show up late for work, your employer can subtract the amount of work time you missed from your wages. Some employers like to take out even more as a punishment for being late. But know your rights: Punitive deductions cannot result in being paid less than minimum wage for each hour you did work, nor can they result in being paid less overtime than you’ve earned.

words, wages are subtracted from your paycheck—you might become nonexempt. As an exempt employee, you should be paid on a salary basis, meaning you have to be paid your full salary if you do any work at all in a specific workweek. There are a couple of exceptions to this rule:

1. Suppose you’ve already used up all your vacation and sick time and one morning you fall down and twist your ankle. You can’t drive, so you miss a few more days at work. Since you don’t have any leave left, your wages can be reduced for the extra days you missed.

2. If you take time off under the Family and Medical Leave Act, your pay can legally be docked.

Special rules apply to state and local government employees. As “public servants,” they’re often held to stricter schedules than employees of private companies. In some areas, the law requires that their wages be docked for any absences from work, even absences that are less than a full day. Because of this, a state or local government can close some of its offices or reduce its staff temporarily to save money. This is called a “furlough.” During a furlough, the government can
dock the paychecks of exempt employees who aren’t working. These employees are still exempt, except during the period of time they’ve been told not to show up at their jobs. In the private sector, exempt employees can only be put on furlough for full workweeks, or they will be treated as nonexempt.

**NONEXEMPT**

The current federal minimum wage is $7.25 per hour. If you’re nonexempt, you have to be paid at least this much per hour for every hour you work. This holds true unless you’re a new employee under the age of 20, in which case you only have to be paid $4.25 per hour for your first 90 days of work. After that, however, your employer has to pay you the standard minimum wage. As a nonexempt employee, you can be paid on a piecework, salary, hourly, or commission basis as long as you’re getting at least the minimum hourly rate.

If the minimum wage changes during your workweek, you must be paid at least the new minimum wage for all hours worked beginning on the day the change takes effect.

Because of the taxes subtracted from your paycheck each pay period, and/or “noncash wages” such as room and board, your take-home pay may end up being below the minimum wage. But how, and why?

Your employer is required by law to withhold Social Security, Medicare, and income taxes from your paycheck. Even though these taxes are subtracted from your wages, they’re still considered part of your income, as are any noncash wages. If you add all the taxes and noncash wages back into your take-home pay, your total pay should equal at least the minimum wage rate multiplied by the number of hours worked.

### Did You Know?

Gross pay is your total pay *before* any taxes are taken out per week, if you’re receiving the federal minimum wage:

James works 35 hours each week at the Town and Country Bike Shop. He is paid the federal minimum wage of $7.25 per hour. James’ gross pay for each week is $253.75.

\[
\begin{align*}
\text{Gross pay} & = \text{noncash wages} + \text{Social Security taxes} + \text{Medical insurance} + \text{Income taxes} \\
& = 35 \times 7.25 \\
& = 253.75 \\
& \text{DID YOU KNOW?}
\end{align*}
\]
### WHAT is ‘REGULAR RATE OF PAY’?

**Rate of Pay**

**Your regular rate of pay has to be at least the minimum wage.**

#### If you're paid...

<table>
<thead>
<tr>
<th></th>
<th>Your regular rate of pay is</th>
</tr>
</thead>
<tbody>
<tr>
<td>by the hour</td>
<td>your hourly wage</td>
</tr>
<tr>
<td>a salary</td>
<td>your salary divided by the number of hours you work in a normal workweek</td>
</tr>
<tr>
<td>by piecework or on commission</td>
<td>your earnings divided by the hours you worked to make or get them</td>
</tr>
</tbody>
</table>

#### Your regular rate of pay has to be at least the minimum wage.

### Some Examples

**The following payments are included in your regular rate of pay.**

#### Nondiscretionary Bonuses

These are bonuses that you and your employer have agreed on in advance and are awarded based on how well you do your job.

#### Shift Premiums

If you work a difficult shift, like a late night shift, a set amount may be added to your hourly rate. This is also known as a “shift differential.”

#### Noncash Payments

Sometimes an employer will provide employees with noncash wages like room and board. These “noncash wages” are included in your regular rate of pay by estimating their cost in cash.

#### Back Pay Awards

If you earned wages earlier that you weren’t paid for at the time, you may receive a “back pay award.” This requires your employer to pay you the back wages you’re owed.

#### On-Call Pay

If your employer requires you to wait in a specific place to receive a call, or severely limits your personal use of time spent while waiting for a call, you should be paid for this “on-call” time.

#### Cost-of-Living Adjustments

This kind of hike in wages is given when an employer raises employees’ pay to keep up with inflation.
WHAT IS A WORKWEEK?

Your employer calculates your wages separately for each workweek. A workweek is a seven-day period set by your employer and can start on any day of the week, at any hour of the day. Different workweeks can be established for different groups of employees all working for the same employer.

The workweek at the All-Night Coffee Shop runs from 5 a.m. Tuesday morning to 5 a.m. the next Tuesday. The boss set it up this way so that the late-night shifts (which end at 5 a.m.) and the early morning shifts (which begin at 5 a.m.) can be handled more easily. This kind of workweek is legal under the Fair Labor Standards Act.

The minimum wage requirement must be met for each workweek. Your employer can’t average out your wages over a period longer than a week.

Suppose Maryanne is paid $247 for a single workweek of 35 hours. This is $6.75 less than the minimum rate.

Maryanne works 35 hours again the next workweek, and is paid $262. This is $8.25 above the minimum. If you average her pay for those two weeks, you get $254.50,

\[
\begin{align*}
\text{Minimum Wage} & \times 35 \\
\$7.25 & \times 35 \\
\$253.75 & - 247.00 \\
\$6.75 & \\
\end{align*}
\]

which is just above the minimum—but this doesn’t get her employer off the hook. She should have received at least the minimum rate for each week she worked. Her employer broke the law her first week by paying her less than minimum wage.

HOW ARE TIPS HANDLED?

Some employees, such as waitresses and bartenders, earn tips in addition to their regular wages. To be classified as a “tipped employee,” you have to earn at least $30 per month in tips. Employers have to pay a tipped employee only $2.13 per hour, as long as the employee’s tips average out to at least $5.12 per hour:

\[
\$2.13 + \$5.12 = \$7.25, \text{ the required minimum wage}
\]

This $5.12 is called the employer’s “tip credit.” If an employee’s tips don’t quite bring his or her pay up to minimum wage, the employer has to raise the hourly rate to make sure the employee gets at least the minimum rate.

Service charges added to customers’ bills aren’t tips. They’re part of a tipped employee’s regular wages.

REPORTING YOUR TIPS

In most situations, if you get more than $20 per month in tips you have to report this income to your employer. Federal income, Social Security, and Medicare taxes will be withheld from your tips. If you earn less than
$20 per month in tips, you don’t have to report this income to your employer. These tips are still a part of your income, though, and you have to report them when you file your tax return.

**HOW DOES OVERTIME PAY WORK?**

If you’re nonexempt, you’ll receive overtime pay for all hours over 40 that you work in a specific workweek. Your employer must pay you 1.5 times your regular rate of pay for each of your overtime hours. There is one exception to this rule: state and local government employees can be given 1.5 hours off for each hour of overtime they worked in place of overtime pay.

**HOW TO FIGURE YOUR OVERTIME PAY**

Michael earns $13 per hour. Usually he works only 40 hours per week, but last week he worked 48. How much should he be paid for last week’s work?

\[
\begin{align*}
\text{Regular earnings:} & \quad 40 \text{ hours} \times \$13 = \$520 \\
\text{Overtime hours:} & \quad 48 \text{ hours} - 40 \text{ hours} = 8 \text{ hours} \\
\text{Overtime pay:} & \quad \$13 \times 1.5 \times 8 = \$156 \\
\text{Last week’s earnings:} & \quad \$520 \text{ (regular earnings)} + \$156 \text{ (overtime pay)} = \$676
\end{align*}
\]

**TIP CREDITS — HOW DO THEY WORK?**

If your employer wants to take advantage of the tip credit, and pay you only $2.13 per hour, all of the following conditions must be met:

1. You have to average at least $5.12 in tips per hour for each workweek.
2. Your employer has to explain the tip credit to you before taking it.
3. You have to be allowed to keep all the tips you earn, though your employer can require tipped employees to pool their tips.
4. Your employer has to give you all your credit card tips by the next payday. The credit card company’s charge for using the card can be subtracted from each tip.

Suppose one of your customers puts a $10 tip for you on his or her credit card bill. The credit card company charges your employer 5% to use its credit cards. You have to be paid at least 95% of the tip, or $9.50 ($10 \times 0.95 = \$9.50).

5. Your employer can’t raise the tip credit for any overtime hours you work. In other words, your regular wage has to go up for overtime hours.
WHEN OVERTIME HAS TO BE PAID

The Fair Labor Standards Act says you have to receive overtime pay but only for hours you actually worked. You won’t get the overtime rate on sick pay, vacation pay, etc., unless that’s your employer’s policy.

Joe is paid for 48 hours of work, but eight of those hours are covered by sick pay. Joe doesn’t receive the overtime rate for any of those hours, because he physically worked only 40 hours.

Bonnie is a carpenter. She shows up at her work site one morning during a thunderstorm. She awaits an hour for the rain to let up, but it just gets worse, and her employer sends her home. She is paid for half a day of work. The hour she waited is actual work time, but the rest of those paid hours are not hours that she physically worked. She can’t count that time as work hours for the purpose of getting overtime pay.

Employers do not have to pay you the overtime rate—though many do—when you work weekends or holidays, unless your work on those days actually pushes you over 40 hours for the workweek. Also, overtime is not based on the number of hours you work in a single day. If you work more than eight hours in a single day, you won’t receive overtime pay for the extra hours. But, you do earn overtime pay when you work more than 40 hours in a single workweek.

THE WORKWEEK AND OVERTIME PAY

When you calculate your overtime pay, remember that each workweek stands on its own. For example, if you work 35 hours one week and 45 hours the next, your employer can’t average out these totals (which would be 40 hours) to deny you overtime pay. You must receive five hours of overtime pay for the extra time you worked during the second week. Firefighters, police officers, and hospital employees, however, often have their workweek and overtime pay defined differently due to the nature of these jobs.

Some state laws and union contracts provide an exception to this rule by requiring employers to pay you overtime when you work Sundays, holidays, or more than eight hours in one day.

Go Online

Access forms and more information on what you learned in Chapter 2:

- Fair Labor Standards Act, from the Department of Labor Wage and Hour Division.
- Family and Medical Leave Act, also from the Department of Labor Wage and Hour Division.

QUICK TIP

Some state laws and union contracts provide an exception to this rule by requiring employers to pay you overtime when you work Sundays, holidays, or more than eight hours in one day.
In this chapter

- Income and Employment Taxes: We’ll answer all your questions about what the numbers mean, the terms, and how to calculate your taxes.
- Social Security Summary: What it is, why, and how.
- Medicare: What it is and are you eligible?
- State Unemployment and Disability Insurance Taxes: Some definitions and if they apply in your state.

Plus

Learn to how to read your pay stub and how to calculate your withholding tax.
This chapter provides an explanation of the taxes you pay and methods you can use to confirm that your employer is withholding the right amount of your wages.

INCOME AND EMPLOYMENT TAXES
If you hold a job in the U.S. or you’re a U.S. citizen working in another country, you have to pay federal income and employment taxes. Depending on the state in which you live and work, you might be responsible for paying a state income tax as well. Some counties, cities, and school districts also have income taxes. Your employer collects these taxes by withholding part of your paycheck and sends this money directly to the federal, state, and/or local governments.
When you look at your paycheck, you’ll notice that it’s attached to a “pay stub.” The pay stub records the wages you received, the taxes collected during that pay period, and your “gross pay” and “net pay.” It also shows you exactly how much money was subtracted to pay for federal income tax, state and local income taxes, and the “FICA” (Federal Insurance Contributions Act) taxes: Social Security and Medicare. Your pay stub might also include information about pre- and after-tax deductions.

### Understanding Your Pay Stub

Your gross pay is the total amount of wages you’ve earned for the pay period. It’s your regular pay plus any other wages you receive, like overtime pay or bonuses. Your taxes are based upon your gross pay.

Your net pay is the amount of money you receive on payday. It is your “take-home pay.” Net pay equals your gross pay minus all deductions, and all taxes—federal, state, and local.

#### Pay Stub Example

<table>
<thead>
<tr>
<th>Pay period: Dec 2018</th>
<th>Gross Earnings</th>
<th>$2000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deductions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>$219.00</td>
<td></td>
</tr>
<tr>
<td>State Income Tax</td>
<td>96.50</td>
<td></td>
</tr>
<tr>
<td>Local Income Tax</td>
<td>17.00</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>120.90</td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>28.28</td>
<td></td>
</tr>
<tr>
<td>Pre-tax Healthcare Plan</td>
<td>50.00</td>
<td></td>
</tr>
<tr>
<td>After-tax Deductions</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Net Pay</strong></td>
<td></td>
<td>$1468.32</td>
</tr>
</tbody>
</table>

Detatch below before depositing. Save for your records.
WHAT ARE INCOME TAXES?
Federal income tax is the amount of money you have to pay to the federal government, and it is collected by the IRS. There are 41 states that collect state income tax. Depending on where you live, you may also owe income tax to the county, city, or school district.

HOW ARE INCOME TAXES CALCULATED?
Your employer will calculate the income taxes that are withheld from your paycheck. It’s probably a good idea for you to check your employer’s math and verify the right amount is being withheld.

There are several different methods your employer can use to calculate your federal income tax. The two most popular are the wage-bracket method and the percentage method. Each are based on the IRS federal income tax withholding tables. These tables factor in your marital status (married or single), how often you’re paid (weekly, monthly, etc.), your gross pay, and the number of withholding allowances you claim on your W-4. State and local governments that levy income taxes have their own tax withholding tables for your employer to use.

DID YOU KNOW?

The Wage-Bracket Method

Jane is married and is paid a weekly salary of $705. She claims two withholding allowances on her W-4.

Look at the “Married Persons-Weekly Payroll Period” wage-bracket table on page 50 in the 2018 Employer’s Tax Guide (the relevant portion of the table is included on the next page). In the first two columns find the row for “At least $705” and “But less than $715.” Then look across that row for the number below the column head for “2” withholding allowances claimed.

Weekly salary: $705

Withholding allowances: 2

Federal income tax withholding: $33 per week
### MARRIED PERSONS — WEEKLY PAYROLL PERIOD

(For Wages Paid through December 31, 2018)

<table>
<thead>
<tr>
<th>And the wages are —</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least $615</td>
<td>$625</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>But less than</td>
<td>$625</td>
<td>$40</td>
<td>$32</td>
<td>$24</td>
<td>$16</td>
<td>$8</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$625</td>
<td>$635</td>
<td>42</td>
<td>33</td>
<td>25</td>
<td>17</td>
<td>9</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$635</td>
<td>645</td>
<td>43</td>
<td>34</td>
<td>26</td>
<td>18</td>
<td>10</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$645</td>
<td>655</td>
<td>44</td>
<td>35</td>
<td>27</td>
<td>19</td>
<td>11</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$655</td>
<td>665</td>
<td>45</td>
<td>36</td>
<td>28</td>
<td>20</td>
<td>12</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$665</td>
<td>675</td>
<td>46</td>
<td>37</td>
<td>29</td>
<td>21</td>
<td>13</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$675</td>
<td>685</td>
<td>48</td>
<td>38</td>
<td>30</td>
<td>22</td>
<td>14</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$685</td>
<td>695</td>
<td>49</td>
<td>39</td>
<td>31</td>
<td>23</td>
<td>15</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$695</td>
<td>705</td>
<td>50</td>
<td>40</td>
<td>32</td>
<td>24</td>
<td>16</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$705</td>
<td>715</td>
<td>51</td>
<td>42</td>
<td>33</td>
<td>25</td>
<td>17</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$715</td>
<td>725</td>
<td>52</td>
<td>43</td>
<td>34</td>
<td>26</td>
<td>18</td>
<td>10</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$725</td>
<td>735</td>
<td>54</td>
<td>44</td>
<td>35</td>
<td>27</td>
<td>19</td>
<td>11</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$735</td>
<td>745</td>
<td>55</td>
<td>45</td>
<td>36</td>
<td>28</td>
<td>20</td>
<td>12</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$745</td>
<td>755</td>
<td>56</td>
<td>46</td>
<td>37</td>
<td>29</td>
<td>21</td>
<td>13</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$755</td>
<td>765</td>
<td>57</td>
<td>48</td>
<td>38</td>
<td>30</td>
<td>22</td>
<td>14</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$765</td>
<td>775</td>
<td>58</td>
<td>49</td>
<td>39</td>
<td>31</td>
<td>23</td>
<td>15</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$775</td>
<td>785</td>
<td>60</td>
<td>50</td>
<td>40</td>
<td>32</td>
<td>24</td>
<td>16</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$785</td>
<td>795</td>
<td>61</td>
<td>51</td>
<td>42</td>
<td>33</td>
<td>25</td>
<td>17</td>
<td>9</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$795</td>
<td>805</td>
<td>62</td>
<td>52</td>
<td>43</td>
<td>34</td>
<td>26</td>
<td>18</td>
<td>10</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$805</td>
<td>815</td>
<td>63</td>
<td>54</td>
<td>44</td>
<td>35</td>
<td>27</td>
<td>19</td>
<td>11</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Look at Table 5. Percentage Method—2018 Amount for One Withholding Allowance on page 45 in the 2018 Employer’s Tax Guide. Locate the “Biweekly” Payroll Period. For Brian, this is $159.60.

Multiply the amount of one withholding allowance by the number of allowances Brian claims (four).

$159.60  
$159.60 × 4 = $638.40

Subtract the value of the withholding allowances from Brian’s earnings: $1,900 – $638.40 = $1261.60. This is the amount subject to withholding.

Find the correct Percentage Method Table for Income Tax Withholding for Brian, which is located on page 46 of the 2018 Employer’s Tax Guide (the relevant portion of the table is included on the next page). Remember, he’s married and is paid biweekly.

$1,261.60 in the table is “Over $1,177 ‘But not over $3,421,” so 12% of the excess over $1,177, plus $73.30, is to be withheld.

Figure out what the excess over $1,177 is.

Multiply $84.60 by 12% and add $73.30 to get Brian’s withholding.

The federal income tax withheld each pay period from Brian’s paycheck is $83.45.
Table 5. **Percentage Method—2018 Amount for One Withholding Allowance**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly</td>
<td>$79.80</td>
</tr>
<tr>
<td>Biweekly</td>
<td>159.60</td>
</tr>
<tr>
<td>Semimonthly</td>
<td>172.90</td>
</tr>
<tr>
<td>Monthly</td>
<td>345.80</td>
</tr>
<tr>
<td>Quarterly</td>
<td>1,037.50</td>
</tr>
<tr>
<td>Semiannually</td>
<td>2,075.00</td>
</tr>
<tr>
<td>Annually</td>
<td>4,150.00</td>
</tr>
<tr>
<td>Daily or miscellaneous (each day of the payroll period)</td>
<td>16.00</td>
</tr>
</tbody>
</table>

**TABLE 2—BIWEEKLY Payroll Period**

(b) **MARRIED person**—

If the amount of wages (after subtracting withholding allowances) is:

<table>
<thead>
<tr>
<th>over—</th>
<th>But not over—</th>
<th>of excess over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $444</td>
<td>$0</td>
<td>$444</td>
</tr>
<tr>
<td>$444—$1,177</td>
<td>$0.00 plus 10%</td>
<td>$1,177</td>
</tr>
<tr>
<td>$1,177—$3,421</td>
<td>$73.30 plus 12%</td>
<td>$3,421</td>
</tr>
<tr>
<td>$3,421—$6,790</td>
<td>$342.58 plus 22%</td>
<td>$6,790</td>
</tr>
<tr>
<td>$6,790—$12,560</td>
<td>$1,083.76 plus 24%</td>
<td>$12,560</td>
</tr>
<tr>
<td>$12,560—$15,829</td>
<td>$2,468.56 plus 32%</td>
<td>$15,829</td>
</tr>
<tr>
<td>$15,829—$23,521</td>
<td>$3,514.64 plus 35%</td>
<td>$23,521</td>
</tr>
<tr>
<td>$23,521</td>
<td>$6,206.84 plus 37%</td>
<td></td>
</tr>
</tbody>
</table>

**PERCENTAGE METHOD TABLES for INCOME TAX WITHHOLDING**

**PERCENTAGE METHOD**

**2018 AMOUNT for ONE WITHHOLDING ALLOWANCE**
Supplemental wages get special tax treatment. They include bonuses, awards, commissions, retroactive pay, tips, back pay awards, and severance pay.

Supplemental wages and other withholding methods

For special situations, there are other withholding methods your employer can use.

Supplemental wages and other withholding methods

For special situations, there are other withholding methods your employer can use.

The optional flat rate withholding method

If your employer separates your supplemental wages from your regular wages, it can withhold federal income tax from these payments at the flat rate of 22% in 2018. The 22% rate applies regardless of the withholding allowances you’ve claimed on your W-4 and is independent of what the IRS tables say.

Using the flat rate withholding method

You were awarded a $1,000 sales bonus during your last pay period!

Your employer would multiply this supplemental wage by 22% (0.22) to calculate withholding: $1,000 \times 0.22 = $220.

Your employer will withhold $220 in federal income tax from your $1,000 bonus.

$1,000 \times 0.22 = $220
The AGGREGATE WITHHOLDING METHOD

Last week Donna was awarded a bonus of $200!

Donna is single and claims two withholding allowances on her W-4. She is paid $1,100 biweekly. Her employer keeps this bonus separate from her regular wages. To figure out how much federal income tax to withhold from Donna’s bonus, her employer goes through the following steps.

1. Donna’s employer adds her bonus to her regular wage:
   
   \[ \text{bonus} + \text{regular wage} = \$1,300 \]

2. Using the wage-bracket or percentage method, her employer figures the withholding on the total amount of $1,300 which would be $94 using the wage-bracket method.
   
   \[ \text{wage bracket} = \$94 \]

3. Donna’s employer looks back at her last regular wage payment of $1,100, and writes down what amount was withheld from that paycheck which was $70.
   
   \[ \text{wage bracket} = \$70 \]

4. Donna’s employer subtracts $70 from $94, i.e., $94 - $70 = $24.
   
   \[ \$94 - \$70 = \$24 \]

Donna’s employer will withhold $24 in federal income tax from her $200 bonus.

If your employer doesn’t give you a separate paycheck for your supplemental wages, or list them separately on your pay stub, your employer will treat the total amount as one wage payment.

Under this method, your employer will first add your supplemental wages to your last wage payment. They will then figure the income tax on the whole amount, and subtract the tax that was withheld from your last wage payment. The remaining amount is what your employer will withhold from your supplemental wages.
WHAT ARE EMPLOYMENT TAXES?

Employment taxes are Social Security and Medicare taxes, also called FICA (Federal Insurance Contributions Act) taxes. All employers withhold these taxes from their employees’ pay. FICA is deducted from your wages to help you afford your living and medical expenses later in life. The Social Security wages upon which your taxes are based are recorded in your individual Social Security account. The money you have earned in your lifetime will be used to determine your benefits when you retire, or if you become disabled. Your Medicare taxes will provide you with basic health insurance once you reach 65, or earlier if you become disabled.

Each pay period, your employer pays the federal government an amount of FICA taxes based on the wages you are paid.

HOW ARE SOCIAL SECURITY AND MEDICARE TAXES CALCULATED?

Both Social Security and Medicare taxes are a fixed percentage of your wages. Your employer will withhold 6.2% of your pay for Social Security tax, and 1.45% for Medicare. That means your total FICA taxes add up to 7.65% of your wages.

The rate your employer pays is also 6.2% for Social Security and 1.45% for Medicare, for total FICA taxes of 7.65%.

SOCIAL SECURITY WAGE LIMIT

In 2018, any wages you earn above $128,400 are not subject to Social Security tax. The most you can pay in Social Security tax is $7,960.80 ($128,400 x 0.062). There’s no upper limit on Medicare tax. Medicare tax will be withheld from all wages you receive. If you are paid more than $200,000, your employer will withhold an extra 0.9% Medicare tax from the wages above that amount.

The following two examples show you how to figure out your employment taxes.

ANOTHER AGGREGATE WITHHOLDING EXAMPLE

Mike received a $1,000 bonus because of his excellent work! Mike’s employer combines this bonus with his regular biweekly wages of $1,100. His total wages for the pay period are $2,100. Since Mike’s employer doesn’t separate these two kinds of payments, federal income tax will be withheld from his check as if his regular biweekly wages were $2,100.

If you receive supplemental wages that total more than $1 million in a year, the amount over $1 million will be taxed at the highest income tax rate, which is 37% in 2018.

$1,000 + $1,100 = $2,100

YOUR FICA TOTAL

6.2% + 1.45% = 7.65%

EMPLOYER’S FICA TOTAL

6.2% + 1.45% = 7.65%
Richard is paid $500 each week. His Social Security withholding per paycheck is $31 ($500 x .062). His Medicare tax per pay period is $7.25 ($500 x .0145). Richard’s employer withholds $38.25 ($31 + $7.25) in employment taxes from his wages each week. His employer also pays $38.25 (($500 x .062) + ($500 x .0145)) to the federal government.

**QUICK TIP**

Remember, to convert a percentage into a decimal, divide the percentage by 100:

- 6.2% = .062
- 1.45% = .0145

Another way to remember this, is to move the decimal point two places to the left.

\[0.06.2\]
\[0.01.45\]

**Also!**

If you’re holding down more than one job:
Each of your employers is required to withhold Social Security and Medicare taxes from your paycheck. You can’t combine your earnings from your different jobs to see if you’ve hit the Social Security wage limit. If you end up paying more in Social Security tax than the law allows (more than $7,960.80 in 2018), you can get a refund when you file your income tax return.
Erin earned $127,800 in taxable wages between January 1 and December 21, 2018. On December 22, she is paid another $1,500. She wants to figure out her employment tax withholding from this latest paycheck.

Calculating Erin’s Social Security tax:

1. Erin figures out how much of her $1,500 check is subject to Social Security tax. She does this by subtracting the $127,800 she has already earned this year from the Social Security wage limit of $128,400, for an amount of $600.

\[
$128,400 - $127,800 = $600
\]

2. She calculates her Social Security tax based on this $600 only. All her earnings above that are exempt from this tax.

\[
$600 \times .062 = $37.20
\]

$37.20 is how much Erin will pay this pay period in Social Security tax.

Calculating Erin’s Medicare tax:

This is easier, since all of Erin’s wages are subject to Medicare tax. All Erin has to do is multiply $1,500 by 1.45% to get her Medicare withholding of $21.75.

Erin’s share of employment taxes (Social Security + Medicare) on her latest paycheck is $58.95 ($37.20 + $21.75). Her employer will also pay $58.95 (($600 \times .062) + ($1,500 \times .0145)) to the federal government.
SOCIAL SECURITY SUMMARY

Your Social Security benefit is a percentage of your earnings averaged over most of your working lifetime. If you work for someone else, your employer withholds Social Security and Medicare taxes from your paycheck, calculates the amount it must pay, sends those taxes to the IRS, and reports your earnings and taxes withheld to the Social Security Administration.

If you’re self-employed, you pay your own Social Security and Medicare taxes when you file your tax return. The IRS will report your earnings to the Social Security Administration.

There are five major categories of benefits paid through Social Security and Medicare:

• Retirement
• Disability
• Family benefits
• Survivors
• Medicare

MEDICARE

The Centers for Medicare and Medicaid Services administers Medicare, the nation’s largest health insurance program. Medicare provides health insurance to people age 65 and over, and those who have permanent kidney failure and certain people with disabilities. For more information, call the toll free number 1-800-633-4227 or visit the Medicare website.

STATE UNEMPLOYMENT AND DISABILITY INSURANCE TAXES

Unemployment insurance provides you with a small income while you look for another job. A joint federal-state system handles this insurance. In most states, only your employer is responsible for paying the federal and state taxes that support the system. Though if you work in Alaska, New Jersey, or Pennsylvania, you’re required to pay part of the state unemployment insurance tax. Like the other taxes discussed earlier, this tax will be withheld directly from your paychecks.
State disability insurance tax exists in only five states (California, Hawaii, New Jersey, New York, and Rhode Island) and Puerto Rico. If you work in one of these states or Puerto Rico and suffer an injury or illness that’s not related to your work, but keeps you from working, you’ll receive money from a state fund. Both employers and employees pay taxes into this fund. Check your pay stub to find the exact amount being withheld.

In 2004, California began a Paid Family Leave program that is paid for with employee contributions. The rate has been added to the state disability insurance rate. New Jersey, New York, and Rhode Island now have similar programs. In 2019, Washington state will begin a paid family leave program that requires employee contributions.
IN THIS CHAPTER

Tax Deferred Retirement Plans: All about Section 401(k), 403(b), and 457(b) plans.

Cafeteria Plans: Pre-tax deductions, the cafeteria “menu,” and flexible spending accounts.

Medical Savings Accounts: Tax benefits and contribution limits.

Health Savings Accounts: Saving for medical expenses.

Transportation Fringe Benefits: Save $ on the cost of getting to work.

Calculating Your Pre-Tax Deductions: The actual math behind your pre-tax deductions.

Plus
Quick tips, warnings, and an online links guide.
TAX-DEFERRED RETIREMENT PLANS

Tax-deferred plans are a great way to save money for your retirement. If you’re going to be taxed anyway when you get the money back at retirement, why defer it? The good news: after retirement, you’ll probably pay income taxes at a lower rate than you did while you were working. This means you’ll still end up paying less income tax on this money than you would have without the retirement plan.

There are many kinds of tax-deferred retirement plans. Your employer chooses which one to offer to employees depending on certain eligibility rules. The three most common plans are the Section 401(k) plan, the Section 403(b) plan, and the Section 457(b) plan.

SECTION 401(K) PLANS

401(k) plans are standard tax-deferred retirement plans. Each payday you contribute a set percentage of your wages to the plan on a pre-tax basis. You don’t pay income taxes on this money until you get it back after retirement in the form of regular payments.

DID YOU KNOW?

Social Security and Medicare taxes are withheld from your contributions.

State and local government employers cannot offer 401(k) plans to their employees unless the plan has been around since before 1986.
CONTRIBUTION LIMITS
Employees who are under age 50 cannot contribute more than $18,500 to a 401(k) plan on a pre-tax basis in 2018. Employees who are at least 50 years old at any time during the year can contribute an extra $6,000 on a pre-tax basis as a “catch-up” contribution. If you want to, though, you can add to this total with after-tax contributions. Your employer might even choose to contribute to the plan in your name. Whatever the case, the grand total of contributions by you and your employer for a single year, both pre-tax and after-tax, cannot be more than $55,000, or 100% of your yearly wages (whichever is lower) in 2018.

Suppose you receive $30,000 in wages in 2018 and you will not reach age 50 during the year. You can defer $18,500 of those wages to your 401(k) plan on a pre-tax basis. Another $11,500 could be contributed to your plan through after-tax contributions you make and/or contributions from your employer.

SIMPLE PLANS
If you work for a small company (100 employees or less), your employer might offer you a SIMPLE plan as part of a 401(k) plan. This plan still allows you to contribute a percentage of your pay toward your retirement, but only up to $12,500 in 2018. You can contribute an additional $3,000 on a pre-tax basis if you will reach age 50 during the year.
WHAT HAPPENS TO YOUR CONTRIBUTIONS

Your contributions to a 401(k) plan are put into a special account set up for you by your employer. Your money is then invested in your employer’s stock, a mutual fund, a bond fund, some kind of fixed income investment, or some combination of these. Your employer might also choose to “match” your contributions. Your employer does this by putting into your account a certain fraction of a dollar for every full dollar you contribute. As a result of these investments and employer contributions, you can expect your retirement money to grow over time.

SECTION 403(b) PLANS

403(b) plans are tax-deferred retirement plans for employees of tax-exempt organizations. If you work for a school, college, or university, religious group, or public charity, your employer may offer you this type of plan. You can contribute either to a “tax-sheltered annuity” or to a “tax-sheltered custodial account.”

CONTRIBUTION LIMITS

In 2018, you can contribute up to $18,500 to your 403(b) plan on a pre-tax basis. Employees who are least 50 years old at any time during the year can contribute an extra $6,000 on a pre-tax basis as a “catch-up” contribution. The grand total of contributions by you and your employer for a single year, both pre-tax and after-tax, can’t be more than $55,000 or 100% of your yearly wages in 2018 (whichever is less).

SECTION 457(b) PLANS

457(b) plans are tax-deferred retirement plans for employees of state and local governments. Employees of tax-exempt organizations other than churches can also use this plan.

CONTRIBUTION LIMITS

In 2018, you can contribute up to $18,500 on a pre-tax basis to your plan. Employees who are least 50 years old at any time during the year can contribute an extra $6,000 on a pre-tax basis as a catch-up contribution. Your employer can also contribute to the plan on your behalf. The grand total of contributions by you and your employer for a single year, both pre-tax and after-tax, can’t be more than $55,000 or 100% of your yearly wages in 2018 (whichever is less).

During the last three years before retirement, you might be able to contribute as much as double your elective deferral limit on a pre-tax basis. Your employer may allow you to contribute more than the usual limit during these three years, if you contributed less than your legal limit in previous years. Ask your employer for details about your specific plan.

DID YOU KNOW?

Your employer has the right to set a limit on the percentage of your pay you can contribute. This limit can be lower than the maximum set by law.
CAFETERIA PLANS

Many employers offer their employees certain types of benefits such as medical and dental insurance. If benefits are available to you, check to see if your employer is using what is called a “cafeteria” plan. If so, you’re in luck. Cafeteria plans allow employees to pick from a selection of benefit packages, the idea being to ensure that employees are paying only for the benefits they really need. Once you choose a particular benefit package, you’ll pay for these benefits with pre-tax and after-tax deductions from your paycheck. (Note: Some employers pay 100% of employee benefit plans and you won’t have to pay anything to get your benefits.)

THE ADVANTAGE OF PAYING FOR BENEFITS WITH PRE-TAX DEDUCTIONS

Paying for your benefits with pre-tax deductions is a good idea. Why? If you do, no federal income, Social Security, or Medicare taxes are taken out of the money you’re using to buy your benefits. The result: you’ll pay lower taxes and go home with more money in your pocket on payday. If you ever convert any benefits into cash, though, by “selling” vacation days or the like, the cash you receive is taxable.

CAFETERIA PLANS

Cafeteria plans come with a “menu” of possible benefits. The menu has to include at least one tax-free benefit and one cash benefit. The following are examples of common menu offerings.

**MEDICAL AND/OR DENTAL COVERAGE**
You can extend this coverage to your spouse and children, if you choose, and if your employer offers such coverage.

**LONG-TERM DISABILITY INSURANCE**
In case you become disabled and can no longer work.

**GROUP-TERM LIFE INSURANCE UP TO A VALUE OF $50,000**
If you want more than $50,000 worth of life insurance, you’ll have to pay Social Security and Medicare taxes on the additional amount you pay in premiums with a pre-tax deduction.

**DEPENDENT CARE COVERAGE**
This benefit is limited to $5,000. This coverage allows you to provide child care so you can work and home-nursing care and the like for an ill or disabled dependent.

**A 401(K) PLAN**
Remember, contributions to this kind of retirement plan are subject to Social Security and Medicare taxes.

**A HEALTH SAVINGS ACCOUNT**
You can contribute to a health savings account through cafeteria plan pre-tax deductions.
Once you’ve selected your benefits, they can’t be changed during the plan year unless one of the following events occurs and the plan allows the change:

1. Significant change in health care premiums
2. Your health care coverage is significantly lessened or ended altogether
3. The plan adds a new benefit option or significantly improves an existing one
4. Your spouse or child changes their benefit election under their employer’s cafeteria plan
5. Your status or your spouse’s or child’s status changes

**CHANGES THAT CAN AFFECT YOUR BENEFITS**

1. **Marital status:** marriage, divorce, death of spouse, legal separation, or annulment
2. **Number of children:** birth, adoption, placement for adoption, or death of a child
3. **Employment status (for you, your spouse, or child):** getting or losing a job, being on strike or locked out, going on or coming back from a leave of absence, change in worksite, change from full-time to part-time, exempt to nonexempt, or salaried to hourly status
4. **Child status:** reaching a certain age
5. **Residency status (for you, your spouse or child):** moves to a different area

**FLEXIBLE SPENDING ACCOUNTS**

Many employers offer flexible spending accounts as part of their cafeteria plans. If you choose to, you can have pre-tax deductions taken out of your paychecks and put into your own flexible spending account. You can put up to $2,650 in 2018 into your health care flexible spending account. You can then use this money to pay for certain medical, dental, or vision care expenses that aren’t covered by your insurance. You can also set up a second flexible spending account to pay for child and dependent care expenses. You can withdraw more money from the medical flexible spending account than you’ve put into it, but only up to the total amount of your yearly deductions. To pay for dependent care expenses, you can take out only as much money as you’ve already deposited into the account during the plan year.

**QUALIFIED MEDICAL EXPENSES**

“Qualified medical expenses” under a flexible spending account, medical savings account, or health savings account do not include over-the-counter drugs unless it’s insulin or they have been prescribed by a licensed doctor.
**MEDICAL SAVINGS ACCOUNTS**

If you work for a small employer (50 employees or less), it may offer a medical savings account. These are set up to help people covered by high-deductible health insurance plans. (A “deductible” is the amount of your medical bills that you’re expected to pay each year. Once you reach this deductible, your health insurance company will take over and pay the rest of your bills.)

In 2018, you can set up a medical savings account if you’ve got individual coverage with a yearly deductible of $2,300 to $3,450, or if you’ve got family coverage with a yearly deductible of $4,550 to $6,850. You fund your medical savings account through deductions from your wages, or your employer may make these contributions for you. You can use the money in your account to pay for certain kinds of medical expenses.

**TAX BENEFITS**

Medical savings accounts make it possible for you to reduce your total tax bill, because you’re allowed to deduct your contributions from your gross income on your income tax return. If your employer makes the contributions on your behalf, these aren’t thought of as part of your wages. You don’t pay federal income or employment taxes on these amounts either.

When you withdraw money from your account to pay for medical expenses, this money is tax-free. However, if you use your medical savings account funds to pay for nonmedical expenses, the amount withdrawn is subject to income tax, as well as an extra 20% tax. This holds true unless you pull this money out of your medical savings account after you’ve reached age 65 or have become disabled.

In these circumstances, the amount withdrawn won’t be taxed.

**CONTRIBUTION LIMITS**

Each year, you or your employer can contribute to your medical savings account as much as 65% of the health plan deductible for individual coverage, or as much as 75% of the deductible for family coverage. If your employer makes contributions for you, these will show up on your pay stub along with your other pre-tax deductions. Employer contributions will also appear on your annual Form W-2, Wage and Tax Statement.

**HEALTH SAVINGS ACCOUNTS**

Health savings accounts are designed to help employees save for medical expenses while they are employed and beyond, into retirement. In general, health savings accounts are tax-exempt trusts or custodial accounts created to pay for the qualified medical expenses of the account holder and his or her spouse and dependents.
YOU MUST BE IN A HIGH-DEDUCTIBLE HEALTH PLAN

Health savings accounts may be established by individuals who are covered by a high deductible health plan, which is defined in 2018 as a plan with an annual deductible of at least $1,350 for individual coverage or $2,700 for family coverage, and that has an out-of-pocket expense limit of no more than $6,650 for individual coverage and $13,300 for family coverage.

Generally, you can’t open a health savings account if you are covered under a high deductible health plan and another health plan, although there are exceptions for workers’ compensation, auto insurance, and other limited coverage plans.

TAX BENEFITS

Employer contributions to a health savings account (including salary reduction contributions made through a cafeteria plan) are not subject to income and employment taxes if the employer reasonably believes at the time the contribution is made that it will be excludable from the employee’s income.

For 2018, the maximum annual contribution that can be made to a health savings account is $3,450 for individuals and $6,900 for family coverage. If you will be 55 or older by the end of 2018, you can make an additional catch-up contribution of $1,000 to a health savings account unless you are eligible for Medicare.

Distributions from a health savings account for qualified medical expenses are excluded from your income if they are not covered by insurance or otherwise. Distributions from a health savings account that are not for qualified medical expenses are included in gross income and are subject to an additional 20% tax unless made after death, disability, or the individual becomes eligible for Medicare. Employer contributions, including salary reduction contributions through a cafeteria plan, will be reported on your W-2.

TRANSPORTATION FRINGE BENEFITS

Your employer can help you save money on the cost of getting to work without increasing your taxable income. Your employer can pay for transportation benefits outright or set up a pre-tax deduction so you can buy these benefits with tax-free earnings. The following benefits can be provided using either of these arrangements:

1. Your employer can have you and your coworkers driven to work and back home again in a company van. The maximum value of this service is $260 per month in 2018.

2. Your employer can supply you with transit passes, tokens, or fare cards, up to a maximum value of $260 per month in 2018.

3. Your employer can provide parking on or near the worksite, or at a “park and ride” location, up to $260 per month in 2018.
**PART I: GARY’S TAXABLE WEEKLY WAGES**

Gary is paid $650 each week in 2018. He contributes 6% before taxes to a 401(k) plan and $10 per paycheck in pre-tax deductions to a cafeteria plan. To figure out his taxable weekly wages, he goes through the following steps.

1. Gary calculates his **401(k) contribution** by multiplying his weekly pay times his contribution percentage of 6% → $650 \times 0.06 = $39

2. Gary calculates the **amount of his pay subject to federal income tax** by subtracting both his 401(k) contribution and his cafeteria plan deduction from his weekly pay → $650 - ($39 + $10) = $601

3. **Wait!** To calculate the **amount of his pay subject to employment taxes**, Gary remembers that 401(k) plans are not exempt from Social Security and Medicare taxes, so he re-adds his $39 contribution (from step 1) → $601 + $39 = $640

4. By taking advantage of pre-tax deductions, Gary lowers the amount of his gross wages subject to federal income tax by $49, and the amount subject to employment taxes by $10 → $640

**CALCULATING Your PRE-TAX DEDUCTIONS**

Now that you’ve learned most of what there is to know about pre-tax deductions, how do you do the actual math?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>401(k) TAXES</strong></td>
<td></td>
</tr>
</tbody>
</table>
$650 - ($39 + $10) = $601  
$650 \times 0.06 = $39  
$650 - ($39 + $10) = $601  |
| **SOCIAL SECURITY** |  
$601 + $39 = $640  |
|  | **$640** |
 Gary knows the amount of his pay subject to federal income tax from Part I: Step 2 above ($601). Using the “MARRIED Persons- WEEKLY Payroll Periods” wage-bracket withholding table on page 50 of the 2018 Employer’s Tax Guide, Gary determines his federal income tax withholding which is $22.

2 Gary’s Social Security tax is based on Part I: Step 3 above ($640) and multiplied by 6.2%.

3 Gary’s Medicare tax is based on Part I: Step 3 above as well ($640) and multiplied by 1.45%.

4 Gary adds up all the taxes he must pay from Steps 1–3 above.

5 **Wait!** Gary remembers he had $601 left from his $650 pay, after making his pre-tax deductions. So, he uses that number and subtracts the total taxes from Step 4 above to get his take-home pay.
**PART III: GARY’S SAVINGS**

What if Gary had used after-tax deductions, rather than pre-tax deductions? Would it have made a difference in his take-home pay? Absolutely. Watch what happens when Gary figures in his 401(k) contribution and cafeteria plan payment as after-tax deductions.

1. Without any pre-tax deductions, Gary’s entire weekly pay of $650 would be taxable. Using page 50 of the 2018 *Employer’s Tax Guide*, his federal income tax is $27.

2. Gary’s Social Security tax is also based on $650 and multiplied by 6.2%.

3. Gary’s Medicare tax is also based on $650 and multiplied by 1.45%.

4. Gary’s after-tax deduction for his 401(k) plan is $39.

5. Gary’s after-tax deduction for his cafeteria plan is $10.

6. Gary adds up all his taxes and deductions from Steps 1–5 above.

7. To calculate his take-home pay, Gary takes his total wages and subtracts his taxes and deductions.

<table>
<thead>
<tr>
<th>Step</th>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income tax</td>
<td>$27</td>
</tr>
<tr>
<td>2</td>
<td>Social Security</td>
<td>$40.30</td>
</tr>
<tr>
<td>3</td>
<td>Medicare</td>
<td>$9.43</td>
</tr>
<tr>
<td>4</td>
<td>401(k) deduction</td>
<td>$39</td>
</tr>
<tr>
<td>5</td>
<td>Cafeteria plan</td>
<td>$10</td>
</tr>
<tr>
<td>6</td>
<td>Total deductions</td>
<td>$125.73</td>
</tr>
<tr>
<td>7</td>
<td>Take-home pay</td>
<td>$524.27</td>
</tr>
</tbody>
</table>

Gary saves $5.77 per pay period by using pre-tax deductions.
Access forms and more information on what you learned in Chapter 4:

- **How major life events** may influence retirement planning
- **Definitions**: Commonly used retirement plan definitions
- **Employer’s Tax Guide**
- **Additional Resources**: Forms, publications, and other government websites
- **Retirement Plans**: IRS video portal
In this chapter:

**Involuntary Deductions:** Unpaid taxes, child support withholding orders, creditor garnishments, bankruptcy orders, student loans, and other federal debts.

**Voluntary Deductions:** Wage assignments, union dues, credit union deductions, U.S. Savings Bonds, and contributions to charity.

**Plus**
Form 668-W in-depth, know your rights, and calculating take-home pay.
INTRODUCTION

You already know that taxes and pre-tax deductions are deducted from your wages before you receive your paycheck. There’s one more kind of payment that’s withheld directly from your earnings—after-tax deductions. There are two types of after-tax deductions: (1) “voluntary deductions,” which can be used to pay union dues or to make contributions to a charity, among other things, and (2) “involuntary deductions,” which is money withheld as a result of an order issued by a court or government agency. You must pay it, whether you want to or not. Involuntary deductions can be deducted from your earnings to pay child support, unpaid taxes, or personal debts.

AFTER-TAX DEDUCTIONS

Whether your after-tax deductions are voluntary or involuntary, they come out of the earnings that are left after all of your taxes have been withheld. After-tax deductions do not affect the amount of taxes you owe.

INVOLUNTARY DEDUCTIONS

If you ever get hit with an involuntary deduction, you should know that your employer has no choice but to withhold the amount indicated in the court or government order. Your employer is required to send that amount to the person or agency you owe. Any employer that disobeys this type of order will be subject to fines and will have to pay whatever part of the required amount wasn’t taken out of its employee’s pay. Involuntary deductions are usually used to pay unpaid taxes, child support orders, creditor garnishments, bankruptcy orders, and unpaid student loans.

UNPAID TAXES

If you don’t pay your federal taxes on time, and refuse to cooperate with the IRS’s efforts to collect those taxes, the IRS might issue a “tax levy” against your wages. Your employer will be required to deduct whatever amount you owe the IRS from your wages, plus penalties and interest charges. If this amount is small, the total will be taken from one paycheck. Deductions for larger tax bills will be spread out over several pay periods. This deduction does not affect the taxes you pay on your wages. States and localities will also issue tax levies if they are owed income tax.

When you’ve paid your entire tax bill, including penalties and interest, the IRS will send a written notice to confirm this to your employer. At this point, the involuntary deductions will stop. State tax levies work the same way as federal tax levies.
**Form 668-W in-depth**

Form 668-W, Notice of Levy on Wages, Salary and Other Income, is the form that the IRS sends to your employer to demand that some of your wages be withheld. It has six parts and it’s important that you understand what you’re expected to do with the parts you are required to complete.

You must complete Parts 3, 4, and 5, which are identical. Return Parts 3 and 4 to your employer as soon as possible. If you don’t turn these back in in time, the IRS will tell your employer how much to deduct from your pay.

Retain Part 5 for your records, it is your copy of the information you supplied to your employer and includes your tax filing status and any dependents you claim.

**INSTRUCTIONS**

Part 2 is your copy of the notice. Keep it for your records.

**FILING STATUS**

These ask you for information about your income tax filing status (single, married filing jointly, etc.) and about any dependents you claim. This information will go to your employer and to the IRS. Your employer needs this to determine how much of your take-home pay is exempt from the tax levy (see next page).

---

**YOU FILL OUT**

Sign and date.

---

**AMERICAN PAYROLL ASSOCIATION**

**58**
THE PART OF YOUR PAY THAT IS SUBJECT TO TAX LEVY

There is a limit to the amount of your wages the IRS can have withheld. Some of your take-home pay is exempt from deduction based on your estimated living expenses. Your take-home pay is equal to your gross pay minus any amounts withheld by your employer, such as taxes and health insurance. These are the taxes and deductions that your employer can take out of your gross pay:

- Federal, state, and local income taxes, as well as employment taxes (Social Security and Medicare).
- Any other involuntary or voluntary deductions already being withheld from your wages when the IRS issued the tax levy against you.

The amount of these deductions can be increased when necessary. Suppose, for instance, that you’re having a certain percentage of your salary put into a retirement plan each payday. Then your supervisor gives you a raise. Since your salary goes up, the deduction for your retirement plan will also go up. Your deductions can also increase as a result of a hike in the cost of your benefits.

- Any additional, required deductions that are introduced by your employer after the IRS issues the levy. For example, if you work in a union shop, your employer can require you to pay union dues.

Your employer determines the amount of your income that is exempt from the tax levy based on your tax filing status and the number of dependents you claim on the 668-W (see IRS Publication 1494 for the relevant exempt amount tables). This exempt amount is subtracted from your take-home pay and paid to you. The rest of your take-home pay goes to the IRS to pay off your tax bill.

THE TAX LEVY AND OTHER INVOLUNTARY DEDUCTIONS

Bankruptcy orders always have to be paid before tax levies. Child support withholding orders, if they were already in effect when the levy was issued, also have to be paid before you pay the IRS. Otherwise, your employer has to satisfy your tax levy before all of your other involuntary deductions. If you’ve got more than one tax levy against your wages, and your earnings can’t pay for all of them, your employer generally has to satisfy the one received first before turning to the others.

CHILD SUPPORT WITHHOLDING ORDERS

Wages withheld from your paychecks to satisfy a child support order are another kind of involuntary deduction. If you’re obligated by a court or agency order to pay child support, your earnings are subject to immediate and automatic withholding by your employer. Sometimes both parents, or one parent and the court,
agree to a different method of payment. In that case, child support does not need to be paid with involuntary deductions. If a child support payment is ever late, wage withholding will automatically start. It does not require a court or agency hearing. State child support agencies are not required to notify you before sending a withholding order to your employer. They’re only required to tell you about it afterward. In addition, your employer has to obey a child support withholding order received from another state.

**WHEN WITHHOLDING BEGINS, AND WHEN IT ENDS**

Your employer will start withholding child support within the time period required by state law after receiving the order. Your employer sends the money to the state disbursement unit named in the order. The deductions will continue until your employer receives written notice from the court or agency that issued the order to stop the withholding. When your child or children become “emancipated”—that is, when they reach the age of 18 or 21, depending on the state—you no longer have to pay child support. In this case, it’s your responsibility to have an order issued to stop the withholding.

**YOUR PROTECTED EMPLOYMENT**

Your employer can’t fire you, punish you, or discriminate against you because your pay is subject to child support withholding. If an employer does, it will be hit with stiff fines and can, if you were fired, be ordered to give your job back.

**GARNISHMENTS**

You cannot be fired because your earnings are subject to garnishment for a single debt, no matter how many garnishments are issued to collect it. A single debt usually means one debt owed to one creditor, but a single debt also results when several creditors combine their debts into a single “garnishment action.” It’s also considered a single debt when one creditor combines a number of debts into one garnishment.

**BANKRUPTCY ORDER**

Your employer cannot continue to withhold wages for other garnishments (except for child support) unless the trustee instructs your employer to do so. If you have a creditor that isn’t listed in the bankruptcy order, your employer needs to ask the trustee whether or not to continue with that specific garnishment. **You cannot be fired for having a bankruptcy order issued against you.**
**THE PART OF YOUR PAY THAT IS SUBJECT TO CHILD SUPPORT WITHHOLDING**

The order received by your employer states the amount to be deducted from your wages. This amount is subtracted from your “disposable earnings,” which are what’s left from your gross pay after your employer deducts any amounts for income and employment taxes. Federal law sets limits on the percentage of your disposable earnings that can be withheld to pay for child (or spousal) support (see table above).

**CHILD SUPPORT AND OTHER INVOLUNTARY DEDUCTIONS**

Tax levies receive priority. Tax levies that your employer received before the child support withholding order was established by the agency or court have to be paid before the child support, unless the IRS says otherwise. Other than this exception, your employer has to satisfy your child support withholding before all of your other involuntary deductions.

Your employer must deduct the full total required by the support order. If it does not, it is responsible to pay the amount that was not correctly withheld. Also, depending on state law, your employer may be allowed to deduct a small fee each pay period for processing wage-withholding orders.

**DID YOU KNOW?**

State child support agencies are not required to notify you before sending a withholding order to your employer. They’re only required to tell you about it afterward.

---

**% OF DISPOSABLE EARNINGS that can be WITHHELD for CHILD SUPPORT**

<table>
<thead>
<tr>
<th>Are you already supporting another spouse and/or child?</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>I make my payments on time</td>
<td>50% withheld</td>
<td>60% withheld</td>
</tr>
<tr>
<td>I am more than 12 weeks late with payments</td>
<td>55% withheld</td>
<td>65% withheld</td>
</tr>
</tbody>
</table>

*Your employer withholds your current support obligations before turning to past-due amounts. If you’re paying past-due child support, your current payments plus these other amounts cannot exceed the maximum percentage. State law can lower the maximum percentage that may be withheld, but cannot raise the percentage past the federal limits shown here.*
CREDITOR GARNISHMENTS

If you owe a debt to someone, that person (your creditor) might go to court to have some of your wages withheld from your paycheck and sent to him or her. This is called a “creditor garnishment.” A creditor garnishment requires your employer to withhold the amount you owe from your take-home pay, up to a certain legal maximum (see below).

WHEN WITHHOLDING BEGINS, AND WHEN IT ENDS

Your employer will receive a court notice explaining the reason for the garnishment and the total amount of your debt. Your employer should give you a copy of this notice and then begin withholding wages. This deduction ends when you’ve paid off your entire debt.

THE PART OF YOUR PAY THAT IS SUBJECT TO CREDITOR GARNISHMENTS

The maximum amount of your take-home pay that can be garnished in a week is the smaller of the following two possibilities:

1. 25% of your weekly disposable earnings.
2. Your weekly disposable earnings minus $217.50 (30 times the current federal minimum wage of $7.25).

Say you have $400 in weekly disposable earnings. To figure out your maximum garnishment:

1. Multiply your weekly disposable earnings by 25%: $400 x .25 = $100.
2. Subtract $217.50 from your weekly disposable earnings: $400 - $217.50 = $182.50.
3. Compare the two results.

$100 is the maximum amount that can be withheld from your paycheck weekly.

These amounts can be adjusted if you’re not paid on a weekly basis. State law can’t allow a higher limit on creditor garnishments but can set a lower limit. In some states, this type of involuntary deduction is illegal.

CREDITOR GARNISHMENTS AND OTHER INVOLUNTARY DEDUCTIONS

Your employer has to deduct for a child support withholding order, a tax levy, or a bankruptcy order before turning to a creditor garnishment. If any one of these other deductions, or a combination of them, amounts to 25% or more of your pay level below the minimum wage.

WARNING!

CREDITOR GARNISHMENTS

If you owe a debt to someone, that person (your creditor) might go to court to have some of your wages withheld from your paycheck and sent to him or her. This is called a “creditor garnishment.” A creditor garnishment requires your employer to withhold the amount you owe from your take-home pay, up to a certain legal maximum (see below).

WHEN WITHHOLDING BEGINS, AND WHEN IT ENDS

Your employer will receive a court notice explaining the reason for the garnishment and the total amount of your debt. Your employer should give you a copy of this notice and then begin withholding wages. This deduction ends when you’ve paid off your entire debt.

THE PART OF YOUR PAY THAT IS SUBJECT TO CREDITOR GARNISHMENTS

The maximum amount of your take-home pay that can be garnished in a week is the smaller of the following two possibilities:

1. 25% of your weekly disposable earnings.
2. Your weekly disposable earnings minus $217.50 (30 times the current federal minimum wage of $7.25).

Say you have $400 in weekly disposable earnings. To figure out your maximum garnishment:

1. Multiply your weekly disposable earnings by 25%: $400 x .25 = $100.
2. Subtract $217.50 from your weekly disposable earnings: $400 - $217.50 = $182.50.
3. Compare the two results.

$100 is the maximum amount that can be withheld from your paycheck weekly.

These amounts can be adjusted if you’re not paid on a weekly basis. State law can’t allow a higher limit on creditor garnishments but can set a lower limit. In some states, this type of involuntary deduction is illegal.

CREDITOR GARNISHMENTS AND OTHER INVOLUNTARY DEDUCTIONS

Your employer has to deduct for a child support withholding order, a tax levy, or a bankruptcy order before turning to a creditor garnishment. If any one of these other deductions, or a combination of them, amounts to 25% or more of your pay level below the minimum wage.

WARNING!

CREDITOR GARNISHMENTS

If you owe a debt to someone, that person (your creditor) might go to court to have some of your wages withheld from your paycheck and sent to him or her. This is called a “creditor garnishment.” A creditor garnishment requires your employer to withhold the amount you owe from your take-home pay, up to a certain legal maximum (see below).

WHEN WITHHOLDING BEGINS, AND WHEN IT ENDS

Your employer will receive a court notice explaining the reason for the garnishment and the total amount of your debt. Your employer should give you a copy of this notice and then begin withholding wages. This deduction ends when you’ve paid off your entire debt.

THE PART OF YOUR PAY THAT IS SUBJECT TO CREDITOR GARNISHMENTS

The maximum amount of your take-home pay that can be garnished in a week is the smaller of the following two possibilities:

1. 25% of your weekly disposable earnings.
2. Your weekly disposable earnings minus $217.50 (30 times the current federal minimum wage of $7.25).

Say you have $400 in weekly disposable earnings. To figure out your maximum garnishment:

1. Multiply your weekly disposable earnings by 25%: $400 x .25 = $100.
2. Subtract $217.50 from your weekly disposable earnings: $400 - $217.50 = $182.50.
3. Compare the two results.

$100 is the maximum amount that can be withheld from your paycheck weekly.

These amounts can be adjusted if you’re not paid on a weekly basis. State law can’t allow a higher limit on creditor garnishments but can set a lower limit. In some states, this type of involuntary deduction is illegal.

CREDITOR GARNISHMENTS AND OTHER INVOLUNTARY DEDUCTIONS

Your employer has to deduct for a child support withholding order, a tax levy, or a bankruptcy order before turning to a creditor garnishment. If any one of these other deductions, or a combination of them, amounts to 25% or more of your pay level below the minimum wage.
your disposable earnings, your employer can’t withhold anything for the garnishment.

**MULTIPLE GARNISHMENTS**
Regardless of how many garnishments are issued against you, the limit outlined above still applies. Once your employer is withholding the maximum amount from your wages, nothing further can be deducted, even if another garnishment is received. The order in which garnishments must be paid varies in different states.

**BANKRUPTCY ORDERS**
If you’ve been legally declared bankrupt, a “bankruptcy trustee” is appointed by the bankruptcy court and will arrange for the payment of your creditors. This trustee might send a bankruptcy order to your employer, requiring that a certain amount of your earnings be paid to the trustee. The bankruptcy trustee will pay your creditors with these withheld wages.

**BANKRUPTCY ORDERS AND OTHER INVOLUNTARY DEDUCTIONS**
Bankruptcy orders have to be satisfied before all other claims against your wages, other than child support withholding orders and repayments of loans from your retirement plan. When your employer receives a bankruptcy order, they must follow the order to the letter, even if you have other debts that are owed to creditors.

---

**STUDENT LOANS**
If you’ve failed to repay a loan granted under the federal Guaranteed Student Loan Program, your wages may be garnished to pay off this debt. The following restrictions apply to student loan garnishments:

• No more than 15% of your disposable earnings can be withheld to satisfy an unpaid student loan, unless you agree in writing to a higher percentage.

• The loan guarantee agency has to tell you about the garnishment at least 30 days before your employer starts withholding your wages. You can use that time to work out a repayment schedule for the loan to avoid having your earnings garnished.

• Your employer cannot fire or discriminate against you because of a student loan garnishment. If you are fired because of this garnishment, you can take your employer to court. The court may order your employer to rehire you, and to pay the back wages you lost while you were out of work.

• Your student loan garnishments are more important than other garnishments received later, except for child and spousal support withholding orders.

• Suppose you lose your job, but manage to find another one within a year. Your wages can’t be garnished to pay off a student loan until you’ve been employed at that second job for at least 12 months.

• Any employer that does not obey a student loan garnishment order will have to pay whatever amount wasn’t correctly withheld from the employee’s wages. Such an employer will also be hit with fines and court fees.
order, your other involuntary deductions that don’t have priority will cease. Your trustee will arrange for you to pay off all your debts, including those represented by these involuntary deductions.

OTHER FEDERAL DEBTS

Your wages can be garnished to pay off loans or benefit overpayments made by other agencies of the federal government, such as the Small Business Administration, Social Security Administration, Veterans Administration, and Housing and Urban Development.

VOLUNTARY DEDUCTIONS

Not every after-tax deduction is involuntary. You can choose to have wages subtracted from your take-home pay each pay period to repay a debt, pay union dues, make contributions to a charity, etc. Remember, though, that these after-tax deductions won’t lower your taxes or limit your involuntary deductions. Your employer will see to it that all your other deductions are made before turning to any voluntary withholding from your wages.

WAGE ASSIGNMENTS

If you’re in debt, you can voluntarily agree to have part of your wages sent each payday to someone called an “assignee.” This person will see to it that your creditor is paid off, if for some reason you don’t succeed in repaying your debt on time. This is called a “wage assignment.” You may also use a wage assignment to pay child support or pay back-taxes to the IRS. By signing up for voluntary withholding in these cases, you avoid having involuntary deductions taken from your earnings.

WAGE ASSIGNMENT LIMITS

Since wage assignments are voluntary, there are no federal limits set on them. If the wages you assign aren’t enough to pay off a certain debt, though, and a creditor garnishment is issued, the garnishment limits will apply to your withholding.

Wage assignments can legally lower your earnings below minimum wage. The money paid to your assignee is thought of as money paid to you.

WAGE ASSIGNMENTS AND STATE LAW

Even though federal law doesn’t limit wage assignments, your state law might. You should check with your employer, your state’s labor department, or a lawyer before agreeing to a wage assignment. The following issues may affect wage assignments in your state:

- Your employer can refuse to accept wage assignments, unless legally required to do so.
- Your state might not allow wage assignments at all.
• Most states will only allow you to assign wages that you’ve already earned. In other words, they won’t permit you to assign future wages.

• If your state does allow you to assign future wages, it will probably limit the amount you can assign and the time span your assignment can cover.

• States attach different degrees of importance to wage assignments. Your employer might be required to pay off all other deductions before turning to your wage assignment.

UNION DUES
If you belong to a union, you can have your union dues deducted from your after-tax wages and paid by your employer. Only dues, initiation fees, and assessments can be paid to your union in this way. You have to give your employer written permission for this deduction. Once you’ve provided permission, you can’t change it until the union contract expires or until a full year goes by. At that point, you need to tell your employer to stop the deduction or sign another permission form to continue.

CREDIT UNION DEDUCTIONS
Credit unions are savings and loan companies that have been set up by individuals with similar interests. Many employees who have access to credit unions turn to them, instead of banks, when saving or borrowing money. If you use a credit union, your employer might allow you the convenience to deduct wages and put the money directly into your savings account, or apply the money to your credit union loan.

Ask your employer if this type of deduction is allowed. If it is, you have to give your employer permission to begin withholding wages. This permission needs to take the form of a written statement, signed by you, that details: (1) the amount you want withheld each pay period, (2) how long you want the deductions to go on, and (3) where exactly you want the withheld money to go.

U.S. SAVINGS BONDS
Employees can buy Series EE and Series I U.S. Savings Bonds worth $25 or more through after-tax wage deductions that are similar to direct deposit. To buy a bond, you pay its face value. For example, if you want a $50 savings bond, you’re required to pay $50 for it.

In order to buy bonds through payroll, you need to use TreasuryDirect, a financial services website that allows individuals to buy Treasury securities directly from the U.S. Treasury, including savings bonds, in electronic form.
THE ADVANTAGES OF SAVINGS BONDS

Savings bonds start accumulating interest in the month they’re purchased. All the interest you earn on the bonds is free from federal income tax until you cash in the bonds. If you’re using the bonds to pay for your children’s college education, the interest may be totally tax-free. In any case, none of the interest will be subject to state or local taxes, and the part of your paycheck you used to pay for the bonds has already had all federal, state, and local taxes taken out of it.

CONTRIBUTIONS TO CHARITY

Your employer might offer you the chance to make voluntary donations to a charity using deductions from your wages. Your employer withholds the amount you specify and gives that money to the charity or charities of your choice. If you itemize deductions on your federal tax return, you can deduct the amount of certain charitable contributions you’ve made during the year.

PROOF OF CONTRIBUTION REQUIRED

If you want to deduct financial charitable contributions on your federal income tax return, you need documentation showing the name of the charity and the date and amount of the contributions.

If you want to claim a charitable deduction made through one or more payroll deductions on your federal income tax return, you will need both:

1. Your pay stub, W-2, or any other document provided by your employer that shows how much of your paycheck was withheld to contribute to the charity.

2. A “pledge card” or other document provided by the charity that shows the name of the charity.

If you have $250 or more deducted from any one paycheck as a charitable contribution, the charity must include a statement to the effect that no goods or services were given to you in return for your donation.

Go Online

Access forms and more information on what you learned in Chapter 5:

- The IRS collecting process: Notice of Levy—Levy on Wages, Salary, and Other Income
- IRS Publication 1494, Tables for Figuring Amount Exempt from Levy on Wages, Salary, and Other Income
- Find your state’s labor department
- TreasuryDirect, a financial services website that allows individuals to buy Treasury securities directly from the U.S. Treasury, including savings bonds, in electronic form
- Emancipation of minors, by state
IN THIS CHAPTER

Electronic pay brings a lot to the table. Here are just a few of the benefits. Enjoy immediate receipt of your wages on payday—with no more waiting for your check in the mail or worrying about carrying a lot of cash (after standing in a long line and paying fees to a cash checking service).

Plus

The benefits of direct deposit.
Every year, more than 3.5 billion paychecks are issued to America’s 153 million employees, but how you're paid could be damaging the environment. Electronic pay offers the following three payment methods to make your paycheck more environmentally friendly:

• Direct Deposit
• Paycards
• Prepaid Reloadable Cards

**DIRECT DEPOSIT**
Direct deposit works by depositing your pay directly into your checking or savings account through a highly secure, electronic banking system. Direct deposit is the least expensive and most reliable way to receive your pay, and the federal government protects bank accounts up to $250,000.

**BENEFITS OF DIRECT DEPOSIT**
• Your pay goes straight into your bank account.
• No waiting in line at the bank drive-through, idling your car and releasing dangerous ozone-depleting emissions.
• Your money is always there on payday, even when you’re on vacation.
• You won’t have to pay check cashing fees.
• Most banks offer free ATM cards to access your money anytime, at an ATM or as cash back from a retailer. Fees may apply at other banks’ ATMs.
• You can check your balance via online, smartphone app, telephone, text messaging (standard data rates may apply), or at an ATM (fees may apply at ATMs). Most banks also offer free services like online transfer of funds, bill paying, etc.

To sign up for direct deposit, talk to your company’s payroll department.
PAYCARDS

What if you don’t have a checking or savings account where your employer can deposit your pay? What if you are worried about your credit history and undergoing a credit check? A paper paycheck is not your only option.

As an alternative, have your employer deposit your pay onto a paycard. A paycard is a plastic card that works like a debit card and is available through many employers. Everyone qualifies—you do not need to have a bank account or undergo a credit check, regardless of credit history.

On payday, your employer deposits your pay onto your paycard; after which you can use your paycard to purchase things anywhere debit cards are accepted.

If you need cash, you can get your money from an ATM or get cash back when you purchase something at a retailer. Monthly fees are not typically charged, nor are fees charged to employees on payday—most employers negotiate for at least one fee-free ATM withdrawal per pay period, per employee. For details on fees that can be associated with a paycard, and how those fees compare to costs associated with other payment methods, see the chart on page 71.

To find out if your employer offers paycards, ask your company’s payroll department.

GENERAL PREPAID RELOADABLE CARDS

General prepaid reloadable cards are available for purchase from many national retailers such as Walmart, Target, and Rite-Aid. Once you purchase a prepaid reloadable card, notify your employer that you would like your pay deposited on the card. Like a paycard, your pay is immediately available on payday.

For details on fees that can be associated with a prepaid reloadable card, and how those fees compare to costs associated with other payment methods, please see the chart on page 71. You can also contact the provider that issued your card (via the toll-free number or website listed on the back of your card) to ask about fees.
THEM’S FAST

• On payday, your wages are immediately transferred onto your card.
• No need to rely on others. No more waiting for your check in the mail or going onsite during your days off or vacation to pick up your check.
• Get paid on time in emergencies impacting air and/or ground delivery of paper paychecks.

THEM’S CONVENIENT

• Everyone qualifies; the cards do not require a bank account or a credit check, regardless of credit history.
• Access your pay anytime at an ATM or as cash back from a retailer. Fees may apply.
• Make purchases anywhere debit cards are accepted—shop or pay bills online, by mail, or by phone.
• Check your balance online, via phone, text messaging (standard data rates may apply), or at an ATM (fees may apply at ATMs). Some card providers may also offer services like bill paying and funds transfer.
• Set up automatic bill payments to ensure you don’t fall behind on important monthly bills and incur late fees.
• Easily transfer money to your family.
• Organize and prioritize how you spend your money.

THEM’S SAFE

• Protected from fraud by the Consumer Financial Protection Bureau and the payment networks. If your card is lost or stolen, you are not responsible for any fraudulent transactions made with your card. You will get a new card and your funds will be paid back.
• Some general prepaid reloadable cards come with additional protection. For details, please visit the website listed on the back of the card, refer to the welcome materials, or call customer service.
• Secure access to your money. Your employer cannot see where you spend your money.
• No bounced checks. No overdraft fees.
• No need to physically carry all your money after cashing your paycheck.
# UNDERSTANDING BANKING FEES

## EXAMPLE OF MONTHLY FINANCIAL SERVICE FEES

<table>
<thead>
<tr>
<th>Service</th>
<th>Paper Paycheck</th>
<th>Direct Deposit</th>
<th>Paycard Fees(^2)</th>
<th>General Prepaid Reloadable Card Fees(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check Cashing</td>
<td>$32.50 - $86.67(^7)</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00 - $8.00</td>
</tr>
<tr>
<td>Bill Pay</td>
<td>$8.70</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00 - $2.50</td>
</tr>
<tr>
<td>Enrollment Fee</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00 - $18.00</td>
</tr>
<tr>
<td>Monthly Fee</td>
<td>Not Applicable</td>
<td>$0.00 - $7.00(^4)</td>
<td>$0.00(^3)</td>
<td>$5.00 - $9.95</td>
</tr>
<tr>
<td>ATM Fees (based on 4 transactions and estimated at $4/transaction)</td>
<td>Not Applicable</td>
<td>$0.00(^4)</td>
<td>$0.00(^3)</td>
<td>$16.00</td>
</tr>
<tr>
<td>MONTHLY COST</td>
<td>$41.20 - $95.37(^7)</td>
<td>$0.00 - $7.00</td>
<td>$0.00 - $8.00(^5)</td>
<td>$21.00 - $36.45(^6)</td>
</tr>
<tr>
<td>ANNUAL COST</td>
<td>$494.40 - $1,144.44(^7)</td>
<td>$0.00 - $84.00</td>
<td>$0.00 - $96.00</td>
<td>$252.00 - $455.40(^6)</td>
</tr>
</tbody>
</table>

1 Sample monthly fee schedule. Fees vary by issuer and provider. One time activation fee, ATM fees, transaction fees and reload fees will apply at various reload stations. Your fees and potential savings may vary based on the type of card you select.

2 Based on direct deposit of paycheck to a paycard or prepaid reloadable card.

3 Paycards typically do not have a monthly fee and allow one free ATM transaction per pay period.

4 Fees on checking and savings accounts vary. Many banks offer free checking and savings accounts, and will allow free unlimited transactions at their own ATM machines. Be aware that banks charge an average of $33 per bounced check fee.

5 The $8 estimate assumes two additional non-paycheck ATM transactions per month at $4/transaction. Some retailers may offer fee-free transactions at their point-of-sale terminals.

6 Other fees may include: Customer Service Calls, $0.00 - $1.50; and Replacement Card Fees, $3.95 - $5.95.

7 Based on check cashing industry fees, which average between 1.5% - 4%.
Introducing Wisely by ADP™
Combining the ease and expertise of ADP® and Global Cash Card

Now THAT’S a SUPERPOWER!

sales@globalcashcard.com • 949-751-0360 ext. 202 • globalcashcard.com
First the Basics: Form W-2, your Wage and Tax Statement.

Also:
The Earned Income Credit
Check on Your Social Security Earnings and Benefits
Workers’ Compensation Insurance
Health Insurance Under the Affordable Care Act
‘COBRA’: Your Right to Continued Health Coverage
Educational Assistance
Adoption Assistance
Unemployment Insurance

Plus
Go online to access forms and more information on what you learn in Chapter 7.
When you become an employee, you gain the legal right to various benefits and opportunities. These can help you save money on your federal income tax return, take time off without being fired when a family member gets sick, and adopt a child, among other things. Your employer may help out, but it’s generally your responsibility to act. This final section explains the programs available, and what to do to make them work for you and your family.

**Form W-2** lists all wages paid by your employer and the total amount of tax deductions made during the calendar year. It is used to complete your federal income tax return and any state or local income tax returns that are required. Your employer reports the information on your W-2 to the Social Security Administration so your Social Security account can be credited. The Social Security Administration then passes the information to the IRS.

If you use a professional tax return preparer, accountant, or return preparation company to file your taxes, make sure you give them all of your W-2 forms at the start. Do not substitute your final pay stub of the year for your W-2 because some of the information on the pay stub may have changed before you received your W-2.

Each employer you worked for during the year must give you a W-2, even if you only worked for the employer for one day.

If any of the following conditions applied to you during the previous calendar year, your employer has to get your W-2 in the mail to you by January 31 of the current year:

- **You received payment from your employer for work you performed.** This payment could have taken the form of wages, tips, or some other kind of compensation.
- **You had federal income, Social Security, and Medicare taxes withheld from your pay.**
- **You would have had income taxes withheld from your pay,** but the number of withholding allowances you claimed on your W-4 was so high that no taxes were deducted.
- **You would have had to pay income taxes,** but you realized you were exempt from withholding.
### Form W-2 in-depth

This form is actually made up of six separate copies. Your employer keeps one and sends the others as follows: one to the state tax agency, one to the Social Security Administration, and three to you. They should be provided to you or postmarked no later than January 31.

**COPY B**  
File with your federal tax return

**COPY C**  
Keep for your personal records

**COPY 2**  
File with your state tax return

---

**Form W-2 Wage and Tax Statement**  
2018

<table>
<thead>
<tr>
<th>Box</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wages, tips, other compensation</td>
<td>$63,000.00</td>
</tr>
<tr>
<td>2</td>
<td>Federal income tax withheld</td>
<td>$5,250.00</td>
</tr>
<tr>
<td>3</td>
<td>Social security wages</td>
<td>$65,000.00</td>
</tr>
<tr>
<td>4</td>
<td>Social security tax withheld</td>
<td>$4,030.00</td>
</tr>
<tr>
<td>5</td>
<td>Medicare wages and tips</td>
<td>$65,000.00</td>
</tr>
<tr>
<td>6</td>
<td>Medicare tax withheld</td>
<td>$942.50</td>
</tr>
<tr>
<td>7</td>
<td>Social security tips</td>
<td>$403.00</td>
</tr>
<tr>
<td>8</td>
<td>Allocated tips</td>
<td>$942.50</td>
</tr>
<tr>
<td>9</td>
<td>Verification code</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Dependent care benefits</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Nonqualified plans</td>
<td></td>
</tr>
<tr>
<td>12a</td>
<td>See instructions for box 12</td>
<td></td>
</tr>
<tr>
<td>12b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Social security payroll tax</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Employee's state ID number</td>
<td>VA 44-55667</td>
</tr>
<tr>
<td>16</td>
<td>State wages, tips, etc.</td>
<td>$63,000.00</td>
</tr>
<tr>
<td>17</td>
<td>State income tax</td>
<td>$1,890.00</td>
</tr>
<tr>
<td>18</td>
<td>Local wages, tips, etc.</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Local income tax</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Locality name</td>
<td></td>
</tr>
</tbody>
</table>

Department of the Treasury—Internal Revenue Service  
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10134D
YOUR W-2 MAY COME TO YOU BY EMAIL OR OVER THE INTERNET

Your employer may provide your W-2 electronically rather than on paper, with your approval. If you agree by responding electronically to your employer’s notice, your W-2 will be made available on the Internet at a secure website or sent to you as an email attachment by January 31. You can then print out all the copies you need or download the information to an income tax return preparation program to file your tax returns with the IRS and state or local government agencies. If you don’t agree, your employer must give you a paper W-2.

Your W-2 includes only those wages paid to you during a specific calendar year, no matter when you earned those wages.

Suppose you earn $400 between December 25 and December 31, 2017. You don’t actually receive those wages until January 4, 2018, so the amount you earned that week won’t appear on your 2017 W-2. Those earnings will instead show up on your 2018 W-2.

WHAT TO DO IF YOU LOSE YOUR W-2

Your employer can replace the lost form with a “reissued statement.” This will take a little time to process, so be prepared to wait. Your employer might charge you a fee for providing you with a new W-2.

CHECK YOUR W-2 FOR MISTAKES!

Make sure your name, address, and Social Security number are correct. You should also compare your final pay stub for the year with the wage, tax, and other amounts shown on the W-2 to be certain your employer got all the numbers right. Mistakes on your W-2 could cause an incorrect amount of earnings to be reported to the Social Security Administration. If this happened, you might end up receiving lower Social Security benefits after retirement than you’re actually owed. If you spot a mistake, let your employer know immediately so it can be corrected as soon as possible.

Some of the totals on your W-2 might not match those shown on your final pay stub. This doesn’t mean that either the W-2 or the pay stub is wrong. Instead, it could mean that some of your wages weren’t subject to withholding for income or employment taxes.

Suppose that you contributed to a 401(k) retirement plan throughout the year. The amounts you paid into the plan were not subject to income tax withholding, so they will not appear on your pay stub as part of your gross taxable wages. They also won’t show up in your federal taxable income total (Box 1) on your W-2. Your gross taxable wages (from your pay stub) should match the number in Box 1 of your W-2.

Even though income taxes weren’t taken out of your 401(k) contributions, employment taxes (Social Security and Medicare) were

DID YOU KNOW?

If you agree to get your W-2 electronically but then change your mind, you can withdraw your agreement, but your employer then has 30 days to provide your paper W-2.
subtracted from these contributions. The wages you paid into your retirement plan will appear as part of your total earnings in Boxes 3 and 5 of your W-2, where your total wages subject to employment taxes are shown. (These amounts will also be included in Box 12, and your employer has to check the “Retirement plan” box in Box 13, except for 457(b) plans.) In this case, the number that appears in Boxes 3 and 5 on your W-2 will not match your gross taxable wages on your pay stub; the number on your W-2 will be higher.

**IF YOU LEAVE YOUR JOB**

If your employment ends before the calendar year, you can make a written request to your employer for your W-2 at that time, but, if you’re not in a hurry, you will receive the form the following January. If you request your W-2 in writing, your employer has to mail out your W-2 within 30 days of your request, or within 30 days of your final wage payment, whichever happens later.

**THE EARNED INCOME CREDIT**

Once you have your W-2 you’re ready to file your income tax return. If you earned less than a certain amount last year you’re entitled to the “earned income credit,” a tax credit you’ll receive in the form of a tax refund. Your W-2 will tell you about the earned income credit if you qualify for it, but it’s your responsibility to claim the credit when you file your income tax return. Even if you don’t usually file a tax return because your income is lower than the filing requirements, **you must file a tax return to receive the credit.** For 2018, the maximum credits available are as follows below:

<table>
<thead>
<tr>
<th>If you have:</th>
<th>Your maximum credit is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 One qualifying (dependent) child</td>
<td>$3,461</td>
</tr>
<tr>
<td>2 Two qualifying children</td>
<td>$5,716</td>
</tr>
<tr>
<td>3 Three or more qualifying children</td>
<td>$6,431</td>
</tr>
<tr>
<td>0 No qualifying children</td>
<td>$519</td>
</tr>
</tbody>
</table>

Also, see the full [Who Can Claim the Earned Income Credit?](#) table on the following page.

**DOES MY EMPLOYER HAVE TO TELL ME ABOUT THE EARNED INCOME CREDIT?**

If there’s no federal income tax withheld from your wages, your employer is required by law to tell you that you’re entitled to the earned income credit. This holds true unless you claimed to be exempt on your W-4. If you earn less than $54,884 in 2018, your employer is encouraged to tell you about the earned income credit, though the law doesn’t require this.
WHO CAN CLAIM the Earned Income Credit?

You can claim the Earned Income Credit for 2018:

**IF YOUR 2018 ADJUSTED GROSS INCOME IS LESS THAN...**

- $40,320 and your tax filing status is single or head of household and you have 1 qualifying child
- $46,010 and your tax filing status is married filing jointly and you have 1 qualifying child
- $45,802 and your tax filing status is single or head of household and you have 2 qualifying children
- $51,492 and your tax filing status is married filing jointly and you have 2 qualifying children
- $49,194 and your tax filing status is single or head of household and you have 3 or more qualifying children
- $54,884 and your tax filing status is married filing jointly and you have 3 or more qualifying children
- $15,270 and your tax filing status is single or head of household and you have no qualifying children
- $20,950 and your tax filing status is married filing jointly and you have no qualifying children

**YOU’VE MET ONE OF THE FOLLOWING TWO CONDITIONS**

1. You had a qualifying child who lived with you in the U.S. for more than six months during the year. It doesn’t matter if the child was away at school.

2. You don’t have a qualifying child but you (and your spouse) are between 25 and 65 years old, you’ve lived in the U.S. for at least half the year, and you can’t be claimed as a dependent on someone else’s tax return.

**AND**

**YOU’VE MET ALL OF THE FOLLOWING CONDITIONS**

- You filed your tax return as a single person, as married filing jointly, as head of household, or as a qualifying widow or widower with a dependent child.
- You didn’t take the exclusion for foreign earned income or housing expenses, or the deduction for foreign housing expenses.
- You are not a nonresident alien (unless you are married to a U.S. citizen or resident and choose to be treated as a resident alien for tax purposes).
- You have no more than $3,500 of certain types of unearned income (e.g., interest and dividends, capital gains) for the year.
- You include a valid Social Security number for yourself, your spouse, and your qualifying children on your personal tax return.
Your employer has to provide you with one of the following documents when notifying you about the earned income credit:

1. Copy B of Form W-2: this has the earned income credit statement on the back.
2. Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit.
3. A written statement with the exact same wording as Notice 797.

Your employer also may be required by state law to notify you about the earned income credit, whether you appear to be eligible or not.

**CAN I GET ADVANCE PAYMENTS OF THE EARNED INCOME CREDIT?**

Before 2011, you were able to get advance payments of part of your earned income credit with your paychecks, instead of waiting to receive all your credit when you file a tax return. Beginning in 2011, however, you may no longer get advance payments of your earned income credit. You need to claim it all on your income tax return.

**CHECK ON YOUR SOCIAL SECURITY BENEFITS**

The Social Security Administration can provide you with an estimate of your Social Security benefits from their website at [socialsecurity.gov/estimator](http://socialsecurity.gov/estimator).

**HOW TO PREVENT ERRORS**

You can help to make sure that all your wages are properly reported to the Social Security Administration if you’re careful to do each of the following:

1. **Report a name change** by calling 800-SSA-1213, asking for Form SS-5, the Application for a Social Security Card, completing the form, and submitting it to the Social Security Administration.
2. **Check your name and Social Security number on your employer’s payroll records** whenever you’re asked to, and on your W-2 when you receive it each year. The information should agree with your Social Security card.
3. **Reply quickly to the Social Security Administration if you’re contacted about name changes**, since this probably means your name or Social Security number has been entered incorrectly on your W-2 or on some other official form.
WORKERS’ COMPENSATION INSURANCE

If you’re injured or get sick on the job, you might be entitled to workers’ compensation benefits. All employers are required by law to carry workers’ compensation insurance. In the event you suffer a work-related injury or illness, this insurance pays all your medical bills. This is true no matter who is responsible for the error that led to your injury or sickness. Over and above these medical bills, workers’ compensation insurance also pays you income benefits during the time you’re unable to work. These cash benefits are usually some percentage of your regular wages.

TAXES AND YOUR WORKERS’ COMPENSATION BENEFITS

Your workers’ compensation benefits are not considered to be wages, nor are they included in your gross income. They are not subject to income taxes, Social Security tax, or Medicare tax, as long as they don’t go over the benefit limit set by state law.

Some larger employers, usually in the public sector, are self-insured and pay workers’ compensation benefits themselves. If this is the case with your employer, your benefits will still be tax exempt.

While you’re receiving workers’ compensation benefits, your employer might keep paying you all or part of your regular wages. These wages are subject to withholding for all income and employment taxes. This kind of arrangement might also require you to turn over your workers’ compensation benefits to your employer.

THE FAMILY AND MEDICAL LEAVE ACT

If you work for a company with 50 or more employees within a 75-mile radius of your worksite, the Family and Medical Leave Act applies to you. This law gives you the right to take up to 12 weeks of unpaid leave per year to deal with:

- Your own serious illness.
- A serious illnesses of your child, spouse, or parent.
- The birth of a child.
- The placement with you of an adopted or foster child.
- An emergency because your spouse, child, or parent is on active duty with the military or has been notified of a call to such active duty.

While you’re on leave, you have the right to continue your health coverage just as though you were working. This means
that if you had to pay all or part of your insurance premiums while you were on the job, you have to keep paying those during your leave. When you come back from leave, you should get your old job back or at the very least a job with similar pay and benefits.

**WHICH EMPLOYERS HAVE TO GRANT FAMILY AND MEDICAL LEAVE?**

Employers have to adhere to the Family and Medical Leave Act if they have 50 or more employees working either at a single worksite or within 75 miles of each other. This minimum of 50 employees includes part-timers and any workers who are on leave or suspension.

**WHICH EMPLOYEES ARE ENTITLED TO TAKE FAMILY AND MEDICAL LEAVE?**

You can take advantage of the Family and Medical Leave Act if all of the following conditions apply to you:

1. **You work for a covered employer.**
2. **You’ve been working for this same employer for at least 12 months** before you request family or medical leave. These 12 months do not have to have been in a row, but hours worked before a break of seven years or more need not be counted.
3. **You’ve worked for this employer at least 1,250 hours during the 12 months** before your leave request. (This amounts to eight months of work at 40 hours per week, or 12 months of work at 25 hours per week.)

Seasonal and part-time employees can take family and medical leave if they meet all of these requirements. Employers do not have to offer family and medical leave to “key salaried employees,” i.e., those workers who belong to the highest-paid 10% of a company’s workforce, if their absence would significantly hurt the company.

**WHEN CAN I TAKE FAMILY AND MEDICAL LEAVE?**

If you request leave because of (1) the birth of a child, or (2) the placement of an adopted or foster child, you have to take the leave within 12 months of the birth or placement.

If you need leave (1) to care for someone in your family with a serious health condition, (2) because of your own serious health condition, or (3) to deal with an emergency caused by a family member’s
call to active duty, you have to use the leave within a 12-month period. Your employer sets this 12-month period; it can be a calendar year, a fiscal year, or a year beginning on the date you started work or the day your leave began.

If you request leave to care for a family member with a serious injury or illness suffered in the line of duty while on active military duty, the 12-month period you have to take the leave begins on the first day you take the leave.

WHAT QUALIFIES AS A ‘SERIOUS HEALTH CONDITION’?

An illness, injury, impairment, or physical or mental condition may qualify as a serious health condition. The condition has to involve inpatient care in a hospital, hospice, or residential medical care facility, or some kind of continuing treatment by a health care provider. This continuing treatment has to keep the patient out of work or school for at least three days in a row, including weekends and holidays. Continuing treatment also has to involve follow-up care by a health care provider—two visits in the first 30 days, with the first visit within seven days of the first day of incapacity. Exceptions are made to this three-day requirement in the case of treatment for chronic conditions, such as asthma or diabetes, and in the case of treatment for pregnancy.

CAN I TAKE INTERMITTENT LEAVE UNDER THE FAMILY AND MEDICAL LEAVE ACT?

If it’s medically necessary, yes, you can take your leave intermittently under the Family and Medical Leave Act. Taking intermittent leave involves spreading out your work absences over several days, weeks, or months, missing a few hours here and a few days there. It can also involve working a reduced schedule, such as going

Remember, you can only take family and medical leave to care for a child, spouse (including a same-sex spouse), or parent. Other family members and in-laws are not covered by this act.

If both you and your spouse work for the same employer, the two of you are entitled to a total leave of 12 weeks to take care of a newborn baby, a newly adopted child, or a seriously ill parent. So, for instance, you could each take six weeks, or one of you could take eight weeks while the other takes four, and so on. If you or your spouse become ill, or your child comes down with a serious sickness, each of you can take the full 12 weeks of leave.
from full-time to part-time employment. You might want to take advantage of this kind of leave if you know you’re going to be absent from work to receive a series of ongoing medical treatments. The hours you are not at work can be deducted from your wages, even if you’re an exempt employee. This reduction in your salary will not make you a nonexempt (hourly) employee.

**DO I HAVE TO USE UP MY PAID LEAVE FIRST?**

Your employer can require you to use all your paid, sick, vacation, and personal days before starting your unpaid family and medical leave. These days become part of your total 12-week leave. Your employer has to notify you when your absence from work is being counted under the Family and Medical Leave Act.

**WHEN DO I HAVE TO NOTIFY MY EMPLOYER?**

If you request leave to care for a newborn baby or a newly adopted child, or for medical treatments you know about in advance, you need to give your employer 30 days notice. If that’s not realistic, give as much advance notice as possible. The same rules apply to emergency situations: give whatever notice you can. If you knew well in advance the reason for your leave, but you didn’t tell your employer about it until the last minute, your employer has the right to deny your leave request for up to 30 days.

**OBEYING THE FAMILY AND MEDICAL LEAVE ACT**

If you think your employer is violating the Family and Medical Leave Act requirements, contact the Department of Labor’s Wage and Hour Division. You can sue your employer to recover wages and benefits that were illegally denied to you. You can also sue your employer to get your old job back if it is not available when you return from leave, or if you’re given a new job that amounts to a demotion. If you win your case, your employer has to pay all costs incurred in your lawsuit.
HEALTH INSURANCE UNDER THE AFFORDABLE CARE ACT

LARGER EMPLOYERS MUST PROVIDE HEALTH INSURANCE

The Affordable Care Act (ACA) is the popular name for two laws enacted in 2010 that also are referred to as Health Care Reform or Obamacare. The ACA requires your employer, if it has at least 50 full-time employees, to offer you and your dependents (children) the chance to get affordable health insurance coverage. This is the “Employer Shared Responsibility” requirement.

The insurance also must meet certain standards and cover at least 60% of the expected cost of benefits being paid under the insurance plan. If your employer does not offer you legally acceptable coverage that is affordable, it may have to pay a tax penalty to the IRS.

EMPLOYEES MUST GET COVERAGE

On the other hand, the ACA also requires all individuals to have health coverage beginning in 2014 or pay a tax penalty when they file their federal personal income tax return the next year. This is the “Individual Shared Responsibility” provision. For 2018, the penalty is $695 per adult and $347.50 per child under 18. In 2019, the penalty for not having health coverage will be reduced to $0.

Through 2018, if your employer does not offer you the chance to purchase and enroll in health insurance, you need to get coverage on your own, by buying it either on the individual insurance market or through a state or federal “Health Insurance Marketplace”
or “Exchange.” If you can’t afford the full premium for coverage purchased through an Exchange, you may be entitled to a subsidized premium tax credit to help you afford the coverage, depending on your income level.

**REPORTING FORMS TO COME FROM EMPLOYER AND INSURER**

For you to properly report whether you had appropriate health insurance coverage for a year or what your penalty should be if you did not, your employer and insurance company will send you forms that contain relevant information. Your employer will send you Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage*, which will show you whether you were offered health insurance coverage for each month of the past year. Your employer’s health insurance company will send you Form 1095-B, *Health Coverage*, which will show you who was covered under the health insurance coverage for which you enrolled.

If your employer is self-insured, meaning that it acts as an insurance company regarding its own employees, you will only get Form 1095-C and your employer will include the information that normally goes on Form 1095-B. The information contained on these forms will help you complete your personal income tax return and determine whether you maintained the required health insurance coverage under the Individual Shared Responsibility requirements or have to pay a penalty. Your employer and insurance company also will file copies of these forms with the IRS so the IRS can determine whether your employer met its Employer Shared Responsibility requirements.

**BUT BE CAREFUL …** If you think your income will be a certain amount for the current year and you get a subsidy to purchase health insurance through the Exchange based on that amount but then receive higher earnings during the year, you may have to pay back some or all of the subsidized amount when you file your income tax return.

**QUICK TIP**
‘COBRA’: YOUR RIGHT TO CONTINUED HEALTH COVERAGE

HOW DO I KNOW IF COBRA APPLIES TO ME?

If you participate in your employer’s group health plan, and something happens to cause you and your family to lose those health benefits, you might be able to continue your coverage under COBRA, the Consolidated Omnibus Budget Reconciliation Act. COBRA is a federal law that allows you and your family to retain group health insurance for up to three years after experiencing a “qualifying event.”

You can keep your health plan benefits going for yourself individually and for any of your family members who were covered at the time the qualifying event occurred. Once you’ve qualified for continued benefits, your employer can’t cut them off any earlier than the law allows. If your employer cancels its entire group health plan, though, your COBRA coverage will cease.

WHAT COUNTS AS A QUALIFYING EVENT?

Any one of the following events will trigger COBRA coverage:

1. You leave your job (for some reason other than “gross misconduct”), or the number of hours you work are cut back.
2. You become divorced or legally separated. In this case, COBRA covers the spouse who would otherwise lose access to the group health plan.
3. You become entitled to Medicare benefits.
4. Your child no longer qualifies as your dependent or adult child under age 26 under the group health plan.
5. You are retired and bankruptcy proceedings cause you or your dependents to lose coverage.
6. You die. Surviving family members can take advantage of COBRA in this case.

HOW DO I TAKE ADVANTAGE OF MY COBRA COVERAGE?

If you’re a covered family member, you might not be notified that your coverage has ended until several days after this has already happened. In that case, you have 60 days from the date you were notified to decide whether or not to continue coverage.

DO I HAVE TO PAY PREMIUMS UNDER COBRA?

You will be charged premiums for your continued coverage. How much you pay is determined by the regular group premiums charged to your employer by your health plan. You and any covered family members can be required to pay up to 102% of the group premium for the coverage you select. After 18 months, this can go up to 150% of the regular...
premium, but only for disabled individuals. You can pay these premiums in monthly installments. Your first payment can’t legally come due any earlier than 45 days after you decide to continue coverage.

**WHAT ARE MY RESPONSIBILITIES UNDER COBRA?**
Upon first joining a group health plan, your employer has to give you written notice of your right to continue coverage under COBRA. You have to notify your health plan administrator within 60 days if your qualifying event is a divorce, a legal separation, or a child’s loss of covered status. If your COBRA coverage is triggered by your leaving your job or cutting back on working hours, and a covered family member coincidentally becomes disabled at the same time, the plan administrator needs to be told about that person’s disabled status within 60 days. (This status will affect the period of coverage and the premiums paid by that particular family member.) This individual also has to let the administrator know within 30 days if he or she is declared to be no longer disabled.

**EDUCATIONAL ASSISTANCE BENEFITS**
If you’re interested in taking educational courses, check to see if your employer offers educational assistance to employees. Your employer might pay for certain types of courses or programs you choose to attend.

**COURSES NOT RELATED TO YOUR JOB**
Some employers offer educational assistance for courses unrelated to employees’ jobs. If your employer agrees to pay for such courses, you should know that up to $5,250 per year of this assistance is totally tax-free. Employer payments of more than $5,250 are subject to federal income tax, Social Security tax, Medicare tax, and even federal unemployment tax. These rules also apply to graduate-level courses.

**COURSES RELATED TO YOUR JOB**
If your employer pays for you to take courses related to your work, the amount paid usually isn’t included in your taxable income.
ADDITION assistance BENEFITS

Some employers offer adoption assistance programs. If your employer is one of them, and you want to adopt a child, inform your employer. Up to $13,810 per child in employer assistance is free from federal income tax in 2018. (Be aware that these payments are still subject to Social Security and Medicare taxes.) This money can be used for “reasonable and necessary” adoption expenses, which include adoption fees, court costs, attorney’s fees, and traveling expenses (including money spent for food and lodging), as long as these expenses are directly related to the adoption. The individual you’re adopting has to be under 18 years old or be unable to take care of themselves.

You cannot claim a tax credit for any adoption expenses that have been paid for by your employer. If your expenses go beyond the assistance your employer provides, they can be claimed as a tax credit on your income tax return. You might be able to claim a credit as high as $13,810, and at the same time exclude up to another $13,810 from your income. If you claim both a credit and an exclusion, they cannot both be for the same expense.

UNEMPLOYMENT INSURANCE BENEFITS

If you lose your job, you might be entitled to unemployment insurance benefits. These are intended to provide some income while you look for other work. We’ve provided many answers to your questions about unemployment insurance here, but if you need more details call or visit your local unemployment office.

AM I ELIGIBLE FOR UNEMPLOYMENT BENEFITS?

To receive benefits, you have to meet the following requirements:

- You have to have worked for a certain minimum amount of time and earned a certain minimum amount of wages, in the recent past.
- You have to be involuntarily unemployed for reasons other than misconduct at work.
- You have to file a claim for benefits and register for work with your state’s unemployment office.
- You have to be physically and mentally ready and able to work.
- You have to be actively looking for work and available to go to work if you’re asked to. This requirement applies unless you’re going through job training or serving on a jury.
- If you’re unemployed as a result of a labor dispute, you can’t get benefits unless the dispute involves a lockout.
- You have to be honest when you apply for benefits.
HOW LONG CAN I COLLECT BENEFITS?
You can generally collect unemployment benefits for up to 26 weeks per “benefit year,” which begins on the day you file a claim for benefits. If you still hold a part-time job, the number of weeks you can collect benefits might be extended, though your total benefits won’t change. During periods of high unemployment, the federal government might grant an emergency extension of your benefits. Once you’ve received all of your benefits for the year, you can’t file a new claim until your next benefit year arrives.

HOW IS MY BENEFIT AMOUNT CALCULATED?
The amount of unemployment benefits you’ll receive depends on two factors:

1. How much you earned during your “base period.”
2. Your state’s formula for determining benefits.

To figure out your base period, count back over the last five complete calendar quarters that passed before you filed for benefits. (Calendar quarters are three-month units of time, split up as follows: first quarter: January-March; second quarter: April-June; third quarter: July-September; fourth quarter: October-December.) Your base period is the first four of those quarters.

Suppose you were laid off on February 13, 2018, and filed a claim one week later. The last five complete calendar quarters that passed before you filed your claim run from October 1, 2016, to December 31, 2017. The first four of those quarters, from October 1, 2016, to September 30, 2017, is your base period.

Some states have adopted a different base period that consists of the four quarters immediately preceding the employee’s job loss, which often leads to higher benefits.

Your weekly benefit amount will be based on one of the following:

1. A fraction of the wages you earned during the highest-paid quarter of your base period.

DO PART-TIME EMPLOYEES GET BENEFITS?
If you have been laid off from a part-time job, yes, you are entitled to benefits. You can also receive unemployment benefits if your hours at work have been reduced, as long as you’re not earning more than the weekly benefit amount. Any part-time wages you earn while receiving benefits will be subtracted from your weekly unemployment check. Some states allow work-sharing plans. Under these plans, employers...
can reduce their employees’ hours or days of work, instead of laying off some of their workers. These employees keep their jobs and collect unemployment benefits for the time not worked.

OTHER PAYMENTS CAN LOWER OR DELAY YOUR BENEFITS

If your employer provides you with certain types of payments when you’re laid off, your unemployment benefits could be delayed until these payments stop. These payments include holiday pay, vacation pay, dismissal or severance pay, and any money given to you by your employer to make up for not warning you in advance about your layoff. You have to report these payments when you apply for benefits.

Access forms and more information on what you learned in Chapter 6:

- **Form W-2**, Wage and Tax Statement
- **Schedule EIC**
- **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit
- **Social Security Administration**
- **Earned Income Credit**
- **Form SS-5**, Application for a Social Security Card
- The **Family and Medical Leave Act**
- Department of Labor’s **Wage and Hour Division**
- **Form 1095-C**, Employer-Provided Health Insurance Offer and Coverage
- **Form 1095-B**, Health Coverage
- **Affordable Care Act**
- **COBRA**, the Consolidated Omnibus Budget Reconciliation Act
- Educational assistance
- Local unemployment office
- Estimated Social Security benefits
INDEX

A

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>PAGE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(k) plans</td>
<td>45-47, 52, 76</td>
</tr>
<tr>
<td>cafeteria plans</td>
<td>48</td>
</tr>
<tr>
<td>403(b) plans</td>
<td>45, 47</td>
</tr>
<tr>
<td>457(b) plans</td>
<td></td>
</tr>
<tr>
<td>adoption assistance benefits, adoption</td>
<td>88</td>
</tr>
<tr>
<td>changes that affect your benefits</td>
<td>49</td>
</tr>
<tr>
<td>Affordable Care Act</td>
<td></td>
</tr>
<tr>
<td>employer responsibility to offer health</td>
<td>84</td>
</tr>
<tr>
<td>insurance exchange</td>
<td>84-85</td>
</tr>
<tr>
<td>Form 1095-B, Health Coverage</td>
<td>85</td>
</tr>
<tr>
<td>Form 1095-C, Employer-Provided Health</td>
<td></td>
</tr>
<tr>
<td>Insurance Offer and Coverage</td>
<td>85</td>
</tr>
<tr>
<td>individual responsibility to get health</td>
<td>84</td>
</tr>
<tr>
<td>insurance penalties</td>
<td>84-85</td>
</tr>
<tr>
<td>premium tax credit</td>
<td></td>
</tr>
<tr>
<td>after-tax</td>
<td></td>
</tr>
<tr>
<td>contribution limits</td>
<td>46-48</td>
</tr>
<tr>
<td>deductions</td>
<td>56-66</td>
</tr>
<tr>
<td>deductions, cafeteria plan</td>
<td>48</td>
</tr>
<tr>
<td>deductions, calculating take-home pay</td>
<td>53-54</td>
</tr>
<tr>
<td>deductions, U.S. Savings Bonds</td>
<td>65</td>
</tr>
<tr>
<td>involuntary</td>
<td>57-63</td>
</tr>
<tr>
<td>Understanding Your Pay Stub</td>
<td>32</td>
</tr>
<tr>
<td>union dues</td>
<td>65</td>
</tr>
</tbody>
</table>

B

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>PAGE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>voluntary</td>
<td></td>
</tr>
<tr>
<td>aggregate withholding method</td>
<td>64-66</td>
</tr>
<tr>
<td>examples</td>
<td>38, 39</td>
</tr>
<tr>
<td>Application for a Social Security Card, Form SS-5</td>
<td>3</td>
</tr>
<tr>
<td>download</td>
<td>3, 79, 90</td>
</tr>
<tr>
<td>name change</td>
<td>3, 79</td>
</tr>
<tr>
<td>awards</td>
<td></td>
</tr>
<tr>
<td>back pay</td>
<td>26, 37</td>
</tr>
<tr>
<td>supplemental wages</td>
<td>37</td>
</tr>
<tr>
<td>back pay awards</td>
<td></td>
</tr>
<tr>
<td>supplemental wages</td>
<td>26, 37</td>
</tr>
<tr>
<td>bankruptcy orders</td>
<td>60, 63</td>
</tr>
<tr>
<td>creditor garnishments</td>
<td>62</td>
</tr>
<tr>
<td>involuntary deductions</td>
<td>57, 59, 60</td>
</tr>
<tr>
<td>bonuses</td>
<td></td>
</tr>
<tr>
<td>nondiscretionary</td>
<td>26</td>
</tr>
<tr>
<td>supplemental wages</td>
<td>37</td>
</tr>
<tr>
<td>Understanding Your Pay Stub</td>
<td>32</td>
</tr>
</tbody>
</table>

C

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>PAGE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>cafeteria plans</td>
<td>48-49</td>
</tr>
<tr>
<td>401(k) plans</td>
<td>45-47, 52, 76</td>
</tr>
<tr>
<td>calculating after-tax deductions</td>
<td>54</td>
</tr>
<tr>
<td>calculating pre-tax deductions</td>
<td>52</td>
</tr>
<tr>
<td>disability insurance</td>
<td>42-43</td>
</tr>
<tr>
<td>flexble spending accounts</td>
<td>49</td>
</tr>
<tr>
<td>health savings accounts</td>
<td>48, 50-51</td>
</tr>
</tbody>
</table>

Topics in italics refer to illustrations and tables.
# INDEX

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>PAGE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>name change</td>
<td>3, 79</td>
</tr>
<tr>
<td>net pay</td>
<td></td>
</tr>
<tr>
<td>Understanding Your Pay Stub</td>
<td>32</td>
</tr>
<tr>
<td>noncash wages</td>
<td>25</td>
</tr>
<tr>
<td>What is “Regular Rate of Pay”?</td>
<td>26</td>
</tr>
<tr>
<td>nonexempt</td>
<td></td>
</tr>
<tr>
<td>changes that affect your benefits</td>
<td>49</td>
</tr>
<tr>
<td>employee status</td>
<td>23, 25, 26</td>
</tr>
<tr>
<td>Fair Labor Standards Act</td>
<td>23</td>
</tr>
<tr>
<td>family and medical leave</td>
<td>80-83</td>
</tr>
<tr>
<td>overtime pay</td>
<td>28</td>
</tr>
<tr>
<td>nonresident alien</td>
<td>10</td>
</tr>
<tr>
<td>Form W-4 in-depth</td>
<td>11-14</td>
</tr>
<tr>
<td>Who Can Claim the Earned Income Credit?</td>
<td>78</td>
</tr>
<tr>
<td>Notice of Levy on Wages, Salary and Other</td>
<td></td>
</tr>
<tr>
<td>Income, Form 668-W</td>
<td>59</td>
</tr>
<tr>
<td>Form 668-W in-depth</td>
<td>58</td>
</tr>
<tr>
<td>Notice 797, Possible Federal Tax Refund</td>
<td>79</td>
</tr>
<tr>
<td>to the Earned Income Credit</td>
<td></td>
</tr>
<tr>
<td>download</td>
<td>90</td>
</tr>
<tr>
<td>on-call pay</td>
<td>26</td>
</tr>
<tr>
<td>What is “Regular Rate of Pay”?</td>
<td></td>
</tr>
<tr>
<td>overtime pay</td>
<td>23, 24, 28-29</td>
</tr>
<tr>
<td>Understanding Your Pay Stub</td>
<td>32</td>
</tr>
<tr>
<td>park and ride</td>
<td></td>
</tr>
<tr>
<td>transportation fringe benefits</td>
<td>51</td>
</tr>
<tr>
<td>parking</td>
<td></td>
</tr>
<tr>
<td>transportation fringe benefits</td>
<td>51</td>
</tr>
<tr>
<td>paycards</td>
<td>20-21, 69-70</td>
</tr>
<tr>
<td>Understanding Banking Fees</td>
<td>71</td>
</tr>
<tr>
<td>paychecks</td>
<td>20-29</td>
</tr>
<tr>
<td>calculating</td>
<td>33-41, 52-54</td>
</tr>
<tr>
<td>final</td>
<td>21</td>
</tr>
<tr>
<td>flexible spending accounts</td>
<td>49</td>
</tr>
<tr>
<td>Form W-4</td>
<td>8</td>
</tr>
<tr>
<td>Form W-4 in-depth</td>
<td>11-14</td>
</tr>
<tr>
<td>involuntary deductions</td>
<td>57-64</td>
</tr>
<tr>
<td>state employee withholding allowance</td>
<td>17</td>
</tr>
<tr>
<td>state withholding allowance certificates</td>
<td>17</td>
</tr>
<tr>
<td>Understanding Bank Fees</td>
<td>68</td>
</tr>
<tr>
<td>Understanding Your Pay Stub</td>
<td>32</td>
</tr>
<tr>
<td>voluntary deductions</td>
<td>64-66</td>
</tr>
<tr>
<td>vs. direct deposit</td>
<td>21, 68</td>
</tr>
<tr>
<td>payment methods</td>
<td>68</td>
</tr>
<tr>
<td>percentage method</td>
<td>33, 35-36</td>
</tr>
<tr>
<td>pledge card</td>
<td>66</td>
</tr>
<tr>
<td>pre-tax deductions</td>
<td>44-55</td>
</tr>
<tr>
<td>qualifying event</td>
<td>86</td>
</tr>
<tr>
<td>COBRA</td>
<td></td>
</tr>
<tr>
<td>regular rate of pay</td>
<td>28</td>
</tr>
<tr>
<td>overtime</td>
<td>28</td>
</tr>
<tr>
<td>What is “Regular Rate of Pay”?</td>
<td>26</td>
</tr>
<tr>
<td>retroactive pay</td>
<td></td>
</tr>
<tr>
<td>supplemental wages</td>
<td>37</td>
</tr>
<tr>
<td>right to work</td>
<td>2-4</td>
</tr>
<tr>
<td>Form I-9 in-depth</td>
<td>5-6</td>
</tr>
<tr>
<td>salary</td>
<td></td>
</tr>
<tr>
<td>employee status</td>
<td>23-25</td>
</tr>
<tr>
<td>Form 668-W in-depth</td>
<td>58</td>
</tr>
<tr>
<td>What is “Regular Rate of Pay”?</td>
<td>26</td>
</tr>
<tr>
<td>Section 401(k) plans</td>
<td>45-48, 52, 76</td>
</tr>
<tr>
<td>cafeteria plan</td>
<td>48</td>
</tr>
<tr>
<td>Section 403(b) plans</td>
<td>45, 47</td>
</tr>
<tr>
<td>Section 457(b) plans</td>
<td>45, 47</td>
</tr>
<tr>
<td>serious health condition</td>
<td></td>
</tr>
<tr>
<td>Family and Medical Leave Act</td>
<td>81, 82</td>
</tr>
<tr>
<td>service charges</td>
<td>27</td>
</tr>
</tbody>
</table>

Topics in italics refer to illustrations and tables.
### INDEX

**TOPIC** | **PAGE NUMBER** | **TOPIC** | **PAGE NUMBER** | **TOPIC** | **PAGE NUMBER**
--- | --- | --- | --- | --- | ---
severance pay | 37 | Social Security number | 2, 3, 76, 79 | state employee withholding allowance certificates | 17 |
supplemental wages | 37 | Form 668-W in-depth | 90 | state unemployment and disability insurance taxes | 42-43 |
unemployment benefits | 90 | Form I-9 in-depth | 58 | student loans | 63 |
shift premiums | 26 | Form I-9 Lists A-C, acceptable documents | 5-6 | Guaranteed Student Loan Program | 63 |
What is “Regular Rate of Pay”? | 26 | Form SS-5, Application for a Social Security Card | 3, 79, 90 | involuntary deductions | 57 |
SIMPLE plans | 46 | Form W-2 in-depth | 75 | supplemental wages | 37-38 |
tax-deferred retirement plans | 46 | Form W-4 in-depth | 11-14 | aggregate withholding method | 38-39 |
Social Security Administration | 3, 42, 74 | identity theft | 4 | flat-rate method | 37 |
Form SS-5, Application for a Social Security Card | 3 | name change | 3, 79 | take-home pay | |
Form W-2 in-depth | 75 | online | 3, 79, 90 | creditor garnishments | 62-63 |
local offices | 3, 17 | Who Can Claim the Earned Income Credit? | 79 | Form 668-W in-depth | 90 |
names change | 3, 79 | Social Security statement benefits estimate | 79, 90 | nonexempt status | 58 |
online | 90 | Social Security tax | 39-41, 53, 54 | pre-tax deductions | 48-51 |
Social Security benefits | 42, 76 | calculating | 41 | subject to tax levy | 59 |
benefits estimate | 3, 79, 90 | Educational Assistance Benefits | 26 | Understanding Your Pay Stub | 63 |
Social Security card | 3, 79 | Form W-2 in-depth | 52-54 | voluntary deductions | 64-66 |
download | 3, 90 | workers’ compensation benefits | 80 | tax-exempt | |
Form I-9 in-depth | 5-6 | Social Security wage limit | 39, 40-41 | health savings accounts | 48, 50-51 |
Form I-9 Lists A-C, acceptable documents | 5-7 | more than one job | 40 | organizations, retirement plans | 51-52 |
Form SS-5, Application for a Social Security Card | 3, 90 | state and local government employees | | workers’ compensation benefits | 47 |
Form W-4 in-depth | 11-14 | Direct Deposit from Coast to Coast | 22 | T | |
INDEX

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>PAGE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>tax levy</td>
<td>59</td>
</tr>
<tr>
<td>creditor garnishments</td>
<td>62-63</td>
</tr>
<tr>
<td>Form 668-W in-depth</td>
<td>58</td>
</tr>
<tr>
<td>other involuntary deductions</td>
<td>59</td>
</tr>
<tr>
<td>part of your pay subject to</td>
<td>59</td>
</tr>
<tr>
<td>unpaid taxes</td>
<td>57</td>
</tr>
<tr>
<td>tip credits</td>
<td>27</td>
</tr>
<tr>
<td>Tip Credits – How Do They Work?</td>
<td>28</td>
</tr>
<tr>
<td>tipped employees</td>
<td>27</td>
</tr>
<tr>
<td>Tip Credits – How Do They Work?</td>
<td>28</td>
</tr>
<tr>
<td>tips</td>
<td>27</td>
</tr>
<tr>
<td>Form W-2 in-depth</td>
<td>75</td>
</tr>
<tr>
<td>reporting</td>
<td>27-28</td>
</tr>
<tr>
<td>supplemental wages</td>
<td>37</td>
</tr>
<tr>
<td>Tip Credits – How Do They Work?</td>
<td>28</td>
</tr>
<tr>
<td>form W-2</td>
<td>74</td>
</tr>
<tr>
<td>transit passes</td>
<td>51</td>
</tr>
<tr>
<td>transportation fringe benefits</td>
<td>51</td>
</tr>
<tr>
<td>TreasuryDirect</td>
<td>65, 66</td>
</tr>
<tr>
<td>unemployment insurance</td>
<td>42-43</td>
</tr>
<tr>
<td>union dues</td>
<td>65</td>
</tr>
<tr>
<td>subject to tax levy</td>
<td>59</td>
</tr>
<tr>
<td>voluntary deductions</td>
<td>64, 65</td>
</tr>
<tr>
<td>U.S. Citizenship and Immigration Services</td>
<td></td>
</tr>
<tr>
<td>Form I-9, Employment Eligibility Verification</td>
<td>2, 3-7</td>
</tr>
<tr>
<td>Form I-9 in-depth</td>
<td>5-6</td>
</tr>
<tr>
<td>Form I-9 Lists A-C, acceptable documents</td>
<td>6-7</td>
</tr>
<tr>
<td>U.S. Savings Bonds</td>
<td>65-66</td>
</tr>
<tr>
<td>TreasuryDirect</td>
<td>65, 66</td>
</tr>
<tr>
<td>voluntary deduction</td>
<td>57, 64-67</td>
</tr>
<tr>
<td>subject to tax levy</td>
<td>59</td>
</tr>
<tr>
<td>Wage and Tax Statement, Form W-2</td>
<td>74-79</td>
</tr>
<tr>
<td>earned income credit</td>
<td>77-79</td>
</tr>
<tr>
<td>employer contributions</td>
<td>50, 51</td>
</tr>
<tr>
<td>Form W-2 in-depth</td>
<td>75</td>
</tr>
<tr>
<td>lost</td>
<td>76</td>
</tr>
<tr>
<td>online</td>
<td>90</td>
</tr>
<tr>
<td>proof of charitable contribution</td>
<td>66</td>
</tr>
<tr>
<td>wage assignments</td>
<td>64-65</td>
</tr>
<tr>
<td>voluntary deduction</td>
<td>64-66</td>
</tr>
<tr>
<td>wage-bracket method</td>
<td>33-35, 43</td>
</tr>
<tr>
<td>withholding tables</td>
<td>33, 43</td>
</tr>
<tr>
<td>white collar employee exempt status</td>
<td>23-24</td>
</tr>
<tr>
<td>withholding allowance</td>
<td>8-10, 74</td>
</tr>
<tr>
<td>calculating income taxes</td>
<td>33-39, 52-54</td>
</tr>
<tr>
<td>Form W-4, Employee’s Withholding Allowance Certificate</td>
<td>2, 8-16</td>
</tr>
<tr>
<td>Form W-4 in-depth</td>
<td>11-14</td>
</tr>
<tr>
<td>nonresidents</td>
<td>10</td>
</tr>
<tr>
<td>Allowances You Might Claim</td>
<td>9</td>
</tr>
<tr>
<td>state employee withholding allowance certificates</td>
<td>17</td>
</tr>
<tr>
<td>withholding calculator</td>
<td>8</td>
</tr>
<tr>
<td>withholding methods</td>
<td>38</td>
</tr>
<tr>
<td>aggregate</td>
<td>37</td>
</tr>
<tr>
<td>flat rate</td>
<td>37</td>
</tr>
<tr>
<td>other</td>
<td>37</td>
</tr>
<tr>
<td>percentage</td>
<td>33, 35-36</td>
</tr>
<tr>
<td>wage-bracket</td>
<td>33-34, 38, 52-54</td>
</tr>
<tr>
<td>withholding orders</td>
<td>59-61</td>
</tr>
<tr>
<td>child support</td>
<td>61</td>
</tr>
<tr>
<td>spousal support</td>
<td>61</td>
</tr>
<tr>
<td>workers’ compensation insurance</td>
<td>80</td>
</tr>
<tr>
<td>health savings accounts</td>
<td>50-51</td>
</tr>
<tr>
<td>workweek</td>
<td>27</td>
</tr>
<tr>
<td>exempt, nonexempt status</td>
<td>23-25</td>
</tr>
<tr>
<td>overtime pay</td>
<td>28-29</td>
</tr>
<tr>
<td>Tip Credits – How Do They Work?</td>
<td>28</td>
</tr>
</tbody>
</table>

Topics in italics refer to illustrations and tables.