

2012 Edition

YOUR PAYCHECK

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



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INTRODUCTION

ABOUT 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.

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Learn more

Here are symbols you'll see throughout the book. They point out special hints, tips, and warnings.



GO ONLINE to download forms and get quick links to useful sites.



DID YOU KNOW? Helpful facts.



KNOW YOUR RIGHTS in several important situations.



WARNING! Don't make these mistakes!



QUICK TIP to make the process go more smoothly.



DON'T FORGET reminders of important documents to bring or to make sure you fill out.

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	7
Paying Your Fair Share, Part 2: State Employee Withholding Allowance Certificates	13

CHAPTER 2: PAYCHECK BASICS

Getting Paid	15
The Wage and Hour Law, Or, How Do You Know Your Paycheck Is Correct?	18

CHAPTER 3: YOUR PAY STUB AND TAXES

Income and Employment Taxes	26
Social Security Summary	37
Medicare	37
State Unemployment and Disability Insurance Taxes	37

CHAPTER 4: PRE-TAX DEDUCTIONS

Tax-Deferred Retirement Plans	40
Cafeteria Plans	43
Medical Savings Accounts	45
Health Savings Accounts	45
Transportation Fringe Benefits	46
Calculating Your Pre-Tax Deductions ..	47

CHAPTER 5: AFTER-TAX DEDUCTIONS

Involuntary Deductions	52
Voluntary Deductions	59

CHAPTER 6: YOUR RIGHTS AND RESPONSIBILITIES IN THE WORKPLACE

First the Basics: Form W-2, Your Wage and Tax Statement	63
The Earned Income Credit	66
Check on Your Social Security Benefits	68
Workers' Compensation Insurance	69
The Family and Medical Leave Act	69
'COBRA': Your Right to Continued Health Coverage	73
Educational Assistance Benefits	74
Adoption Assistance Benefits	75
Unemployment Insurance Benefits	75

CHAPTER 7: AMERICA WORKS BECAUSE WE'RE WORKING FOR AMERICA®

Your Paycheck	79
Getting Paid: Go Green With Your Green	80

INDEX	83
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CHAPTER 1 WHEN YOU GET A JOB

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.

CHAPTER 1

WHEN YOU GET A JOB

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).



DON'T FORGET

YOU'LL NEED *to* COMPLETE

- Form I-9, Employment Eligibility Verification:** The information 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 automatically subtracted from each paycheck.
- 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 your first three days 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 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 originals, no copies, except for a certified copy of a birth certificate.



QUICK TIP

Many employees use their Social Security card together with their driver's license to prove their right to work.



Know your Rights

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.

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 your first three days 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.

OMB No. 1615-0047; Expires 08/31/12

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

Form I-9, Employment Eligibility Verification

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

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

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

Print Name: Last Johnson	First Thomas	Middle Initial R	Maiden Name
Address (Street Name and Number) 4567 Elm Street		Apt. #	Date of Birth (month/day/year) 06/30/1965
City Hometown	State VA	Zip Code 98765	Social Security # 123-45-6789

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):

- A citizen of the United States
- A noncitizen national of the United States (see instructions)
- A lawful permanent resident (Alien #) _____
- An alien authorized to work (Alien # or Admission #) _____ until (expiration date, if applicable - month/day/year) _____

Employee's Signature Thomas R. Johnson Date (month/day/year) 03/26/2012

Preparer and/or Translator Certification (To be completed and signed if Section 1 is prepared by a person other than the employee.) I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.

Preparer's/Translator's Signature	Print Name
Address (Street Name and Number, City, State, Zip Code)	Date (month/day/year)

Section 2. Employer Review and Verification (To be completed and signed by employer. Examine one document from List A OR examine one document from List B and one from List C, as listed on the reverse of this form, and record the title, number, and expiration date, if any, of the document(s).)

List A	OR	List B	AND	List C
Document title:		Driver License		Social Security Card
Issuing authority:		Commonwealth of Virginia		Soc. Sec. Adm.
Document #:		987-987654		123-45-6789
Expiration Date (if any):		06/30/2015		
Document #:				
Expiration Date (if any):				

CERTIFICATION: I attest, under penalty of perjury, that I have examined the document(s) presented by the above-named employee, that the above-listed document(s) appear to be genuine and to relate to the employee named, that the employee began employment on (month/day/year) 03/26/2012 and that to the best of my knowledge the employee is authorized to work in the United States. (State employment agencies may omit the date the employee began employment.)

Signature of Employer or Authorized Representative <u>Michael Abernathy</u>	Print Name Michael Abernathy	Title President
Business or Organization Name and Address (Street Name and Number, City, State, Zip Code) Mike's Sporting Goods, 123 Elm Street, Hometown, VA 98765		Date (month/day/year) 03/26/2012

Section 3. Updating and Reverification (To be completed and signed by employer.)

A. New Name (if applicable)	B. Date of Rehire (month/day/year) (if applicable)	
C. If employee's previous grant of work authorization has expired, provide the information below for the document that establishes current employment authorization.		
Document Title:	Document #:	Expiration Date (if any):
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		Date (month/day/year)

YOU FILL OUT

On your first day of work, you will need to fill out the top portion only of this form, Section 1: Employee Information and Verification. Read the instructions carefully before completing this form. The instructions must be available during completion of this form.

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).



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

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

Employment Authorization Document that reads "Serves as I-512 Advance Parole"

OR

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

AND

List C

DOCUMENTS THAT ESTABLISH EMPLOYMENT AUTHORIZATION

Social Security Account Number card other than one that specifies on the face that the issuance of the card does not authorize employment in the United States

Certification of Birth Abroad issued by the Department of State (Form 545)

Certification of Report of Birth issued by the Department of State (Form DS-1350)

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

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.

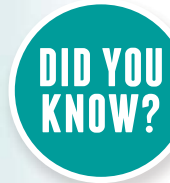
WHAT'S THE PURPOSE OF THIS FORM?

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?

The more withholding allowances you can claim, the less withheld in federal income tax 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 here and on the next page.



CONDITIONS *for* CLAIMING WITHHOLDING ALLOWANCES

You can claim an allowance for:



YOURSELF

Someone else (a spouse or parent) will list you as a dependent on their income tax return.



YOUR SPOUSE

Unless...

Your spouse is working and has already claimed an allowance on their W-4.



EACH CHILD
YOU LIST AS A
DEPENDENT ON
YOUR TAX RETURN

Your spouse has already claimed each child on their W-4.

OTHER ALLOWANCES *You Might* CLAIM

Each individual in the family can be claimed only *one time* by *one person* to gain a withholding allowance.

ALLOWANCES

1. If you are single, 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 making \$1,500 or less, and 3. Your spouse has a job making \$1,500 or less	1
1. If you are single, and 2. You are filing as head of household (i.e., paying more than half the cost of maintaining a home for yourself and your dependent[s])	1
1. If you spend at least \$1,900 per year in out-of-pocket childcare expenses (not child support payments), and 2. You intend to claim a credit for this on your income tax return	1

CHILD TAX CREDITS AS OF 2012

ALLOWANCES

1. If you have less than 3 eligible children, and 2. You are single, and 3. Your total income is less than \$61,000	2 x number of eligible children
1. If you have less than 3 eligible children, and 2. You are married, and 3. Your total income is less than \$90,000	2 x number of eligible children
1. If you have 3 or more eligible children, and 2. You are single, and 3. Your total income is less than \$61,000	2 x number of eligible children - 1
1. If you have 3 or more eligible children, and 2. You are married, and 3. Your total income is less than \$90,000	2 x number of eligible children - 1
1. If you have less than 6 eligible children, and 2. You are single, and 3. Your total income is between \$61,000 and \$84,000	1 x number of eligible children
1. If you have less than 6 eligible children, and 2. You are married, and 3. Your total income is between \$90,000 and \$119,000	1 x number of eligible children
1. If you have 6 or more eligible children, and 2. You are single, and 3. Your total income is between \$61,000 and \$84,000	1 x number of eligible children + 1
1. If you have 6 or more eligible children, and 2. You are married, and 3. Your total income is between \$90,000 and \$119,000	1 x number of eligible children + 1

You can use the W-4 Personal Allowances 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.

To determine total allowances, use the worksheet on Form W-4 (the information above is repeated there). *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
- Call the IRS at 800-TAX-FORM (829-3676)
- [Download a W-4](#) from the IRS website

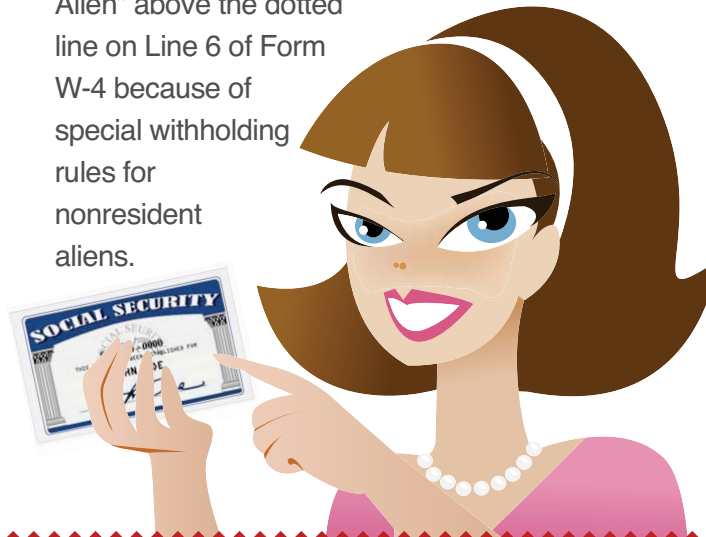
You can also calculate what your income tax withholding and take-home pay will be by going to the [National Payroll Week website](#) and plugging in your W-4 information.

You should provide your employer with only the bottom portion of Page 1 of your W-4.

Cut the form where indicated and keep the top portion for your own records. The top portion explains 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. Tom's wife works outside the home and they have two children under age 17 living with them. His wife claims an allowance for herself on her W-4. Together, they'll spend \$8,000 out-of-pocket on childcare this year. They don't itemize their deductions, and their combined earnings for the year is \$75,000. Tom claims one allowance for himself, one for each child, one for childcare expenses, and four for the Child Tax Credit. 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 you during the year was given back after you filed your return, and

FORM W-4 *in-depth*

Let's use Tom and his wife as an example. Tom's wife works outside the home and they have two children under age 17 living with them. His wife claims an allowance for herself on her W-4. Together, they'll spend \$8,000 out-of-pocket on childcare this year. They don't itemize their deductions, and their combined earnings for the year is \$75,000. Tom claims one allowance for himself, one for each child, one for childcare expenses, and four for the Child Tax Credit.

YOU FILL OUT

Using the Personal Allowance Worksheet, Tom was able to determine that he could claim eight allowances: one for himself, one for each of his two children, one for childcare expenses, and four for the Child Tax Credit.

Form W-4 (2012)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2012 expires February 18, 2013. See Pub. 505, Tax Withholding and Estimated Tax.

Note. If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends).

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependents) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. 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 may owe additional tax. If you have pension or annuity

income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2012. See Pub. 505, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married),

Future developments. The IRS has created a page on IRS.gov for information about Form W-4, at www.irs.gov/w4. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted on that page.

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for yourself if no one else can claim you as a dependent	A	1
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.	B	
C	Enter "1" for your spouse. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C	
D	Enter number of dependents (other than your spouse or yourself) you will claim on your tax return	D	2
E	Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above)	E	
F	Enter "1" if you have at least \$1,900 of child or dependent care expenses for which you plan to claim a credit (Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	F	1
G	Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then less "1" if you have three to seven eligible children or less "2" if you have eight or more eligible children. • If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child	G	4
H	Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ►	H	8

For accuracy, complete all worksheets that apply.

- If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are single and have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$40,000 (\$10,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.

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

W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate		OMB No. 1545-0074 2012
1 Your first name and middle initial Thomas R		Last name Johnson		2 Your social security number 123-45-6789
Home address (number and street or rural route) 4567 Elm Street City or town, state, and ZIP code Hometown, VA 98765		3 <input type="checkbox"/> Single <input checked="" type="checkbox"/> Married <input type="checkbox"/> Married, but withheld at higher Single rate. Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. <input type="checkbox"/>		
6 Additional amount, if any, you want withheld from each paycheck		5 8		
7 I claim exemption from withholding for 2012, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here		6 \$		
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.				
Employee's signature (This form is not valid unless you sign it.) ►		Thomas R. Johnson		Date ► 3/26/2012
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)		10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form W-4 (2012)

INSTRUCTIONS

Read the instructions carefully. It is your responsibility to submit accurate information on your W-4. Your employer will not review it for you.

YOUR WORKSHEET

You can use the W-4 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 provide your employer with only the bottom portion of Page 1 of your W-4. Cut the form where indicated and keep the top portion for your own records. The top portion explains how you determined the number of withholding allowances.



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

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.

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, 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.



QUICK TIP

Your employer might ask that you submit your W-4 by telephone or computer. If you want to use the paper form instead, your employer has to tell you how to get one, and where you should submit it.

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 paying more in taxes than you have to!



WARNING!

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 \$950 and includes over \$300 of unearned income (e.g., interest and dividends), and
- Someone else is claiming you as a dependent.

STUDENTS ARE NOT AUTOMATICALLY EXEMPT!

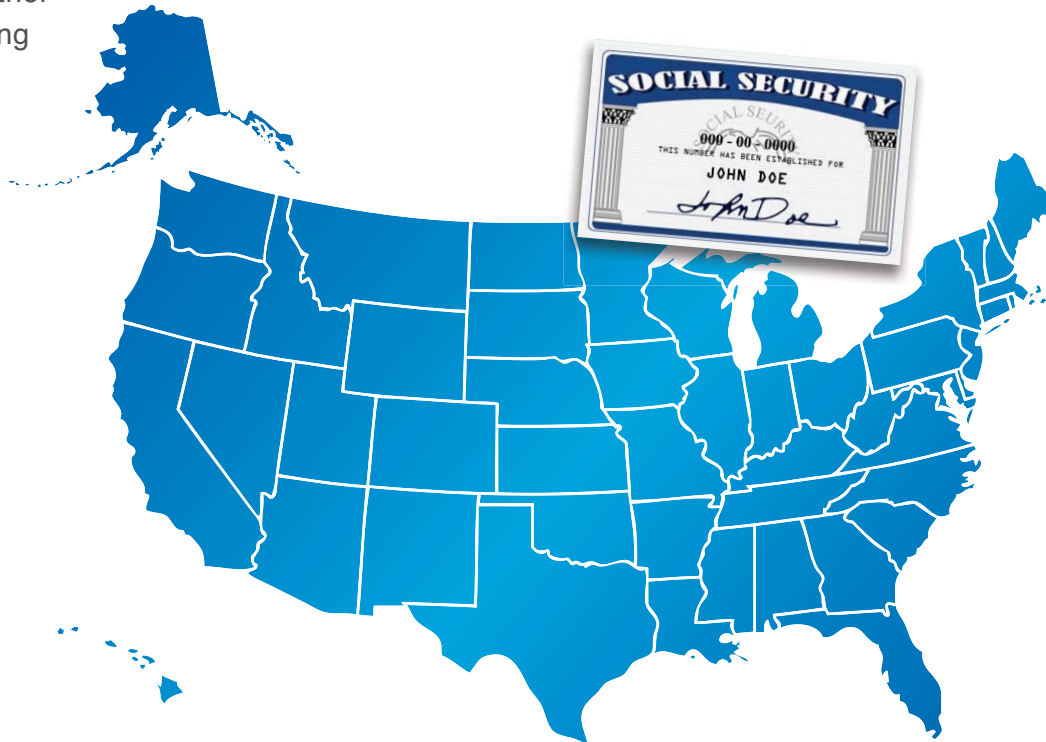
High school and college students have to meet the conditions above to claim an exemption.

DON'T COMMIT A FELONY

It is a felony 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 are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. You can check the IRS website at any time for the most [current list of states without a state income tax](#).



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](#)
- [National Payroll Week website](#)



CHAPTER 2 PAYCHECK BASICS

IN THIS CHAPTER

Getting Paid: How, how often, 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.

PAYCHECK BASICS

GETTING PAID

A paycheck is very important to all of us. So it's important to understand how and when we're paid. And, how do you know it's correct, especially if you're working overtime or making 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 below). In most states,

your employer must make arrangements with a bank where you can cash your paychecks for face value. Some companies also use electronic "payroll cards" to pay some employees, especially those without bank accounts. Payroll cards 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,



QUICK TIP

Many employees actually prefer direct deposit to receiving a paycheck. You too might find it more convenient, and safer:

1. You won't have to wait around for your check on payday!
2. If you miss work on a payday, your money's in the bank automatically.
3. You won't have to worry about losing a paycheck or having it stolen.
4. Your money will start earning interest as soon as it's deposited into your account.
5. You may have portions of your pay sent to several separate accounts, which can save you time *and* grow your savings account automatically.

any taxes subtracted from your check, and any other deductions. And, as long as employees can print them out, all states now allow companies to provide these statements 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.

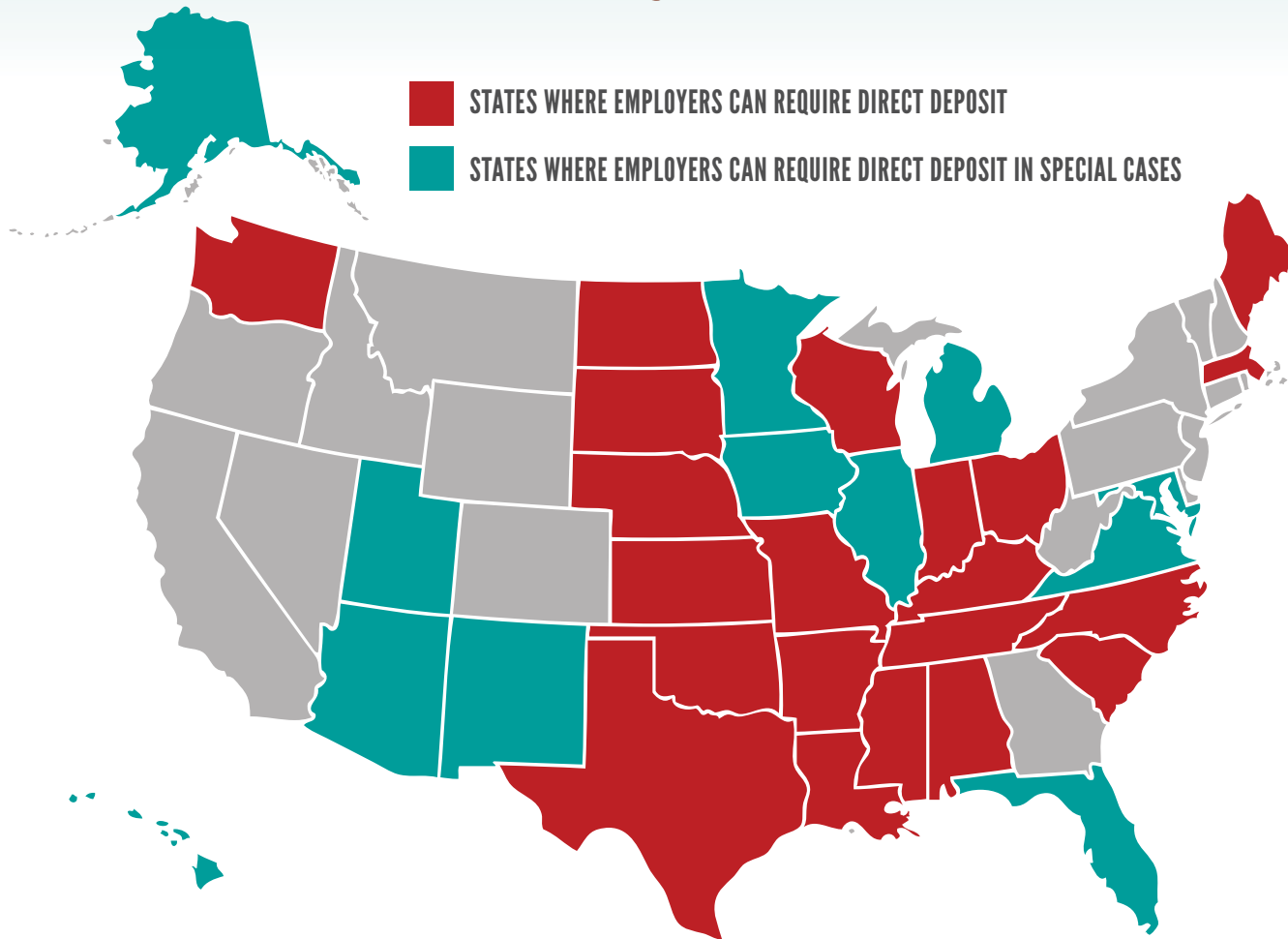
In some states, employers can *require* that you use direct deposit. [See the chart on the next page for more information.](#)

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 payroll debit card.

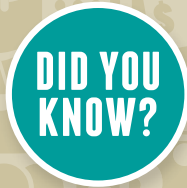
WHAT IF I QUIT, OR I'M LAID OFF?

If you are leaving your job—including quitting, being laid off, or 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 specifies if any extra payments (e.g., vacation pay) need to be included in your final paycheck.

DIRECT DEPOSIT *From COAST to COAST*



- STATES WHERE EMPLOYERS CAN REQUIRE DIRECT DEPOSIT
- STATES WHERE EMPLOYERS CAN REQUIRE DIRECT DEPOSIT IN SPECIAL CASES



In some states, employers can *require* that you use direct deposit.

In these states, employers can *require* direct deposit:

- | | |
|---------------|----------------|
| Alabama | North Carolina |
| Arkansas | North Dakota |
| Indiana | Ohio |
| Kansas | Oklahoma |
| Kentucky | South Carolina |
| Louisiana | South Dakota |
| Maine | Tennessee |
| Massachusetts | Texas |
| Mississippi | Washington |
| Missouri | Wisconsin |
| Nebraska | |

In these states, employers *may* require direct deposit:*

- | | |
|----------|------------|
| Alaska | Maryland |
| Arizona | Michigan |
| Florida | Minnesota |
| Hawaii | New Mexico |
| Illinois | Utah |
| Iowa | Virginia |

*For certain groups of employees, e.g., new hires, and 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 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.

Are you
EXEMPT or NONEXEMPT?

WHAT IS 'EXEMPT' AND 'NONEXEMPT' EMPLOYEE STATUS?

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.

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



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 haven't got 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 last 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



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 wages 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.

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.



CALCULATING *your* GROSS PAY

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 35 x \$7.25, or \$253.75.



$$\begin{array}{r} \$7.25 \\ \times 35 \\ \hline \mathbf{\$253.75} \end{array}$$

- Social Security taxes!
- Medicare taxes!
- Income taxes!

$$\mathbf{\$200.00}$$

WHAT *is* 'REGULAR RATE OF PAY'?

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.

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.

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."

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.

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.

COST-OF-LIVING ADJUSTMENTS

This kind of hike in wages is given when an employer raises employees' pay to keep up with inflation.

Rate of Pay

YOUR REGULAR RATE OF PAY HAS TO BE AT LEAST THE MINIMUM WAGE

IF YOU'RE PAID...

YOUR REGULAR RATE OF PAY IS

by the hour

your hourly wage

a salary

your salary divided by the number of hours you work in a normal workweek

by piecework or on commission

your earnings divided by the hours you worked to get them

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 and 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,

$$\begin{array}{r} \$7.25 \\ \times 35 \\ \hline \$253.75 \\ - 247.00 \\ \hline \$6.75 \end{array}$$

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.



$$\begin{array}{r} \text{MINIMUM WAGE} \\ \$7.25 \\ \times 70 \\ \hline \$507.50 \end{array}$$

$$\begin{array}{r} \text{PAID} \\ \$253.75 \\ + 262.00 \\ \hline \$515.75 \end{array}$$

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:

$\$2.13 + \$5.12 = \$7.25$, 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?

Regular earnings:	40 hours x \$13 = \$520
Overtime hours:	48 hours – 40 hours = 8 hours
Overtime pay:	\$13 x 1.5 x 8 = \$156
Last week's earnings:	\$520 (regular earnings) + \$156 (overtime pay) = \$676



Know your Rights

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 .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 waits 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.



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.

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.



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.



CHAPTER 3 YOUR PAY STUB AND TAXES

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.

CHAPTER 3

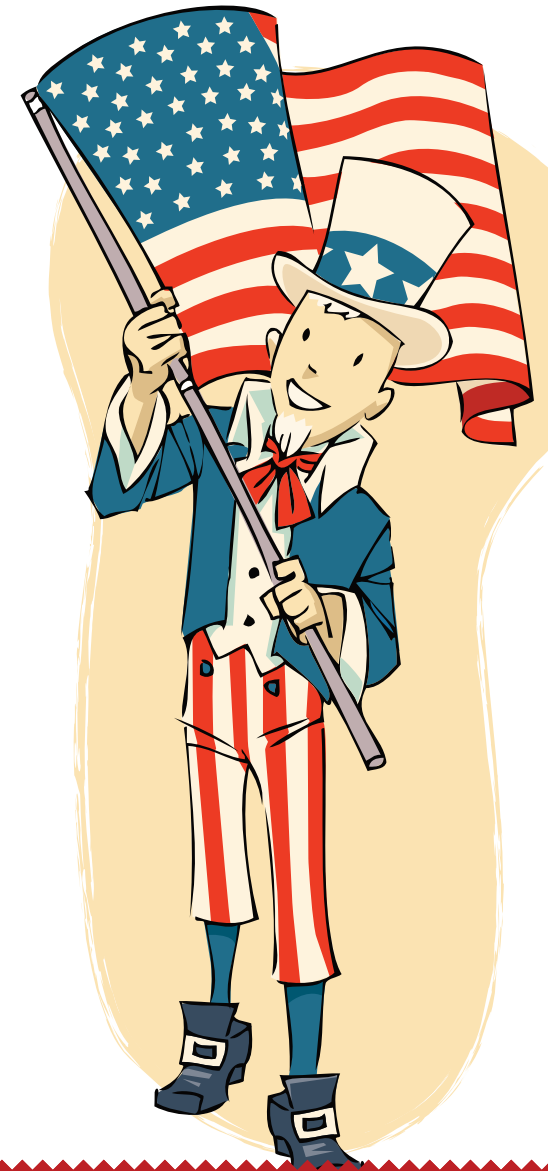
YOUR PAY STUB AND TAXES

GETTING STARTED: TAX INFORMATION

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.



UNDERSTANDING *your* PAY STUB

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.

DEDUCTIONS

Detach below before depositing. Save for your records.

Pay period: Dec 2012	Gross Earnings		\$2000.00
	Deductions:		
	Federal Income Tax	\$219.00	
	State Income Tax	96.50	
	Local Income Tax	17.00	
	Social Security	81.90	
	Medicare	28.28	
	Pre-tax Healthcare Plan	50.00	
	After-tax Deductions	0	
	Net Pay		\$1507.32

GROSS PAY

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.

NET 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.

WHAT ARE INCOME TAXES?

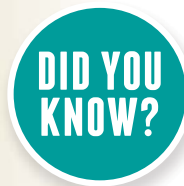
Federal income tax is the amount of money you have to pay to the federal government and is collected by the IRS. There are 41 states that collect state income tax. Depending on where you live, you may also owe income tax to the county, city, or school district.



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.



HOW TO USE *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 40 in the 2012 Employer's Tax Guide. In the first two columns find the row for "At least \$700" and "But less than \$710." Then look across that row for the number below the column head for "2" withholding allowances claimed. Jane's federal income tax withholding is \$44 per week.



Weekly salary:	\$705
Withholding allowances:	2
<hr/>	
Federal income tax withholding:	\$44 per week

MARRIED PERSONS – WEEKLY PAYROLL PERIOD

(For Wages Paid through December 2012)												
And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
		The amount of income tax to be withheld is—										
\$ 600	\$ 610	\$ 51	\$ 40	\$ 30	\$ 23	\$ 16	\$ 8	\$ 1	\$ 0	\$ 0	\$ 0	\$ 0
610	620	52	41	31	24	17	9	2	0	0	0	0
620	630	54	43	32	25	18	10	3	0	0	0	0
630	640	55	44	33	26	19	11	4	0	0	0	0
640	650	57	46	35	27	20	12	5	0	0	0	0
650	660	58	47	36	28	21	13	6	0	0	0	0
660	670	60	49	38	29	22	14	7	0	0	0	0
670	680	61	50	39	30	23	15	8	1	0	0	0
680	690	63	52	41	31	24	16	9	2	0	0	0
690	700	64	53	42	32	25	17	10	3	0	0	0
700	710	66	55	44	33	26	18	11	4	0	0	0
710	720	67	56	45	34	27	19	12	5	0	0	0
720	730	69	58	47	36	28	20	13	6	0	0	0
730	740	70	59	48	37	29	21	14	7	0	0	0
740	750	72	61	50	39	30	22	15	8	0	0	0
750	760	73	62	51	40	31	23	16	9	1	0	0
760	770	75	64	53	42	32	24	17	10	2	0	0
770	780	76	65	54	43	33	25	18	11	3	0	0
780	790	78	67	56	45	34	26	19	12	4	0	0
790	800	79	68	57	46	35	27	20	13	5	0	0

HOW TO USE THE PERCENTAGE METHOD

Brian is married. He is paid \$1,900 every two weeks (biweekly). He claims four withholding allowances on his W-4.



- 1 Look at Table 5. Percentage Method—2012 Amount for One Withholding Allowance on page 35 in the 2012 Employer’s Tax Guide. Locate the “Biweekly” Payroll Period. For Brian, this is \$146.15.
- 2 Multiply the amount of one withholding allowance by the number of allowances Brian claims (four). »
- 3 Subtract the value of the withholding allowances from Brian’s earnings: $\$1,900 - \$584.60 = \$1,315.40$. This is the amount subject to withholding. »
- 4 Find the correct Percentage Method Table for Income Tax Withholding for Brian (see page 7). Remember, he’s married and is paid biweekly.
- 5
 - a. $\$1,315.40$ in the table is “Over \$981,” “But not over \$3,031,” so 15% of the excess over \$981, plus \$66.90, is to be withheld.
 - b. Figure out what the excess over \$981 is. »
 - c. Multiply \$334.40 by 15% and add \$66.90 to get Brian’s withholding. »

The federal income tax withheld each pay period from Brian’s paycheck is \$117.06.

\$146.15

$4 \times \$146.15 = \584.60

$\$1,900 - \$584.60 = \$1,315.40$

15% of excess over \$981 +
\$66.90 withheld

$\$1,315.40 - \$981 = \$334.40$

$(\$334.40 \times .15) + \$66.90 =$
\$117.06

\$117.06

**Table 5. Percentage Method—
2012 Amount for One Withholding Allowance**

Weekly.....	\$ 73.08
Biweekly.....	146.15
Semimonthly.....	158.33
Monthly.....	316.67
Quarterly.....	950.00
Semiannually.....	1,900.00
Annually.....	3,800.00
Daily or miscellaneous (each day of the payroll period).....	14.62

PERCENTAGE METHOD
2012 AMOUNT *for*
ONE WITHHOLDING ALLOWANCE

PERCENTAGE METHOD TABLES
for INCOME TAX WITHHOLDING

TABLE 2—BIWEEKLY Payroll Period

(b) MARRIED person (including head of household) —

If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over \$312		\$0	
Over—	But not over—		of excess over—
\$312	—\$981	\$0.00 plus 10%	—\$312
\$981	—\$3,031	\$66.90 plus 15%	—\$981
\$3,031	—\$5,800	\$374.40 plus 25%	—\$3,031
\$5,800	—\$8,675	\$1,066.65 plus 28%	—\$5,800
\$8,675	—\$15,248	\$1,871.65 plus 33%	—\$8,675
\$15,248		\$4,040.74 plus 35%	—\$15,248

The **OPTIONAL FLAT RATE WITHHOLDING METHOD**

If your employer separates your supplemental wages from your regular wages, they can withhold federal income tax from these payments at the flat rate of 25% in 2012. The 25% 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 25% (.25) to calculate withholding: $\$1,000 \times .25 = \250 .

Your employer will withhold \$250 in federal income tax from your \$1,000 bonus.

$$\begin{array}{r} \$1,000 \\ \times .25 \\ \hline \$250 \end{array}$$

SUPPLEMENTAL WAGES AND OTHER WITHHOLDING METHODS

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

Supplemental wages get special tax treatment. These amounts are added to your regular wages. They include bonuses, awards, commissions, retroactive pay, tips, back pay awards, and severance pay.



The **AGGREGATE** WITHHOLDING METHOD

USING 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 \$700 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.

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.

- 1 Donna's employer adds her bonus to her regular wage:
- 2 Using the wage-bracket or percentage method, her employer figures the withholding on the total amount of \$900 which would be \$64 using the wage-bracket method
- 3 Donna's employer looks back at her last regular wage payment of \$700, and writes down what amount was withheld from that paycheck which was \$34.
- 4 Donna's employer subtracts \$34 from \$64, i.e., $\$64 - \$34 = \$30$.

$$\$200 + \$700 = \$900$$

$$\text{wage bracket} = \$64$$

$$\text{wage bracket} = \$34$$

$$\$64 - \$34 = \$30$$

Donna's employer will withhold \$30 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.


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 35% in 2012.


$$\begin{array}{r} \$1,000 \\ + \$1,100 \\ \hline \$2,100 \end{array}$$

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.

$$\begin{array}{r} \text{YOUR} \\ \text{FICA TOTAL} \\ 4.2\% \\ + 1.45\% \\ \hline 5.65\% \end{array}$$

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 4.2% of your pay for Social Security tax, and 1.45% for Medicare tax. That means your total FICA taxes add up to 5.65% of your wages.

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

$$\begin{array}{r} \text{EMPLOYER'S} \\ \text{FICA TOTAL} \\ 6.2\% \\ + 1.45\% \\ \hline 7.65\% \end{array}$$

SOCIAL SECURITY WAGE LIMIT

In 2012, any wages you earn above \$110,100 are not subject to Social Security tax. **The most you can pay in Social Security tax is \$4,624.20 (\$110,100 x .042).** There's no upper limit on Medicare tax. Medicare tax will be withheld from all wages you receive.

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



QUICK TIP

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

$$4.2\% = .042$$
$$1.45\% = .0145$$

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

$$\begin{array}{r} .04.2 \\ \\ \hline .01.45 \end{array}$$

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 \$4,624.20 in 2012), you can get a refund when you file your income tax return.

The SOCIAL SECURITY WAGE LIMIT FIRST EXAMPLE

WAGES UP TO \$110,100 PER YEAR

Richard is paid \$500 each week. His Social Security withholding per paycheck is \$21 (\$500 x .042). His Medicare tax per pay period is \$7.25 (\$500 x .0145). Richard's employer withholds \$28.25 (\$21 + \$7.25) in employment taxes from his wages each week. His employer pays \$38.25 (($\$500 \times .062$) + ($\$500 \times .0145$)) to the federal government.



$$\begin{array}{r} \text{SOCIAL} \\ \text{SECURITY} \\ \$500 \\ \times .042 \\ \hline \mathbf{\$21} \end{array}$$

$$\begin{array}{r} \text{MEDICARE} \\ \$500 \\ \times .0145 \\ \hline \mathbf{\$7.25} \end{array}$$

$$\begin{array}{r} \text{EMPLOYER PAYS} \\ (\$500 \times .062) \\ + (\$500 \times .0145) \\ \hline \mathbf{\$38.25} \end{array}$$

The SOCIAL SECURITY WAGE LIMIT

SECOND EXAMPLE

WAGES ABOVE \$110,100 PER YEAR

Erin earned \$109,500 in taxable wages between January 1 and December 21, 2012.

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 \$109,500 she has already earned this year from the Social Security wage limit of \$110,100, for an amount of \$600.
- 2 She calculates her Social Security tax based on this \$600 only. All her earnings above that are exempt from this tax.

\$25.20 is how much Erin will pay this pay period in Social Security tax.

$$\$110,100 - \$109,500 = \$600$$

$$\$600 \times .042 = \$25.20$$

\$25.20

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 **\$46.95** (**\$25.20 + \$21.75**). Her employer will pay **\$58.95** (**(\$600 x .062) + (\$1,500 x .0145)**) to the federal government.

$$\begin{array}{r} \$1,500 \\ \times .0145 \\ \hline \mathbf{\$21.75} \end{array}$$

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. If you have questions about eligibility, call the toll free number 1-800-325-0778 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 began a similar program in 2009.



Go online

Access forms and more information on what you learned in Chapter 3:

- [States Without a State Income Tax](#)
- [IRS Percentage Method and Wage-Bracket Tables for Income Tax Withholding](#)
- [Centers for Medicaid and Medicare Services](#)
- [Social Security Administration](#)



CHAPTER 4 PRE-TAX DEDUCTIONS



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 online links guide.

CHAPTER 4

PRE-TAX DEDUCTIONS

WHAT IS 'TAX-DEFERRED'?

You contribute some of your wages every payday to a tax-deferred plan, and you're only taxed on the amount after the deduction (less taxes!). Then, when you retire (or otherwise use what you've put away), you get this money back and now you are taxed on the money. You're not taxed when you earn the money, but you are taxed when you access it, thus payment of taxes on that amount is deferred, or put off, to a future date, i.e., "tax deferred."

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.

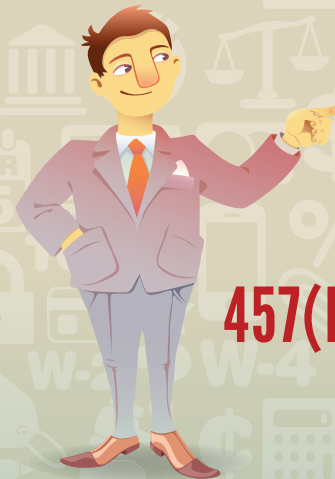
WHAT'S *Your* PLAN?



401(k)



403(b)



457(b)



CONTRIBUTION LIMITS

Employees who are under age 50 *cannot* contribute more than \$17,000 to a 401(k) plan on a pre-tax basis in 2012. Employees who are at least 50 years old at any time during the year can contribute an extra \$5,500 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* \$50,000, or 100% of your yearly wages (whichever is lower) in 2012.

Suppose you receive \$30,000 in wages in 2012 and you will not reach age 50 during the year. You can defer \$17,000 of those wages to your 401(k) plan on a pre-tax basis. Another \$13,000 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 \$11,500 in 2012. You can contribute an additional \$2,500 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.

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.

SECTION 403(b) PLANS



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 2012, you can contribute up to \$17,000 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 \$5,500 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 \$50,000 or 100% of your yearly wages in 2012 (whichever is less).



403(b) plans are tax-deferred retirement plans for employees of tax-exempt organizations. If you work for a public school, college or university, religious group,

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 2012, you can contribute up to \$17,000 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 \$5,500 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 \$50,000 or 100% of your yearly wages in 2012 (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.

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.

Today's Specials



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.

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.



LONG-TERM DISABILITY INSURANCE

In case you become disabled and can no longer work.



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 to 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. Health care premiums go up or down significantly
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 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 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.



WARNING!

USE IT OR LOSE IT!

You need to spend all the money you've put into your flexible spending account by the end of the plan year or by the end of your plan's "grace period," which can be as long as 2½ months after the end of the plan year. If you don't, any balance remaining in your account will be lost! Be sure to figure out how much money you think you'll need in the account before deciding on the size of your deductions.

QUALIFIED MEDICAL EXPENSES

Beginning in 2011, "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), they 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 2012, you can set up a medical savings account if you’ve got individual coverage with a yearly deductible of \$2,100 to \$3,150, or if you’ve got family coverage with a yearly deductible of \$4,200 to \$6,300. 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 this amount 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 2012 as a plan with an annual deductible of at least \$1,200 for individual coverage or \$2,400 for family coverage, and that has an out-of-pocket expense limit of no more than \$6,050 for individual coverage and \$12,100 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 2012, the maximum annual contribution that can be made to a health savings account is \$3,050 for individuals and \$6,150 for family coverage. If you will be 55 or older by the end

of 2012, 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 you 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 \$125 per month in 2012.
2. Your employer can supply you with transit passes, tokens, or fare cards, up to a maximum value of \$125 per month in 2012.
3. Your employer can provide parking on or near the worksite, or at a "park and ride" location, up to \$240 per month in 2012.
4. Your employer can reimburse you for up to \$20 per month for expenses related to commuting to work by bicycle, but can't set up a pre-tax deduction for this benefit or combine it with any other transportation fringe benefits.



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?

PART I: GARY'S TAXABLE WEEKLY WAGES

Gary is paid \$650 each week in 2012. 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% »
- 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 »
- 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) »
- 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 »

$$\$650 \times .06 = \$39$$

$$\$650 - (\$39 + \$10) = \$601$$

$$\$601 + \$39 = \$640$$

$$\$640$$

PART II: GARY'S TAKE-HOME PAY

Suppose that Gary is married, claims two withholding allowances on his W-4, and has no state income tax. As you know, the Social Security tax rate is 4.2% and the Medicare tax rate is 1.45%. Gary calculates his take-home pay for the week using the following steps.



- 1 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 40 of the *Employer’s Tax Guide*, Gary determines his federal income tax withholding which is \$30 »
- 2 Gary’s Social Security tax is based on Part I: Step 3 above (\$640) and multiplied by 4.2% »
- 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 »

\$30

$$\$640 \times .042 = \$26.88$$

$$\$640 \times .0145 = \$9.28$$

$$\$30 + \$26.88 + \$9.28 = \$66.16$$

$$\$601 - \$66.16 = \$534.84$$

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 40 of the *Employer's Tax Guide*, his federal income tax is \$36 »
- 2 Gary's Social Security tax is also based on \$650 and multiplied by 4.2% »
- 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 1–4 above »
- 7 To calculate his take-home pay, Gary takes his total wages and subtracts his taxes and deductions »

Gary saves \$6.57 per pay period by using pre-tax deductions »

\$36

$$\$650 \times .042 = \$27.30$$

$$\$650 \times .0145 = \$9.43$$

\$39

\$10

$$\$36 + \$27.30 + \$9.43 + \$39 + \$10 = \$121.73$$

$$\$650 - \$121.73 = \$528.27$$

$$\$534.84 - \$528.27 = \$6.57$$



Go online

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
- **Additional Resources:** Forms, publications, and other government websites
- **Retirement Plans:** IRS video portal





CHAPTER 5 AFTER-TAX DEDUCTIONS



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.

AFTER-TAX DEDUCTIONS

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.

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 the 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 personal exemptions.

YOU FILL OUT

Sign and date.

Kind of Tax	Tax Period Ended	Unpaid Balance of Assessment	Statutory Additions	Total
Employer or Other Addressee: Please complete the back of this page.			Total Amount Due	▶

Form 668-W(c)(DO) (Rev. July 2002) Department of the Treasury - Internal Revenue Service
Notice of Levy on Wages, Salary, and Other Income

DATE: _____ TELEPHONE NUMBER OF IRS OFFICE: _____
 REPLY TO: _____

NAME AND ADDRESS OF TAXPAYER: _____

TO: _____

IDENTIFYING NUMBER(S): _____

We figured the interest and late payment penalty to _____

Statement of Exemptions and Filing Status (To be completed by taxpayer; instructions are on the back of Part 5)
 My filing status for my income tax return is (check one): Single; Married Filing a Joint Return; Married Filing a Separate Return; Head of Household; or Qualifying Widow(er) with dependent child

ADDITIONAL STANDARD DEDUCTION: _____ (Enter amount only if you or your spouse is at least 65 and/or blind.)
 I certify that I can claim the people named below as personal exemptions on my income tax return and that none are claimed on another Notice of Levy. No one I have listed is my minor child to whom (as required by court or administrative order) I make support payments that are already exempt from levy. I understand the information I have provided may be verified by the Internal Revenue Service. Under penalties of perjury, I declare that this statement of exemptions and filing status is true.

Name (Last, First, Middle Initial)	Relationship (Husband, Wife, Son, Daughter, etc.)	Social Security Number (SSN)

Taxpayer's Signature _____ Date _____

Part 3 — Return to IRS Form 668-W(c)(DO) (Rev. 7-2002)

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 as personal exemptions. 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).

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, like 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,

DID YOU KNOW?

Your take-home pay is equal to your gross pay minus any amounts withheld by your employer, like taxes and health insurance.

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 personal exemptions you claim on the [668-W](#). 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 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 14 working days of receiving the order. In some states, withholding has to begin even sooner. Your employer sends the money to the person or agency named in the order. The deductions will continue until your employer receives written notice from the court or agency 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.



Know your Rights

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, they 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 unless the trustee instructs your employer to do so. If you have a creditor who 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.*

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

DO YOU MAKE YOUR CHILD SUPPORT PAYMENTS ON TIME?*

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

*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.

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 your other involuntary deductions. Your employer must deduct the full total required by the support order. If they do not, they are 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.



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.

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.” These require 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 \times .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

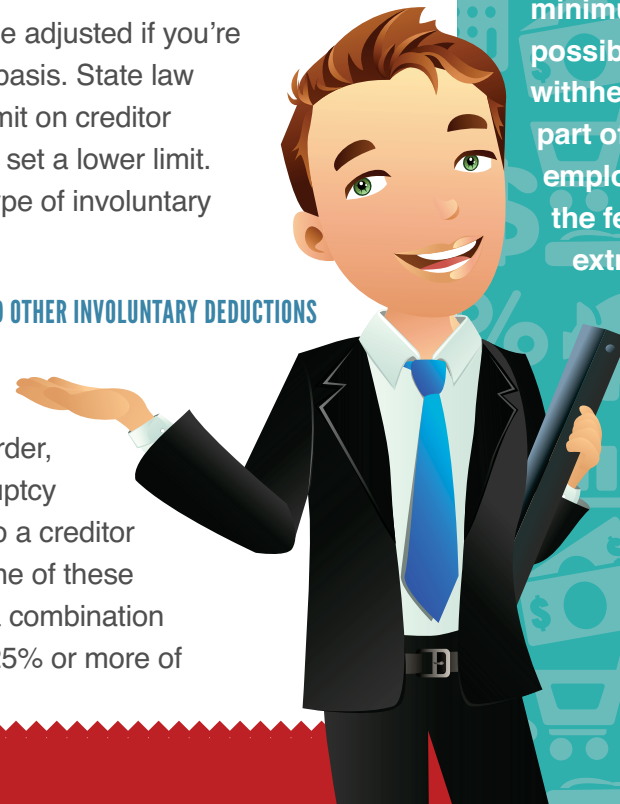
Your employer has to deduct for a child support withholding order, a tax levy, or a bankruptcy order before turning to a creditor garnishment. If any one of these other deductions, or a combination of them, amounts to 25% or more of



WARNING!

IF YOU’RE PAID BY THE HOUR, BE CAREFUL

Creditor garnishments may reduce your earnings below minimum wage. This is possible because the amount withheld is considered to be part of your wages. If your employer deducts more than the federal limit, though, the extra amount withheld isn’t thought of as part of your earnings. This extra deduction may not reduce 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



Know your Rights

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

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.

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, which 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 have to have 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
- [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](#).



CHAPTER 6 YOUR RIGHTS AND RESPONSIBILITIES IN THE WORKPLACE

IN THIS CHAPTER

First the Basics: Form W-2, your *Wage and Tax Statement*.

Also:

The Earned Income Credit
Check on Your Social Security Earnings and Benefits
Worker's Compensation Insurance
'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 learned in Chapter 6.

YOUR RIGHTS AND RESPONSIBILITIES IN THE WORKPLACE

FIRST THE BASICS: FORM W-2, YOUR WAGE AND TAX STATEMENT

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 on 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 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

22222		Void <input type="checkbox"/>	a Employee's social security number 123-45-6789		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN) 22222			1 Wages, tips, other compensation 63000.00		2 Federal income tax withheld 5525.00	
c Employer's name, address, and ZIP code Mike's Sporting Goods 123 Elm Street Hometown, VA 98765			3 Social security wages 65000.00		4 Social security tax withheld 2730.00	
			5 Medicare wages and tips 65000.00		6 Medicare tax withheld 942.50	
			7 Social security tips		8 Allocated tips	
d Control number			9		10 Dependent care benefits	
e Employee's first name and initial Thomas R		Last name Johnson	Suff.	11 Nonqualified plans		12a See instructions for box 12 D 2000.00
4567 Elm Street Hometown, VA 98765			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
			14 Other		12c	
f Employee's address and ZIP code			12d			
15 State VA	Employer's state ID number 44-55667	16 State wages, tips, etc. 63000.00	17 State income tax 1890.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

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

2012

Department of the Treasury—Internal Revenue Service

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

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.

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.

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, 2011. You don't actually receive those wages until January 4, 2012, so the amount you earned that week won't appear on your 2011 W-2. Those earnings will instead show up on your 2012 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

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 2012, the maximum credits available are as follows below:

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 \$50,270 in 2012, your employer is encouraged to tell you about the earned income credit, though the law doesn’t require this.

If you have:		Your maximum credit is:
	1 One qualifying (dependent) child	\$3,169
	2 Two qualifying children	\$5,236
	3 Three or more qualifying children	\$5,891
	0 No qualifying children	\$475

WHO CAN CLAIM *the* EARNED INCOME CREDIT?

You can claim the [Earned Income Credit](#) for 2012:

IF YOUR 2012 ADJUSTED GROSS INCOME IS LESS THAN...

\$36,920 and your tax filing status is single or head of household and you have **1** qualifying child

\$ 42,130 and your tax filing status is married filing jointly and you have **1** qualifying child

\$41,952 and your tax filing status is single or head of household and you have **2** qualifying children

\$47,162 and your tax filing status is married filing jointly and you have **2** qualifying children

\$45,060 and your tax filing status is single or head of household and you have **3 or more** qualifying children

\$50,270 and your tax filing status is married filing jointly and you have **3 or more** qualifying children

\$13,980 and your tax filing status is single or head of household and you have **no** qualifying children

\$19,190 and your tax filing status is married filing jointly and you have **no** qualifying children

AND

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 \$3,200 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](https://www.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:

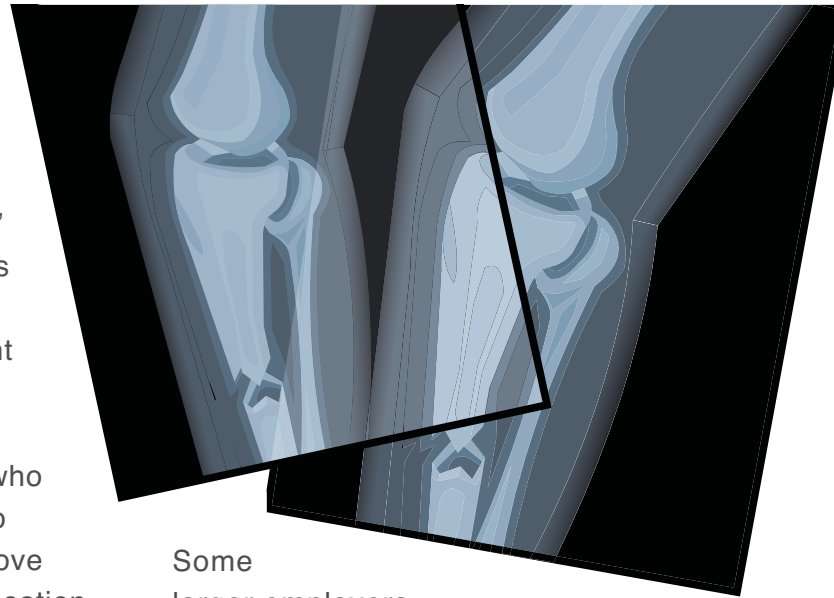
1. **Report a name change** by calling 800-SSA-1213, asking for **Form SS-5**, the *Application for a Social Security Card*, completing the form, and submitting it to the Social Security Administration.
2. **Check your name and Social Security number on your employer's payroll records** whenever you're 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



QUICK TIP

The Family and Medical Leave Act allows you to take up to 26 weeks of unpaid leave to care for a spouse, child, or parent who suffers a serious injury or illness in the line of duty while on active duty with the military.

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'?

A serious health condition can qualify as an illness, injury, impairment, or physical or mental condition. It 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, like asthma or diabetes, and in the case of treatment for pregnancy.

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

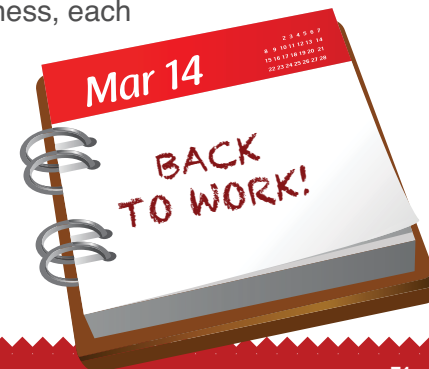
If it's medically necessary, yes, you can take your leave intermittently under the Family and Medical Leave Act. Taking intermittent leave involves spreading out your work absences over several days, weeks, or months, missing a few hours here and a few days there. It can also involve working a reduced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



WHO'S COVERED *and for* HOW LONG?

Remember, you can only take family and medical leave to care for a child, 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 employment to part-time. 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.



Know your Rights

OBEDIENCE TO 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.

'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 27 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.



QUICK TIP

If you want to retain your group health plan coverage, you must inform your employer. You have 60 days from the date your group coverage ends to make up your mind.

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.



ADOPTION *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 \$12,650 per child in employer assistance is free from federal income tax in 2012. (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 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 \$12,650, and at the same time exclude up to another \$12,650 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.

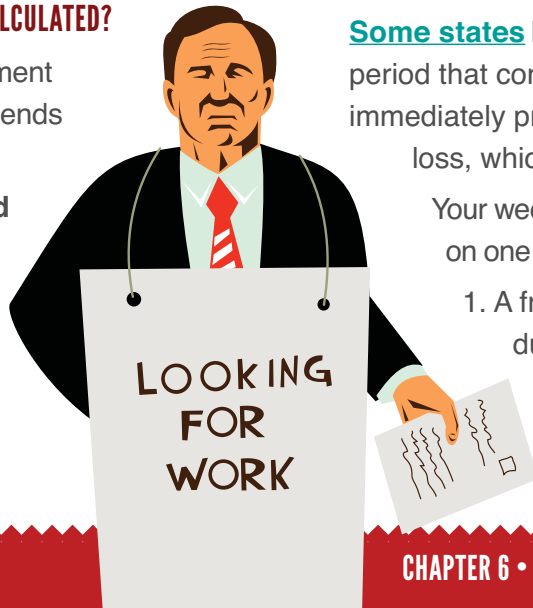
HOW LONG CAN I COLLECT BENEFITS?

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, 2012, and filed a claim one week later. The last five complete calendar quarters that passed before you filed your claim run from October 1, 2010, to December 31, 2011. The first four of those quarters, from October 1, 2010, to September 30, 2011, 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.



Since your part-time job brings in some income, each of your weekly unemployment checks will be smaller than otherwise. As a result, it will take you longer to collect your total benefits.

2. A percentage of your average weekly wage during a certain part of your base period.

Your total unemployment benefits per year are limited to 26 times the weekly benefit amount, or to a fraction of your total base period wages.

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.



Go online

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](#)
- [COBRA](#), the Consolidated Omnibus Budget Reconciliation Act
- [Educational assistance](#)
- [Local unemployment office](#)
- [Estimated Social Security benefits](#)



**CHAPTER 7 AMERICA WORKS BECAUSE WE'RE
WORKING FOR AMERICA®**

IN THIS CHAPTER

We created *Your Paycheck* to help you.

Payroll professionals ensure that America's workers receive their paychecks on time and that those paychecks are accurate, including all necessary and voluntary withholding deductions.

Plus

The benefits of direct deposit.

CHAPTER 7

AMERICA WORKS BECAUSE WE'RE WORKING FOR AMERICA®

YOUR PAYCHECK

This edition of the American Payroll Association's popular handbook, *Your Paycheck*, is an outgrowth of National Payroll Week®. Founded by the APA in 1996, National Payroll Week celebrates the payroll withholding system and its contributions to keeping America moving forward. America Works Because We're Working For America® is more than a slogan for National Payroll Week: about 72%, or \$1.7 trillion, of the gross federal revenues of the U.S. are collected through the payroll withholding system.



Go online

These federal revenues help fund vital activities, including public education, national defense, interstate highways, national parks, health and human services initiatives, and social security programs crucial to the safety and well-being of everyone in America.

PAYROLL PROFESSIONALS ENSURE THAT YOU ARE PAID ON TIME

Payroll professionals annually process paychecks for more than 150 million workers, including more than seven million young men and women between the ages of 16 and 19

who are receiving their first paychecks. Payroll professionals ensure that America's workers receive their paychecks on time and that those paychecks are accurate, including all necessary and voluntary withholding deductions.

No matter how large or small the organization is that you work for, it is in your best interest to get to know the payroll professionals responsible for preparing your paycheck. They will be happy to assist you in any way they can, and can answer many questions that may arise regarding your paycheck and the deductions withheld from it.

For more information related to payroll issues, such as how to check your Form W-2 and links to government agencies and organizations affiliated with payroll issues, please visit www.nationalpayrollweek.com. And remember, America Works Because We're Working For America®, not only during National Payroll Week, but 365 days a year!

GETTING PAID: GO GREEN WITH YOUR GREEN

Every year, more than 3.5 billion paychecks are issued to America's 156 million employees, but how you're paid could be damaging the environment. There are three different ways that you can be paid electronically to make your paycheck more environmentally friendly.



DIRECT DEPOSIT

Direct deposit is a method of electronic pay. It works by depositing your pay directly into your checking or savings account through a highly secure, electronic banking system. Direct deposit is the cheapest 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 paycheck 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 AND PREPAID RELOADABLE CARDS

What if you don't have a checking or savings account where your employer can deposit your pay? Is a paper paycheck your only option?

Having your employer deposit your pay onto a paycard or prepaid reloadable card is an alternative to receiving a paper check. Both cards represent a way for employees without a checking or savings account to take advantage of the conveniences of electronic pay.

A paycard is a plastic card that works like a debit card and is available through many employers. Your employer will deposit your pay onto your paycard. You can then use the

card to pay for 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. If you don't have a checking or savings account, paycards are your next best electronic pay option, and can be less expensive than receiving a paper check. Fees can be associated with the paycard, so please look at the chart on the next page for a breakdown of how these fees compare to costs associated with other payment methods. Typically, though, there are no



monthly fees and no fee charged to the employee on payday. Additionally, most employers negotiate for at least one fee-free ATM withdrawal per pay period, per employee. Paycards, like bank accounts, have safeguards built-in by the federal government to protect your money.

If your employer does not offer paycards, a prepaid reloadable card is an alternative. It functions much like a paycard, but can be purchased at many national retailers such as Walmart, K-Mart and Rite-Aid. Some prepaid reloadable cards have fees associated with their use. [View the chart on the next page](#) for a breakdown of how these fees compare to costs associated with other payment methods, and contact the provider that issued your card (via the toll-free number or web site information on your card) to ask about fees. Once you get the card, you would notify your employer that you would like your pay deposited on the card (you may incur fees, check with your card provider). Like direct deposit, your pay will be deposited and your money will be available immediately.

BENEFITS OF PAYCARDS AND PREPAID RELOADABLE CARDS

- Access your pay anytime at an ATM or as cash back from a retailer. Fees may apply.
- Make purchases anywhere debit cards are accepted including online, or pay bills.
- If your card is lost or stolen, it can be replaced. Some prepaid reloadable cards come with additional protection; for example, MasterCard's Everyday Prepaid Reloadable Card offers zero liability protection for lost and stolen cards. For more details please visit the website listed on the card or with the welcome materials or call customer service.
- You can check your balance via online, 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. To find out if your employer offers paycards, ask your company's payroll department. If not, visit a local retailer to get a prepaid reloadable card.

UNDERSTANDING BANKING FEES

EXAMPLE OF MONTHLY FINANCIAL SERVICE FEES¹

	PAPER PAYCHECK	DIRECT DEPOSIT	PAYCARD FEES ²	PREPAID RELOADABLE CARD FEES ²
Check Cashing (4 checks/month @ \$500.00 each or \$2,000.00 total)	\$32.50 - \$86.67 ⁷	\$0.00	\$0.00	\$0.00 - \$8.00
Bill Pay	\$8.70	\$0.00	\$0.00	\$0.00 - \$2.50
Enrollment Fee	\$0.00	\$0.00	\$0.00	\$0.00 - \$18.00
Monthly Fee	Not Applicable	\$0.00 - \$7.00 ⁴	\$0.00 ³	\$5.00 - \$9.95 (fee may be waived if you maintain a high balance)
ATM Fees (based on 4 transactions and estimated at \$4/ transaction)	Not Applicable	\$0.00 ⁴	\$0.00 ³	\$16.00
MONTHLY COST	\$41.20 - \$95.37⁷	\$0.00 - \$7.00	\$0.00 - \$8.00⁵	\$21.00 - \$36.45⁶
ANNUAL COST	\$494.40 - \$1,144.44⁷	\$0.00 - \$84.00	\$0.00 - \$96.00	\$252.00 - \$455.40⁶

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 **\$26 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%.

INDEX

TOPIC	PAGE NUMBER
# 401(k) plans.....	40-42 , 47 , 65
cafeteria plan.....	43
403(b) plans.....	40 , 42
457(b) plans.....	40 , 42
A adoption	
assistance benefits.....	75
changes that affect your benefits.....	44
after-tax	
contribution limits.....	41 , 42
deductions.....	51-61
deductions, cafeteria plan.....	43
deductions, calculating take-home pay.....	49
deductions, U.S. Savings Bonds.....	60
involuntary.....	52-58
<i>Understanding Your Pay Stub</i>	27
union dues.....	60
voluntary.....	59-61
wages.....	15
aggregate withholding method.....	33
<i>examples</i>	33 , 34
Application for a Social Security Card, Form SS-5 ...	3
download.....	77
name change.....	3 , 68
awards	
back pay.....	21 , 32
supplemental wages.....	32

TOPIC	PAGE NUMBER
B back pay awards.....	21
supplemental wages.....	32
bankruptcy orders.....	55
creditor garnishments.....	57
involuntary deductions.....	52 , 54 , 58
base period.....	76
bicycle	
commuting, transportation fringe benefits.....	46
bonuses	
nondiscretionary.....	21
supplemental wages.....	32
<i>Understanding Your Pay Stub</i>	27
C cafeteria plans.....	43-44
401(k) plans.....	40-42 , 47 , 65
calculating after-tax deductions.....	49
calculating pre-tax deductions.....	47
disability insurance.....	37-38
flexible spending accounts.....	44
health savings accounts.....	44 , 45-46
<i>menu</i>	43
tax benefits.....	46
catch-up contributions	
health savings accounts.....	46
tax-deferred retirement plan limits.....	42
Centers for Medicare and Medicaid Services.....	37

TOPIC	PAGE NUMBER
changing your name.....	3 , 11 , 68
charitable contributions.....	61
child support	
withholding orders.....	54
involuntary deductions.....	54 , 56 , 58
Child Tax Credit.....	9
<i>Form W-4 in-depth</i>	10
COBRA (Consolidated Omnibus Budget Reconciliation Act).....	73-74 , 77
commissions	
exempt, nonexempt.....	18 , 20
supplemental wages.....	32
<i>What is "Regular Rate of Pay"?</i>	21
company van	
transportation fringe benefits.....	46
contributions	
catch-up.....	42 , 46
charitable.....	61
credit union	
deductions.....	60
direct deposit.....	16
creditor garnishments.....	55 , 57-58 , 59

Page numbers in italics refer to illustrations and tables.

INDEX

TOPIC	PAGE NUMBER
D deductions	
after-tax.....	27, 51-61
bankruptcy orders.....	58
calculating after-tax.....	49
calculating pre-tax.....	47
charity contributions.....	61
child support.....	56
credit union.....	60
creditor garnishments.....	57
<i>Form 668-W in-depth</i>	53
Form W-4, Employee's Withholding Allowance Certificate.....	9, 10
involuntary.....	52-59
pre-tax.....	39-50
punitive.....	19
U.S. Savings Bonds.....	60
<i>Understanding Your Pay Stub</i>	27
union dues.....	60
voluntary.....	59-61
dependent care	
cafeteria plans.....	43
flexible spending accounts.....	44
<i>Form W-2 in-depth</i>	64
<i>Form W-4 in-depth</i>	10
direct deposit.....	15-17, 80
benefits of.....	16, 80
<i>Direct Deposit from Coast to Coast</i>	17
<i>Understanding Bank Fees</i>	82
vs. a paycheck.....	16

TOPIC	PAGE NUMBER
disability insurance.....	37-38
cafeteria plans.....	43
docked pay	
exempt, nonexempt.....	18-19
Family and Medical Leave Act.....	19
furlough.....	19-20
punitive.....	19
state/local government employee absences.....	19
E earned income credit	
advance payments.....	68
Form W-2, Wage and Tax Statement.....	63-68
maximum credits.....	66
<i>Who Can Claim the Earned Income Credit?...</i>	67
educational assistance benefit.....	74
Employee's Withholding Allowance Certificate, Form W-4.....	2, 7-12
download.....	13
<i>Form W-4 in-depth</i>	10
Personal Allowances Worksheet.....	9
state income tax withholding.....	13
Employment Eligibility Verification, Form I-9.....	2, 3-6
download.....	13
<i>Form I-9 in-depth</i>	5
employment taxes	
calculating.....	35, 36, 47
FICA.....	34

TOPIC	PAGE NUMBER
Form W-2.....	65-66
income taxes and.....	26-36, 46
subject to child support withholding.....	56
subject to tax levy.....	54
workers' compensation benefits.....	69
exempt	
changes that affect your benefits.....	44
employee status.....	18-20
family and medical leave.....	71-72
from federal income tax withholding.....	9-11, 12
F Fair Labor Standards Act (FLSA).....	18
online.....	24
Family and Medical Leave Act (FMLA).....	69-71
exempt status.....	19
online.....	24, 77
serious health condition.....	70, 71
FICA (Federal Insurance Contributions Act).....	34
<i>Understanding Your Pay Stub</i>	27
flat-rate withholding method.....	32
flexible spending accounts.....	44
Form I-9, Employment Eligibility Verification.....	2, 3-6
download.....	13
<i>Form I-9 in-depth</i>	5

Page numbers in italics refer to illustrations and tables.

INDEX

TOPIC	PAGE NUMBER
Form SS-5, Application for a Social Security Card	3
download	77
name change	3, 68
Form W-2, Wage and Tax Statement	63-68
earned income credit	66-68
employer contributions	45, 46
<i>Form W-2 in-depth</i>	64
lost	65
online	77, 79
proof of charitable contribution	61
Form W-4, Employee's Withholding Allowance Certificate	2, 7-12
download	13
<i>Form W-4 in-depth</i>	10
Personal Allowances Worksheet	9
state income tax withholding	13
Form 668-W, Notice of Levy on Wages, Salary and Other Income	54
<i>Form 668-W in-depth</i>	53
furlough	19-20
G garnishments	
action	55
bankruptcy order	55
creditor	55, 57-58, 59
multiple	58
student loan	58

TOPIC	PAGE NUMBER
green card	9
gross pay	
calculating	20
taxes and deductions	54
<i>Understanding Your Pay Stub</i>	27
H health coverage continuation	
COBRA	73-74
health savings accounts	44, 45-46
cafeteria plan	43
I identity theft	4
online	13
income tax	2, 26-36
(See also Form W-4, Form W-2)	
after-tax deductions	51-60
<i>Calculating Your Gross Pay</i>	20
liability	12
<i>Married Persons – Weekly Payroll Period</i>	29
<i>Percentage Method Tables</i>	31
pre-tax deductions	40-51
return	7, 8, 35, 63
state	2, 13
subject to tax levy	54
tax-deferred retirement plans	40-44
<i>Understanding Your Pay Stub</i>	27
withholding	2, 7, 9-11, 12, 28, 29, 30, 31
IRS	3, 9, 28, 37, 54
unpaid taxes	52

TOPIC	PAGE NUMBER
involuntary deductions	52-59
J jury duty	19
M medical savings accounts	44, 45
Medicare	11, 20, 22, 34-36, 37, 40, 43, 63, 73
<i>Calculating Your Gross Pay</i>	20
Centers for Medicare and Medicaid Services	37, 38
<i>Form W-2 in-depth</i>	64
<i>Understanding Your Pay Stub</i>	27
minimum wage	20
N name change	3, 11, 68
National Payroll Week	9, 79
online	13, 79
net pay	
<i>Understanding Your Pay Stub</i>	27
noncash wages	20
<i>What is "Regular Rate of Pay"?</i>	21
nonexempt	
changes that affect your benefits	44
employee status	18, 20
Fair Labor Standards Act	18
family and medical leave	71-72
overtime pay	23

Page numbers in italics refer to illustrations and tables.

INDEX

TOPIC	PAGE NUMBER
nonresident alien	9
<i>Form W-4 in-depth</i>	10
<i>Who Can Claim the Earned Income Credit?</i>	67
Notice of Levy on Wages, Salary and Other Income, Form 668-W.....	54
download.....	61
<i>Form 668-W in-depth</i>	53
Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit.....	68
download.....	77
O on-call pay	
<i>What is “Regular Rate of Pay”?</i>	21
overtime pay	18, 19, 23-24
<i>Understanding Your Pay Stub</i>	27
P park and ride	
transportation fringe benefits.....	46
parking	
transportation fringe benefits.....	46
paycards	80-81
<i>Understanding Banking Fees</i>	82
paychecks.....	14-24
calculating	28, 30, 33, 35, 36, 47
certificates.....	13
final.....	16

TOPIC	PAGE NUMBER
flexible spending accounts.....	44
Form W-4	7
<i>Form W-4 in-depth</i>	10
involuntary deductions	52-59
payroll professionals	79
state employee withholding allowance.....	13
<i>Understanding Bank Fees</i>	82
<i>Understanding Your Pay Stub</i>	27
voluntary deductions	59-61
vs. direct deposit	16
payment methods.....	81
payroll cards	15-16
percentage method.....	28, 30, 33
pledge card.....	61
pre-tax deductions.....	39-50
prepaid reloadable cards	80-81
<i>Understanding Banking Fees</i>	82
Q qualifying event	
COBRA.....	73-74
R regular rate of pay	
overtime	23
<i>What is “Regular Rate of Pay”?</i>	21
retroactive pay	
supplemental wages	32

TOPIC	PAGE NUMBER
right to work.....	2-4
<i>Form I-9 in-depth</i>	5
S salary	
employee status.....	18-20
<i>Form 668-W in-depth</i>	53
<i>What is “Regular Rate of Pay”?</i>	21
Section 401(k) plans.....	40-42, 47, 65
cafeteria plan.....	43
Section 403(b) plans.....	40, 42
Section 457(b) plans.....	40, 42
serious health condition	
Family and Medical Leave Act	70, 71
service charges	22
severance pay	
supplemental wages	32
unemployment benefits.....	77
shift premiums	
<i>What is “Regular Rate of Pay”?</i>	21
SIMPLE plans	
tax-deferred retirement plans.....	41
Social Security Administration	3, 37, 63
Form SS-5, Application for a Social Security Card....	3

Page numbers in italics refer to illustrations and tables.

INDEX

TOPIC	PAGE NUMBER
<i>Form W-2 in-depth</i>	64
local offices	13
name change	3, 68
online.....	77
Social Security benefits	34, 37, 65
benefits estimate	68, 77
Social Security card.....	2, 3, 68
download.....	77
<i>Form I-9 in-depth</i>	5
<i>Form I-9 Lists A-C, acceptable documents</i>	6
Form SS-5, Application for a Social Security Card	3
<i>Form W-4 in-depth</i>	10
identity theft.....	4
name change	3, 11, 68
online.....	13
Social Security number.....	2, 3, 65, 68
download.....	77
<i>Form 668-W in-depth</i>	53
<i>Form I-9 in-depth</i>	5
<i>Form I-9 Lists A-C, acceptable documents</i>	6
Form SS-5, Application for a Social Security Card	3
<i>Form W-2 in-depth</i>	64
<i>Form W-4 in-depth</i>	10
identity theft.....	4
name change	3, 11, 68
online.....	13
<i>Who Can Claim the Earned Income Credit?</i>	67
Social Security statement	
benefits estimate	68, 77

TOPIC	PAGE NUMBER
Social Security tax	34, 48, 49
calculating	36
<i>Calculating Your Gross Pay</i>	20
educational assistance benefits	74
<i>Form W-2 in-depth</i>	64
workers' compensation benefits.....	69
Social Security wage limit.....	34, 35-36
more than one job	35
state and local government employees	
<i>Direct Deposit from Coast to Coast</i>	17
exempt status.....	19
overtime pay.....	23
state employee withholding allowance	
certificates	13
state unemployment and disability insurance	
taxes.....	37-38
student loans	58
Guaranteed Student Loan Program	58
involuntary deductions	52
supplemental wages.....	32-34
aggregate withholding method	33-34
flat-rate method	32
T take-home pay	
creditor garnishments.....	57-58
<i>Form 668-W in-depth</i>	53
National Payroll Week website.....	9

TOPIC	PAGE NUMBER
nonexempt status.....	20
pre-tax deductions.....	48, 49
subject to tax levy.....	54
<i>Understanding Your Pay Stub</i>	27
voluntary deductions	59-61
tax-deferred retirement plans	40-42
tax-exempt	
health savings accounts.....	45
organizations, retirement plans	42
workers' compensation benefits.....	69
tax levy	54
creditor garnishments.....	57-58
<i>Form 668-W in-depth</i>	53
other involuntary deductions	54
part of your pay subject to.....	54
unpaid taxes.....	52
tip credits	22
<i>Tip Credits – How Do They Work?</i>	23
tipped employees	22
<i>Tip Credits – How Do They Work?</i>	23
tips	22
<i>Form W-2 in-depth</i>	64
reporting	22-23
supplemental wages	32
<i>Tip Credits – How Do They Work?</i>	23
your W-2.....	63

Page numbers in italics refer to illustrations and tables.

INDEX

TOPIC	PAGE NUMBER	TOPIC	PAGE NUMBER	TOPIC	PAGE NUMBER
transit passes		wage assignments.....	59-60	workers' compensation insurance.....	69
transportation fringe benefits.....	46	voluntary deduction.....	59-61	health savings accounts.....	46
transportation fringe benefits.....	46	wage-bracket		workweek.....	22
TreasuryDirect.....	60, 61	method.....	28, 33, 38	exempt, nonexempt status.....	18-22
U unemployment insurance.....	37-38	withholding tables.....	38, 48	overtime pay.....	23-24
union dues.....	60	white collar employee		<i>Tip Credits – How Do They Work?</i>	23
subject to tax levy.....	54	exempt status.....	18		
voluntary deductions.....	59, 60	withholding allowance.....	7, 63		
U.S. Citizenship and Immigration Services		calculating income taxes.....	28-33, 48		
Form I-9, Employment Eligibility Verification.....	3-6	Form W-4, Employee's Withholding Allowance			
<i>Form I-9 in-depth</i>	5	Certificate.....	2, 7-12		
<i>Form I-9 Lists A-C, acceptable documents</i>	6	<i>Form W-4 in-depth</i>	10		
U.S. Savings Bonds.....	60-61	nonresidents.....	9		
TreasuryDirect.....	60, 61	<i>Other Allowances You Might Claim</i>	8		
		state employee withholding allowance			
		certificates.....	13		
		withholding methods			
V voluntary deduction.....	52, 59-61	aggregate.....	33		
subject to tax levy.....	54	flat rate.....	32		
		other.....	32		
W Wage and Tax Statement, Form W-2.....	63-68	percentage.....	28, 30, 33		
earned income credit.....	66-68	wage-bracket.....	28, 33, 48		
employer contributions.....	45, 46				
<i>Form W-2 in-depth</i>	64	withholding orders			
lost.....	65	child support.....	54, 58		
online.....	77, 79	spousal support.....	58		
proof of charitable contribution.....	61	wage.....	56		

Page numbers in italics refer to illustrations and tables.