

# Payroll taxes are simple, steady — and in trouble

Hardly a day goes by without some lawmaker or lobbying group seeking to alter the income tax code. Yet for all the talk of income taxes, payroll taxes (also called FICA taxes, for the so-called Federal Insurance Contributions Act) actually do much of the heavy lifting of generating revenue.

Last year these taxes, which finance Social Security and Medicare, raised \$848 billion, compared with just under \$1.2 trillion from the income tax. What's more, two-thirds of American workers pay more in FICA taxes than in income taxes.

That poses the question of why politicians spend so much time yammering about income taxes and so little about payroll taxes.

One reason is that FICA taxes are everything taxes are supposed to be: simple, steady and designed for a specific purpose. These taxes — 12.4% for Social Security and 2.9% for Medicare, each divided equally between employer and employee

— can be explained in a single sentence. They are withdrawn automatically from paychecks, requiring no taxpayer time on April 15.

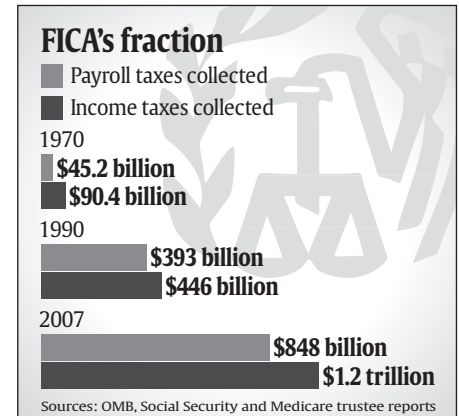
Although income taxes have to be somewhat more complex to cover investment income and to be more progressive, the payroll taxes illustrate that Congress could devise a more workable income tax code if it wished.

The more disturbing reason the FICA taxes don't get much attention is that while they might work well, the programs they support do not. Neither Social Security nor Medicare is funded sufficiently to account for the coming baby boomer retirement, which means that today's workers are subsidizing today's retirees in ways that probably won't be available to them when they retire.

This situation could be improved by courageous public servants willing to make difficult decisions on health care and re-

tirement. The sooner such decisions are made, the less painful they would be.

Such responsibility, however, is in short supply. It's so much easier to hand out favors through the income tax code than rein in benefits funded by payroll taxes that the result is resounding silence. When the day of reckoning arrives, that silence will seem anything but golden.



By Alejandro Gonzalez, USA TODAY

**Objectives**

- ▶ Read the article “Payroll taxes are simple, steady – and in trouble.”
- ▶ Explain the purpose of FICA taxes.
- ▶ Identify the mandatory deductions that come out of a worker’s paycheck.
- ▶ Calculate the net pay of an average worker.
- ▶ Pose questions about programs that are (or could be) funded by taxpayers.

**Preparation**

Each student will need:

- ▶ A copy of the article “Payroll taxes are simple, steady – and in trouble.”
- ▶ A copy of the lesson.
- ▶ A calculator.

**1. Read the article and answer discussion questions.** (25 minutes)

- ▶ What are FICA taxes? What programs do they finance?

---

---

---

- ▶ What advantages do FICA taxes have over income taxes?

---

---

- ▶ What protections do Social Security and Medicare provide? (Consult a reference source or the Internet if you need help answering this question.)

---

---

- ▶ Why are Social Security and Medicare in danger?

---

---

- ▶ What is the “day of reckoning” to which the opinion piece on the previous page refers?

---

---

---

---

- ▶ What other deductions are regularly taken from a person’s paycheck?

---

---

---

---

**2. Dissecting your paycheck.** (25 minutes)

Let's say you are single and work as a graphic artist in Minnesota earning \$30,000 a year. You are paid every two weeks.

**A. What is the gross amount that you earn each paycheck?** A. \_\_\_\_\_

Now, we are going to look at some of the deductions that will be coming out of your paycheck.

First, calculate your payroll (FICA) taxes per paycheck:

**B. Multiply your gross earnings by 6.2%. This amount will go toward Social Security.** B. \_\_\_\_\_

**C. Multiply your gross earnings by 1.45%. This amount will go toward Medicare.** C. \_\_\_\_\_

**D. Subtract lines B and C from line A.** D. \_\_\_\_\_

Federal and state governments also deduct taxes from your paycheck. These taxes are used to pay for education, law enforcement, highways and many other programs. Governments could not function without tax revenue. Look at the “Figuring out how much to withhold” document and chart on pages 5 and 6.

**E. Determine how much the state of Minnesota will deduct from your paycheck if you claim zero withholding allowances. Use your gross earnings to find the amount.** E. \_\_\_\_\_

You are single, with no dependents, and you do not have investment income or own a home. You are claiming zero withholding allowances. Locate the federal tax table on Page 7. It is labeled, “Single Persons – Bi-weekly Payroll Period.”

**F. Determine how much the federal government will deduct from your paycheck. Use your gross earnings to find the amount.** F. \_\_\_\_\_

**G. Now, subtract lines E and F from line D. This is your net pay, after all mandatory deductions have been taken.** G. \_\_\_\_\_

However, we're not done with deductions yet. Most large businesses offer their employees health insurance. Health insurance protects you against the catastrophic costs you will face if you are ever seriously injured or become critically ill. According to the Kaiser Family Foundation, the average annual cost for health insurance for a single worker (any type of plan) is \$721.

**H. Divide \$721 by 26 weeks. This is the amount deducted per paycheck to pay for health insurance.** H. \_\_\_\_\_

The earlier you start saving for retirement, the less money you will have to put into a retirement account each year to meet your goal and of course, the more money you will have when you reach retirement age. As of 2008, individual employees can contribute up to \$15,500 per year.

**I. Decide on an annual figure you believe you can afford. Divide it by 26.**

I. \_\_\_\_\_

**J. Subtract lines H and I from line G.**

J. \_\_\_\_\_

This is the amount you will actually receive, unless you choose to make other voluntary deductions such as those for life, dental or vision insurance, a savings or health spending account, etc.

**3. Debrief and apply.** (10 minutes)

It can be a little disheartening to see how much of your paycheck will *not* make it into your bank account. However, it's important to think about the necessity of funding government programs that help all Americans, including you and your family. And, if you are unhappy with the way the government is handling your hard-earned money, that's all the more reason to vote for candidates at the local, state and national level who you feel will do the best job at managing the government.

After reviewing the deductions from your paycheck, list three questions a voter might have for her or his elected officials. You might begin with phrases like, “How much of my tax dollars go to ...” or “Why does/ doesn't the government pay for ...” As a class, choose some of students' questions and discuss possible answers to them.

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

## Figuring how much to withhold

### Wages

Each time you pay wages to an employee, you must determine how much Minnesota income tax to withhold.

1. Determine each employee’s total wages before any taxes are deducted. For nonresidents, determine the wages paid for work performed in Minnesota.
2. Look at the employee’s Form W-4 to see how many Minnesota withholding allowances the employee listed and if he or she is married or single.
3. Look at the Minnesota income tax withholding tables on pages 19-37 of this booklet. Use the table that matches how often you pay the employee and the marital status of the employee. If you use a computer to determine how much to withhold, use the formula on page 38.

Remember, if an employee’s wages or withholding allowances change, or if you change the number of times you pay your employee per month, the amount you withhold may also change. For more information, read Fact Sheet 9 (see page 2).

### Overtime, commissions, bonuses or other supplemental payments

If you make supplemental payments to an employee at a different time than you pay regular wages, do not use the tax tables in this booklet to determine how much to withhold on those payments. Instead, regardless of the number of withholding allowances the employee claimed, multiply the supplemental payment by 6.25 percent (.0625). The result is the amount to withhold.

If you make supplemental payments to an employee at the same time you pay regular wages, **and** you list the two payments separately on the employee’s payroll records (regardless of whether you list the amounts separately on the paycheck), choose one of the following methods to determine how much to withhold:

**Method 1.** Add the regular wages to the supplemental payment and use the tables to find how much to withhold from the total.

**Method 2.** Use the tables to determine how much to withhold from the regular wages alone. Multiply the supplemental payment by 6.25 percent (.0625) to determine how much to withhold from that payment.

If you do not list the regular wages and the supplemental payment separately on the employee’s payroll records, you must use Method 1.

### Backup withholding

Minnesota follows the federal provisions for backup withholding on payments for *personal services only*. Personal services include any work performed for your business by anyone who is not your employee. If the person or business providing services for you doesn’t provide you with a Social Security or tax ID number, or if the number is incorrect, you must withhold tax equal to 7.85 percent (.0785) of the payment. If you don’t, you may be assessed an amount equal to the amount you should have withheld. The assessment is subject to penalty and interest.

## Making deposits

Tax is considered withheld when you pay employees their wages, not when the work is performed. For example, if an employee is paid in January for hours worked in December, the tax is considered withheld in January, not December.

### Annual filers

Annual filers must make deposits each time their withholding tax goes over \$500 during the year. Deposits are due the last day of the month following the month in which you exceeded \$500 (except December). If the tax doesn’t go over \$500 prior to

December 1, you may pay the entire amount when you file your annual return (due March 2, 2009).

### Quarterly filers

If you are a quarterly filer, deposit Minnesota tax according to your federal schedule unless you meet one of the following two exceptions.

Single employees paid every two weeks

Revised Jan. 1, 2008

If the employee's wages are at least but less than		Number of withholding allowances										
		0	1	2	3	4	5	6	7	8	9	10 or more
		The amount to withhold (in whole dollars)										
0	100	0	0	0	0	0	0	0	0	0	0	0
100	120	2	0	0	0	0	0	0	0	0	0	0
120	140	3	0	0	0	0	0	0	0	0	0	0
140	160	4	0	0	0	0	0	0	0	0	0	0
160	180	5	0	0	0	0	0	0	0	0	0	0
180	200	6	0	0	0	0	0	0	0	0	0	0
200	220	7	0	0	0	0	0	0	0	0	0	0
220	240	8	1	0	0	0	0	0	0	0	0	0
240	260	9	2	0	0	0	0	0	0	0	0	0
260	280	10	3	0	0	0	0	0	0	0	0	0
280	300	12	4	0	0	0	0	0	0	0	0	0
300	320	13	5	0	0	0	0	0	0	0	0	0
320	340	14	6	0	0	0	0	0	0	0	0	0
340	360	15	8	0	0	0	0	0	0	0	0	0
360	380	16	9	1	0	0	0	0	0	0	0	0
380	400	17	10	2	0	0	0	0	0	0	0	0
400	420	18	11	4	0	0	0	0	0	0	0	0
420	440	19	12	5	0	0	0	0	0	0	0	0
440	460	20	13	6	0	0	0	0	0	0	0	0
460	480	21	14	7	0	0	0	0	0	0	0	0
480	500	22	15	8	1	0	0	0	0	0	0	0
500	520	23	16	9	2	0	0	0	0	0	0	0
520	540	24	17	10	3	0	0	0	0	0	0	0
540	560	25	18	11	4	0	0	0	0	0	0	0
560	580	26	19	12	5	0	0	0	0	0	0	0
580	600	28	20	13	6	0	0	0	0	0	0	0
600	620	29	21	14	7	0	0	0	0	0	0	0
620	640	30	22	15	8	1	0	0	0	0	0	0
640	660	31	24	16	9	2	0	0	0	0	0	0
660	680	32	25	17	10	3	0	0	0	0	0	0
680	700	33	26	18	11	4	0	0	0	0	0	0
700	720	34	27	20	12	5	0	0	0	0	0	0
720	740	35	28	21	13	6	0	0	0	0	0	0
740	760	36	29	22	15	7	0	0	0	0	0	0
760	780	37	30	23	16	8	1	0	0	0	0	0
780	800	38	31	24	17	9	2	0	0	0	0	0
800	820	39	32	25	18	11	3	0	0	0	0	0
820	840	40	33	26	19	12	4	0	0	0	0	0
840	860	41	34	27	20	13	5	0	0	0	0	0
860	880	43	35	28	21	14	7	0	0	0	0	0
880	900	44	36	29	22	15	8	0	0	0	0	0
900	920	45	37	30	23	16	9	1	0	0	0	0
920	940	46	39	31	24	17	10	3	0	0	0	0
940	960	47	40	32	25	18	11	4	0	0	0	0
960	980	49	41	33	26	19	12	5	0	0	0	0
980	1,000	50	42	35	27	20	13	6	0	0	0	0
1,000	1,020	52	43	36	28	21	14	7	0	0	0	0
1,020	1,040	53	44	37	29	22	15	8	1	0	0	0
1,040	1,060	54	45	38	31	23	16	9	2	0	0	0
1,060	1,080	56	46	39	32	24	17	10	3	0	0	0
1,080	1,100	57	48	40	33	25	18	11	4	0	0	0
1,100	1,120	59	49	41	34	27	19	12	5	0	0	0
1,120	1,140	60	51	42	35	28	20	13	6	0	0	0
1,140	1,160	62	52	43	36	29	22	14	7	0	0	0
1,160	1,180	63	53	44	37	30	23	15	8	1	0	0
1,180	1,200	64	55	45	38	31	24	16	9	2	0	0
1,200	1,220	66	56	47	39	32	25	18	10	3	0	0
1,220	1,240	67	58	48	40	33	26	19	11	4	0	0
1,240	1,260	69	59	50	41	34	27	20	12	5	0	0
1,260	1,280	70	61	51	42	35	28	21	14	6	0	0

**SINGLE Persons—BIWEEKLY Payroll Period**  
**(For Wages Paid in 2008)**

If 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—										
<b>\$800</b>	<b>\$820</b>	\$92	\$71	\$51	\$31	\$17	\$4	\$0	\$0	\$0	\$0	\$0
<b>820</b>	<b>840</b>	95	74	54	34	19	6	0	0	0	0	0
<b>840</b>	<b>860</b>	98	77	57	37	21	8	0	0	0	0	0
<b>860</b>	<b>880</b>	101	80	60	40	23	10	0	0	0	0	0
<b>880</b>	<b>900</b>	104	83	63	43	25	12	0	0	0	0	0
<b>900</b>	<b>920</b>	107	86	66	46	27	14	0	0	0	0	0
<b>920</b>	<b>940</b>	110	89	69	49	29	16	2	0	0	0	0
<b>940</b>	<b>960</b>	113	92	72	52	32	18	4	0	0	0	0
<b>960</b>	<b>980</b>	116	95	75	55	35	20	6	0	0	0	0
<b>980</b>	<b>1,000</b>	119	98	78	58	38	22	8	0	0	0	0
<b>1,000</b>	<b>1,020</b>	122	101	81	61	41	24	10	0	0	0	0
<b>1,020</b>	<b>1,040</b>	125	104	84	64	44	26	12	0	0	0	0
<b>1,040</b>	<b>1,060</b>	128	107	87	67	47	28	14	1	0	0	0
<b>1,060</b>	<b>1,080</b>	131	110	90	70	50	30	16	3	0	0	0
<b>1,080</b>	<b>1,100</b>	134	113	93	73	53	33	18	5	0	0	0
<b>1,100</b>	<b>1,120</b>	137	116	96	76	56	36	20	7	0	0	0
<b>1,120</b>	<b>1,140</b>	140	119	99	79	59	39	22	9	0	0	0
<b>1,140</b>	<b>1,160</b>	143	122	102	82	62	42	24	11	0	0	0
<b>1,160</b>	<b>1,180</b>	146	125	105	85	65	45	26	13	0	0	0
<b>1,180</b>	<b>1,200</b>	149	128	108	88	68	48	28	15	1	0	0
<b>1,200</b>	<b>1,220</b>	152	131	111	91	71	51	30	17	3	0	0
<b>1,220</b>	<b>1,240</b>	155	134	114	94	74	54	33	19	5	0	0
<b>1,240</b>	<b>1,260</b>	158	137	117	97	77	57	36	21	7	0	0
<b>1,260</b>	<b>1,280</b>	161	140	120	100	80	60	39	23	9	0	0
<b>1,280</b>	<b>1,300</b>	164	143	123	103	83	63	42	25	11	0	0
<b>1,300</b>	<b>1,320</b>	167	146	126	106	86	66	45	27	13	0	0
<b>1,320</b>	<b>1,340</b>	172	149	129	109	89	69	48	29	15	2	0
<b>1,340</b>	<b>1,360</b>	177	152	132	112	92	72	51	31	17	4	0
<b>1,360</b>	<b>1,380</b>	182	155	135	115	95	75	54	34	19	6	0
<b>1,380</b>	<b>1,400</b>	187	158	138	118	98	78	57	37	21	8	0
<b>1,400</b>	<b>1,420</b>	192	161	141	121	101	81	60	40	23	10	0
<b>1,420</b>	<b>1,440</b>	197	164	144	124	104	84	63	43	25	12	0
<b>1,440</b>	<b>1,460</b>	202	168	147	127	107	87	66	46	27	14	0
<b>1,460</b>	<b>1,480</b>	207	173	150	130	110	90	69	49	29	16	2
<b>1,480</b>	<b>1,500</b>	212	178	153	133	113	93	72	52	32	18	4
<b>1,500</b>	<b>1,520</b>	217	183	156	136	116	96	75	55	35	20	6
<b>1,520</b>	<b>1,540</b>	222	188	159	139	119	99	78	58	38	22	8
<b>1,540</b>	<b>1,560</b>	227	193	162	142	122	102	81	61	41	24	10
<b>1,560</b>	<b>1,580</b>	232	198	165	145	125	105	84	64	44	26	12
<b>1,580</b>	<b>1,600</b>	237	203	170	148	128	108	87	67	47	28	14
<b>1,600</b>	<b>1,620</b>	242	208	175	151	131	111	90	70	50	30	16
<b>1,620</b>	<b>1,640</b>	247	213	180	154	134	114	93	73	53	33	18
<b>1,640</b>	<b>1,660</b>	252	218	185	157	137	117	96	76	56	36	20
<b>1,660</b>	<b>1,680</b>	257	223	190	160	140	120	99	79	59	39	22
<b>1,680</b>	<b>1,700</b>	262	228	195	163	143	123	102	82	62	42	24
<b>1,700</b>	<b>1,720</b>	267	233	200	166	146	126	105	85	65	45	26
<b>1,720</b>	<b>1,740</b>	272	238	205	171	149	129	108	88	68	48	28
<b>1,740</b>	<b>1,760</b>	277	243	210	176	152	132	111	91	71	51	31
<b>1,760</b>	<b>1,780</b>	282	248	215	181	155	135	114	94	74	54	34
<b>1,780</b>	<b>1,800</b>	287	253	220	186	158	138	117	97	77	57	37
<b>1,800</b>	<b>1,820</b>	292	258	225	191	161	141	120	100	80	60	40
<b>1,820</b>	<b>1,840</b>	297	263	230	196	164	144	123	103	83	63	43
<b>1,840</b>	<b>1,860</b>	302	268	235	201	167	147	126	106	86	66	46
<b>1,860</b>	<b>1,880</b>	307	273	240	206	172	150	129	109	89	69	49
<b>1,880</b>	<b>1,900</b>	312	278	245	211	177	153	132	112	92	72	52
<b>1,900</b>	<b>1,920</b>	317	283	250	216	182	156	135	115	95	75	55
<b>1,920</b>	<b>1,940</b>	322	288	255	221	187	159	138	118	98	78	58
<b>1,940</b>	<b>1,960</b>	327	293	260	226	192	162	141	121	101	81	61
<b>1,960</b>	<b>1,980</b>	332	298	265	231	197	165	144	124	104	84	64
<b>1,980</b>	<b>2,000</b>	337	303	270	236	202	169	147	127	107	87	67
<b>2,000</b>	<b>2,020</b>	342	308	275	241	207	174	150	130	110	90	70
<b>2,020</b>	<b>2,040</b>	347	313	280	246	212	179	153	133	113	93	73
<b>2,040</b>	<b>2,060</b>	352	318	285	251	217	184	156	136	116	96	76
<b>2,060</b>	<b>2,080</b>	357	323	290	256	222	189	159	139	119	99	79
<b>2,080</b>	<b>2,100</b>	362	328	295	261	227	194	162	142	122	102	82